CHAPTER – I
INTRODUCTION

1.1 Background

In these days, investors actively involve in securities trading as this is the age of market economy. Here securities trading mean both purchase and sell of different securities such as shares, debenture, right share; mutual fund etc. Securities can be traded in primary as well as secondary market.

In the **primary market**, the original issuance of the financial instruments of a company is traded. The company should approve its shares through the authorized issue or sales agent. The company has to register its shares in Security Board of the shares. Primary markets provide an important allocation function by channeling the fund to those who can make the best use of them presumably, the most productive. Primary markets activities are managed by investment banks as a fund manager or issue manager. The people responsible for finding investors for the initial public offerings (IPO) of securities sold in the primary market are called investment bankers. Investment bankers are also called underwriters; they purchase new issues from security issues and arrange for their resale to the investing public (Francis, 1992, p.67).

The share once issues in the primary market are traded in **secondary market**. So the secondary market liquidates the shares and provides the opportunity between the investors and the sellers of the securities. The company must list the securities in the securities market for secondary transaction. That means existing securities are traded in the secondary market and thus enabling disposal of these securities whenever the owner wishes. An active secondary market is, therefore, a necessary condition for an effective primary market as no investors want to feel 'locked in' to an investment (Subedi, 2007, p.19).

A company can make public offering of shares by fulfilling provisions stipulated under Nepal Company Act 2021. The initial share capital proposed in the memorandum can be raised through public offering. Subsequent increase in share capital should be approved by general meeting and proposed changes in memorandum and article of association should be approved by concerned department.

Any public offering should be made according to the prospectus approved by concerned department i.e. SEBO. Format of prospectus is prescribed in the Company Act 2021. The allotment of Shares should be made so as to include all the applicants as far as possible.

Raising finance through new public issue is getting popular among enterprises. New issue market i.e. primary market has been gaining confidence of the business community people as a viable mechanism for company finance. This new public issue is called initial public offering (IPO).

Initial Public Offering (IPO) is the first time issue of stocks those offered for sale by a company to the public. Typically, these stocks are issued by a small or new company who are looking for additional monies to help them expand their businesses. It is important to understand that as with any stock there are inherent risks to any investment in any instrument, though IPO's are more risky than established shares as it is impossible to determine how an IPO will do on the first day it is traded since there is little data to investigate and analyze the financial status of the company. Since most IPOs are either new or 'transitioning growth' companies, there is generally some doubt as to the future value of the IPO.

Now, Nepal has jumped on the peace process and it is making its own constitution through the active participation of business sector representatives also. The whole nation has been concentrated to make new and prosperous Nepal. Currently, the government has prepared its Policies and Program and presented to the constitutional assembly. Viewing the Policies and Program of the government, the private sector has been encouraged to invest in different sectors. This indicates the positive impact on economic growth. In order to help the government target of achieving *Double Digit Growth Rate*, the amount of investment should be increased heavily. For that purpose, issue of securities to the public is the most important means of increasing investment. In order to develop securities market and to issue different securities to the public, need of regulatory body is felt essential and Securities Board of Nepal (SEBO) was born. Nowadays SEBO is performing as a representative of investors in the sense of controlling the companies to go against investors' interest. Considering all these facts, this study has been conducted covering **"Situation of Initial Public Offering (IPO) in Nepal".**

1.2 Statement of the Problem

Initial public offering (IPO) is the process of marketing company's securities to the general public. Securities offered to the public through IPO have not come in the market earlier and these are the first time issue for the public. Securities to be issued as IPO can be shares, debentures, unit scheme, mutual funds, bond etc. These securities are issued to the public through issue managers. Currently, there are ten issue managers involved in the issue management process. Considering Initial Public Offering is the major part in securities market, this research is conducted. Statement of the problem regarding the research is as follows:

1) What is the instrument wise situation of Initial Public Offering (IPO) in Nepal during the study period?
2) Is there any association between IPO and national economy in Nepal?
3) What are the corrective actions to be taken in order to improve the IPO in Nepal?

This study focused on the situation of IPO in Nepal, relationship between primary market (IPO) and secondary market as well as corrective actions to be taken in order to improve the mechanism of first time securities issue in Nepal.

1.3 Objective of the Study

Basic objective of this study is to analyze the status of the right and bonus share in Nepal. Along with these, following are more specific objectives:

1) To show instrument wise situation of total Initial Public Offering (IPO) in Nepalese market place,
2) To analyze the effect of IPO on National Economy and
3) To find out corrective actions to be taken in order to manage IPO properly in Nepal.

1.4 Significance of the Study

Investment in stock market play crucial role in national economy. It affects the whole economic environment of the nation. Securities markets being one of the prominent sources for the economic development ultimately its potential investors are the biggest assets. Hence this study focuses on the role and status of right and bonus share in Nepal. This study has been conducted to see the status, trend and role of bonus and right share in Nepal.

The primary motive of securities issue is to uplift the economy from stagnation to develop the financial and industrial sector through the effective mobilization of funds. The acquisition of the funds by different companies of different sector depends on the investment decision and flow of investors of particular sector.

It is the duty of corporate officials and stock market intermediaries to accelerate favorably to accumulate the needed fund by eliminating the bad signs and signals of the weaker sector of economy. So this study tries to highlight the role of these securities issue on national economy.

Stating on above importance, the study is conducted focusing on the nature of problem identified as above. Particularly, this study is important in following manner:

- This research is very useful to all the parties who are directly or indirectly involved in the stock market.
- This research provides the guidelines to the stock market and potential investors to make investment decisions.
- Academicians, research scholars, students and policy makers may be benefited with the study as this study gives some practical insights that can be very useful to turn the theoretical knowledge into practical field.

Policy makers can make the long term plan and strategy to develop Nepalese capital market.

- It is hoped that this is really the new research in new Nepal which highlights the real picture of IPO in Nepal.

1.5 Limitation of the Study

- This study is based on the secondary data collected from different sources such as official publications of SEBO/N, NEPSE as well as CBS, Kathmandu.
- So many factors affect dependent variable. However, only selected factors have been studied in this research.
- In the analysis process, all population i.e. 15 years data being 1993/94 to 2007/08 have been taken as sample but all aspects of total issue approval cannot be studied.
- Use of selected tools in analysis process may limit the possibility of the study.

1.6 Organization of the Study

The research has been organized in following five chapters as specified by FOM, TU.

- Chapter- I: Introduction
- Chapter – II: Review of Literature
- Chapter – III: Research Methodology
- Chapter IV: Data presentation and Analysis
- Chapter – V: Summary, Conclusion and Recommendation

The **first chapter** – Introduction provides the background of the study, Statement of the problem objective of the study, Need of the study, Limitation of the study and scheme of the study.

The **second chapter** is the 'Review of literature'. In this chapter, the previous studies are reviewed with their major findings on the related fields. Similarly related articles, books journals and periodical are reviewed. It is the mainly related to the theoretical analysis and brief review of the related and pertinent literature available.

The **third chapter** deals with the 'Research Methodology'. In this chapter, different statistical and financial tools are used to tabulate and analyze the data available from the primary and secondary sources are discussed.

The **fourth chapter** provides 'Presentation and Analysis of Data' to indicate quantitative fact related to the study.

Finally, the **fifth chapter** is stated as 'Summary, Conclusion and Recommendation' of the study. This chapter presents the major findings and recommends the suggestions to impart the level of structure and performance of primary market discovered from the research study.

The **appendices** and **bibliography** are also being incorporated at the last.

CHAPTER – II

REVIEW OF LITERATURE

In this chapter, an attempt has been made to review the literature relating to this research. Various books, journals, articles, research report that from published and unpublished sources are briefly reviewed in this section.

2.1 Conceptual Framework

Introduction

IPO is the first time issuance of securities to the public. It is the progress through which found seeker groups such as business entities obtain required fund from the willing fund surplus groups such as investors. The securities offered in IPO may include bonds, debenture, preference shares and commercial paper a long with common shares. However, in the cash of this study, IPO is used in the since of issuing common shares to the public for the first time. Thus, IPO can also be perceived as the medium through which privately held corporations are turned into public company. Public offering is a security offering where all investors have the opportunities too acquire a portion of the financial claims being sold (Keown and others- 2004 - 471) hence through IPO, public at large are able to buy the financial instruments that allow them to have some claim on the issuing company.

Reasons to go for IPO:

Of course obtaining required capital from public is the innermost reasons to go for IPO but often it is not the only one. If the private firm is successful, usually the owners will want to take the company public with a sale of securities to outsider. Through IPO, the founder simply wants to establish a value and liquidity for the stock (Van Horne 2002, 578). Thus firm go for IPO not only to generate capital but also establish value and develop liquid market for its stock.

Similarly, the firm with major investment plans and high leverage gaining access to a non bank source of finance is a benefit of going public. In this regard, Rajan (1992) asserted that to reduce debt and increase investment with lower cost firms are interested to go public. Hence, when interest rates are high, companies particularly those concerned by cost find it reasonable to go for IPO.

In addition, if diversification were an important motive in the IPO decision. Then riskier companies would be more likely to go public. Thus IPO incidence may vary by industry. At the same time, firms recognizing the listed companies in their industry are overvalued have an incentive to go public (Ritter 1984). Hence, sharing risk inherent in the business and cashing on overvalued issue could also be the reason to go for IPO.

Hence, it could be concluded that raising capital is not the only reason for firms to go for IPO. Whatever is the reason but it could be asserted that IPOs play an important part in capita mobilization and renders positive influence on overall development of capita market.

Advantages and Disadvantages of IPOs:

IPO also have some advantages as well as some drawbacks. The major benefit of IPO is that. It provides enhanced liquidity and allows the company to raise capital on more favorable terms than if it had to compensate investors for the lack of liquidity associated with a privately held company. Besides, in emerging markets it heightens the prestige and recognition of the company among suppliers and perspective customers.

Along with these advantages, some disadvantages also come along with IPOs. The major disadvantage is the fact that management no longer can take decisions as freely as they used to take. There will be ongoing costs associated with the need to supply information on a regular basis to the investors and regulators for being publicly traded firms. Furthermore, there as substantial one-time costs associated with initial public offerings that can be categorized as direct and indirect costs. The direct costs mainly include legal, auditing and underwriting fees while indirect cost includes management time and effort devoted to conduct the offering and money left on the table .money left on the table is the amount left by the issuing company because of under-pricing of there issues.

Theoretical aspects of IPO:

A large volume of studies conducted in different part of the world covering different period have consistently indicated two patterns associated with IPO issues: IPO under-pricing and IPOs long run underperformance.

i. **Under-pricing of IPO:**

IPOs are said to be under-priced when the IPO issues are offered at a price, which is lower than their actual market price.

Determining the optimum offer price for IPO issues is the most difficult thing to the investment banker or popularly called underwriter, especially if the issues are from new and young companies. If the issues are price low then the issuing company and its existing investors will not be pleased for leaving handsome amount of money on the table but at the same time if they are priced too high then it might lead to under-subscription and may even result in withdrawal of issue, which is detrimental for the financial aspect as well as reputation of the underwriter. Therefore, underwriter does have some incentive to under price the issue.

According to a research conducted by J.R. Ritter (1998), under pricing does exist in every market but extent of under pricing may vary among different countries. He revealed in the study that among 33 countries the IPO under pricing ranged from lowest of 4.2% to the highest of 38.8%.a member of emerging market studies also showed the similar phenomena. For instance, an initial under pricing of 80.3% in Malaysia, 35.3% in India, 31.4% in Singapore and 15.9% in Hong Kong occurred as revealed from numerous researches. Thus, initial under pricing of IPOs seemed to worldwide phenomena even though the extent of IPO under pricing may vary form one country to another.

Various theories have been put forth to explain this phenomena, one of the most convincing theory is that IPO are deliberately under-priced by underwriters. Underwriters will under-price the issue to ensure the success of issue. In addition, it is an easy way for them to reward their loyal clients. Similarly, the issuing company also may want to under-price the issue (but not by higher margin), as the typical run up in price will create excitement among investors and might prove beneficial for their future issues. In addition, as they don't offer much portion of shares to the public they will not lose much.

Another convincing hypothesis is **winner-curse hypothesis.** It assumes that there exist two groups of investors: informed investors and uninformed investors. Usually in informed investors get away with most of desirable new issues while the uninformed investors will get most of the least desirable issues and face winners curse. Therefore, IPOs are under-priced sufficiently to compensate them for the bias in the allocation of new issues. Yet another group of researches claims that IPOs are under-priced to reveal the firms quality.

Similarly, according to **Bandwagon hypothesis,** when the investors do buy the new issues after seeing that other investors are also buying and do not buy if others are not buying then Bandwagon effects may develop. To prevent it the issuing company may want to under-price the issue to induce few early inventors to buy and induce bandwagon in which all the other subsequent investors will want to buy.

These theories have been criticized on the grounds of extreme assumptions and various other reasons but the fact remains that each of them does possess a hint of truth in them.

ii. long-run underperformance:

Another pattern associated with IPO is poor stock price performance of IPOs in the long run. It means even though IPOs do provide higher initial return (on behalf of under-pricing) but their long term returns over subsequent 3-5 years are below average. If you could not get in at the IPO price but purchased portfolio o IPO stocks on their second day of trading year three years return would have been lower than the return on a portfolio of similar but seasoned stocks (Brigham and Ehrhardt, 2004, 745). Similarly, Ritter (1998) reveals that the companies, which went public during 1970 -1993, produced an average return of just 7.9% per year for the five years after the offering, using the first trading days closing price as the purchase price. However, the control group of non-issuing firms matched by market capitalization produced average initial return of 13.1%. Thus, IPOs under-perform by 5.2% per year in the 5 year after going public. All these statements do indicate that IPOs does under-perform in long run.

<u>Capital market and IPO:</u>

Capital market can be identified as the place where long term lending and borrowing takes place. It is the market where financial instruments having maturity period of more then one year are being traded. It mobilizes savings of individual through investment in various financial instruments like common shares, debentures, unit schemes from mutual funds etc. which are also ultimately deployed from productive propose in different sectors of the economy. It is the center for government, business firms and various other institutions to raise capita as per their need through the issue of intermediate and long-term securities. The backbone of capital market is formed by various securities exchange, which provides a playing field for various debts and equity transactions. In that sense, securities market can be considered extremely important constituent of capita market.

On behalf of securities transaction, capital market can be divided in two parts: primary market and secondary market. Primary market indicates that market where the securities issued for the first time are being traded whereas secondary market is the market where already issued security is being traded. As per need of the study, only primary market will be discussed.

IPO, a subset of primary market:

Primary market is the place from which corporations get new capital. Depending upon whether the securities being offered is for the first time or in succession, the total offering in primary market can be divided as initial public offerings or the successive public offerings.

The volume of IPOs in the market especially that of common stock is directly related to the market condition. It means when the market is growing or showing bullish trend the number of companies issuing common stock through IPO increases but it decreases when the market is showing declining trend that is **BEARISH TREND.** When the market is high or rising, the number of new issues being offered to the public rises and when the market is low or falling, the number declines (Cheney and Moses-1992, 64). This has been well documented in the markets of developed countries like USA and Japan including others. In the USA during bubble of the late 1990s, many venture capita driven companies where started mainly seeking to cash in on the bull market. Those companies used to offer their IPOs quickly. There actions where usually justified as stock price spiraled upwards as soon as, they went public. Similar phenomenon was occurred in Japan too. Some companies operated in similar way and their only goal was to have an IPO.

All this facts suggest that the number of IPOs being offered in a year largely depends upon the state of market.

As far s issuing securities through IPO in primary market is concerned, the issuing companies generally have two options. Either to sell directly through private placement or to sell through investment bankers public sale.

In the case of private placement, the entire issue is sold to one or few large institutional investors directly without the underwriting services of investment bankers. It is also relatively cheaper method. As long as relatively few potential buyers are contacted, requirements for detailed disclosure, SEC registration, public notice and so on may be waived considerably reducing the cost of floating an issue (Gordon J.A, and others, 2003, 261).

In the case of public sales, issues are sold through INVESTMENT BANKERS or often-called UNDERWRITERS. Such investment bankers serve as intermediaries between issuing company and the investors. In general, there are group of underwriters who handle an IPO. Among such group of underwriters one act as lead underwriter and rest as selling group. On being appointed by issuing companies, the underwriters provide an array of services to issuing company. At first, it enables the issuing company to determine the range of shares to be sold. Furthermore, the reputation of underwriters comes in handy in convincing prospective investors that the shares worth the price at which they are being offered. Secondly, they actually do the selling job. Underwriters sell the issued shares to the retail as well as institutional investors. Even, some underwriters maintain analyst to cover stock price after they are issued just to ensure that investors faith in the stock is maintained.

Generally, these underwriters either work on best effort basis or will underwrite the entire issue. In the best effort basis, the underwriter does not guarantee that the entire issue of the company will be sold but it will just put forth its best effort to sell the issue. However, on underwriting of entire issue agreement, the company does get the guarantee of entire issue being sold because the investment banker actually buys the entire issue from company and resell it to the public. In addition, most underwriting agreements have green shoe provision to deal with over allotment of issues to certain extent. The provision allows the underwriter to purchase additional shares up to 15% of the issue size at previously set price not at its existing market price.

In order to sell issues through IPO in primary market, a certain process has to be followed. The firm must obtain the approval of its current shareholders before going to public (Gitman 2003, 316). Once the firm decides to go public, the first and second foremost thing to do is to select underwriters. Underwriters are investment –banking firms that act as financial midwives to a new issue (Brerley and others 2004, 370). The investment banker is financial intermediary that specializes in selling new security issues and advising firms with regard to major financial transaction (Gitmawn 2003, 316) merchant bankers are the underwriter of the securities who is responsible for promoting and facilitating the sale of the companies IPOs. Before any stock can be sold to public, the company must register the stock with the Securities and Exchange Commission (Van Horne 2000, 492). The registration statement contains information about proposed financing and firms' history, existing business and plan for the future. The first part of the registration statement is distributed to the public in the form of preliminary prospectus (Brearly and others 2004, 371). A prospectus describes the key aspects of the issue the issuer and its management and financial position (Gitman 2003, 316).

The SEC reviews the registration statement and the prospectus to see that all required information is presented and that it is not misleading (Van Horne 2000, 493) it approves the registration and the company then is able to issue final prospectus and sell the securities.

Historical background of capital market development in Nepal:

When biratnager just mills floated its shares in 1936 AD, it commenced the development of capital market in Nepal. On same positive note, Nepal bank ltd. was established in 1937 and in the same year, an institution named **Tejarath Adda** was established to facilitate loans to the government employees. In the very year, "Industrial Act" was promulgated to serve as platform in strengthening the process of capital market development and national economy as whole. In the subsequent years quite a few companies floated their issues but the level of participation of public was very low mainly because shares of such companies used to go the hands of **Rana regime and their families** (Gurung 1999, 15).

Although democracy was established in 1950 and interim government was formed but the process of strengthening capital market could not get desired momentum, as the government was not able to adopt concrete measures. When the HMG/Nepal issued bonds in 1964, it commenced the trend of government's involvement in issuing various forms of securities like bonds and treasury bills, which is still in practice. In fact, such government bonds still occupy the major position in Nepalese securities market.

In 1974, then government announced **Industrial policy under which security market centre was established.** However, its activities were very limited as it looked after only a few numbers of aspects of government securities like development bonds, national saving bonds and only few securities of other private companies. The institution used to run under virtual monopoly of government.

In 1976, security market was turned into securities exchange centre (SEC) with the objective of facilitating and promoting the growth of capital market (Adhikarki 2004, 75). It was the sole institution representing capital market and used to run under company act. Later when security exchange act was promulgated in 1983, it started to operate under the act. The act carried its main objective as providing systematic and favorable market environment for securities along with ensuring and protecting the interest of individuals and institutional investors as well as to increase the public participation in various firm and companies (Gurung 1999, 15). During the period, SEC used to carryout the activities like brokering, underwriting, managing and marketing public issues including other financial services all by itself. Being sole institution representing capital market and having limited resources, it was not able to lend secondary market activities to insure liquidity to the issues.

In FY 1990/01 then interim government launched broader financial reform programs under the framework of privatization. In this context, the government established two major institutions to widen the reach and range of activities of capital market. Due to changing economic environment and increasing dynamism in the market, the change in structure and operational procedure of SEC became essential. Hence, in 1993, government divided SEC into two distinct entities namely security board of Nepal (SEBO/N) and Nepal stock exchange ltd (NEPSE).

Security board of Nepal (SEBO/N) was established by then HMG/N on June 7, 1993 and is now functioning as an apex regulator of securities market in Nepal. As per securities ordinance, 2005, the major objectives of SEBON are to regulate issue and trading of securities and market intermediaries, promote development and protect investors right (SEBON 2006 sept. 22).

Nepal stock exchange (NEPSE) is non-profit organization and sole institution to facilitate secondary market transactions. It runs under securities exchange act, 1983. It commenced its regular operations on junary 13, 1994 and adopted Open-out cry system **.** NEPSE the only Stock Exchange in Nepal introduced fully automated screen based trading **since 24th August, 2007**.

The NEPSE trading system is called 'NEPSE Automated Trading System '(NATS) is a fully automated screen based trading system, which adopts the principle of an order driven market. The basic objective of NEPSE is to import free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers and market markers, government of Nepal, Nepal Rastrya Bank, Nepal Industrial Development Corporation and its members are the shareholders of NEPSE. Member of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. It has twenty-seven member broker and two market makers. It has also given membership to eleven sales and issue manager (Finance companies) and two dealers, Nepal Merchant Bank and Financial Companies and Nepal Financial and Saving Co. Ltd (NEPSE 2006 Sept. 22).

Issue and sales manager works as manager to the issue and underwriter for public issue of securities whereas dealer works as individual portfolio manager (SEBON 2006 Sept.22).

Parities involved in IPOs in Nepal:

IPO being complex and time –consuming process often needs the participation of a number of entities. In this reference, generally those parties or institutions, which do ply some role during the process of IPOs in Nepal, are discussed here under.

i. **Issuing company**:

It refers to the company, which is committing IPO to raise capital from public. As provisions of company act, 2063 only public limited companies are allowed to go for IPO. The act has specifically stated that the private companies should not issue their shares or debentures to the public. Similarly, as per NRP directives Banks and Finance Companies had to go for IPO within certain stipulated time. Furthermore, as per provisions of Banks and Financial Institutions act. 2006 banks and financial companies should set a side minimum of 30% of their issued capital, to be allocated to the public. However, 5% of such shares could be allocated to their employees.

ii. Issue manager:

Issue manager is an institution who is solely responsible to manage initial public offering. As per securities act, 2062 issue manager are institutions holding license from the Nepal Stock Exchange to manage public offering issues. So far, NEPSE has authorized 11 finance companies to serve as issue manager. Issue managers receive issue commission from issuing company in return of their services. Such issue commissions are decided through negotiation although, securities issue bylaws, 2054 have stipulated maximum limit for it.

iii. Underwriting and Underwriter:

Underwriter is an institution authorized to render insurance to the securities issued during IPO and accept liability for specified risk. As far as practices in Nepal are concerned issue form manufacturing and processing and banks have to be underwritten. But such provisions have been relaxed for finance companies. In the event that the issues shares those not fully subscribed by public, the unsold issues have to be distributed among the underwriters on pro-rata basis to the extent of their commitment. They can receive maximum 3% of underwritten amount as their service charge as per provision of securities listing by- law, 2054.

iv. Collection centers:

These are the authorized institution to collect application from the investors issue acknowledgement for the same and the process of issue through cheques/drafts. They also issue final certificates to the issue manager for the number of applications and amount collected. They are provided collection charges for their services, which are usually, determined through negotiation and are based on number of applications handled and amount collected. Banks, finance companies or brokerage house mostly performs such roles.

v. Others:

Various other institutions like SEBO/N, NEPSE, NRP and CRO also do ply same role influencing IPO in one way or the other. As per provisions of securities act. 2063 issuing companies get issue approval from SEBO/N. the companies should also get issue approval from company registrar's office (CRO)**.** If the issuing companies are financial institutions then need to obtain approval from NRP as well, prior issuing their shares to public. Similarly, trading of securities is considered illegal, if they are not listed in NEPSE.

<u>Procedural aspects of IPOs in Nepal: Legal aspects and process</u>:

Any institution that goes for IPO needs to abide by various laws, acts and regulations. Generally company act, 2053 and securities exchange act, 1983 use to guide IPO activities in the past, however these acts have been replaced by company act, 2063 and securities act, 2063 respectively. So now-onwards, companies need to abide by above mentioned acts and their provisions. However, there also exist other legislations and guidelines such as securities registration and approval guidelines. 2000, securities allotment guideline, 1994, security by-laws, 1996 to ensure that IPO process becomes transparent and disciplined.

The first and foremost step in the process of IPO is to get an authorized investment banker or issue manager (Authorized from NEPSE) to handle the whole process, as per provisions of securities registration and issue approval guidelines, 2000, upon being appointed, the issue manager conducts due diligence investigation of the issuing company to analyze overall aspects of the issuing company that is mentioned in the proposal for the public issue like nature of business, its financial position, plans, management etc. upon being satisfied, the issue manage prepares details document along with prospectus to be submitted into the company registrars office (CRO).

CRO, upon receiving such prospectus, analyzes its various aspects in consultation with SEBO/N and only after being satisfied grants issue approval. After receiving issue approval from CRO, the issue manager further need to register the prospectus along with other necessary documents in SEBO/N and obtain issue approval, as per provisions of securities act, 2063. The prospectus should contain detailed information regarding mane of the corporation, its address, objective of its establishment, share capital value, potential risks involved and various other information, which will enable inventors to make rational decision. In the case of financial institutions, they need to get issue approval from Nepal Rastra Bank (NRB) as well.

Prior giving issue approval SEBO/N analyzes the validity of the information presented in the prospectus and the other documents- due diligence report submitted by the issue manager often becomes basis for such analysis.

After receiving issue approval from both CRO and SEBO/N, the issue manager on behalf of issuing company is now legally authorized to make public issue. In fact, the issuing company should open its issue to public within two months from the date of approval by SEBO/N (Securities Registration and issue Approval Guidelines, 2000).

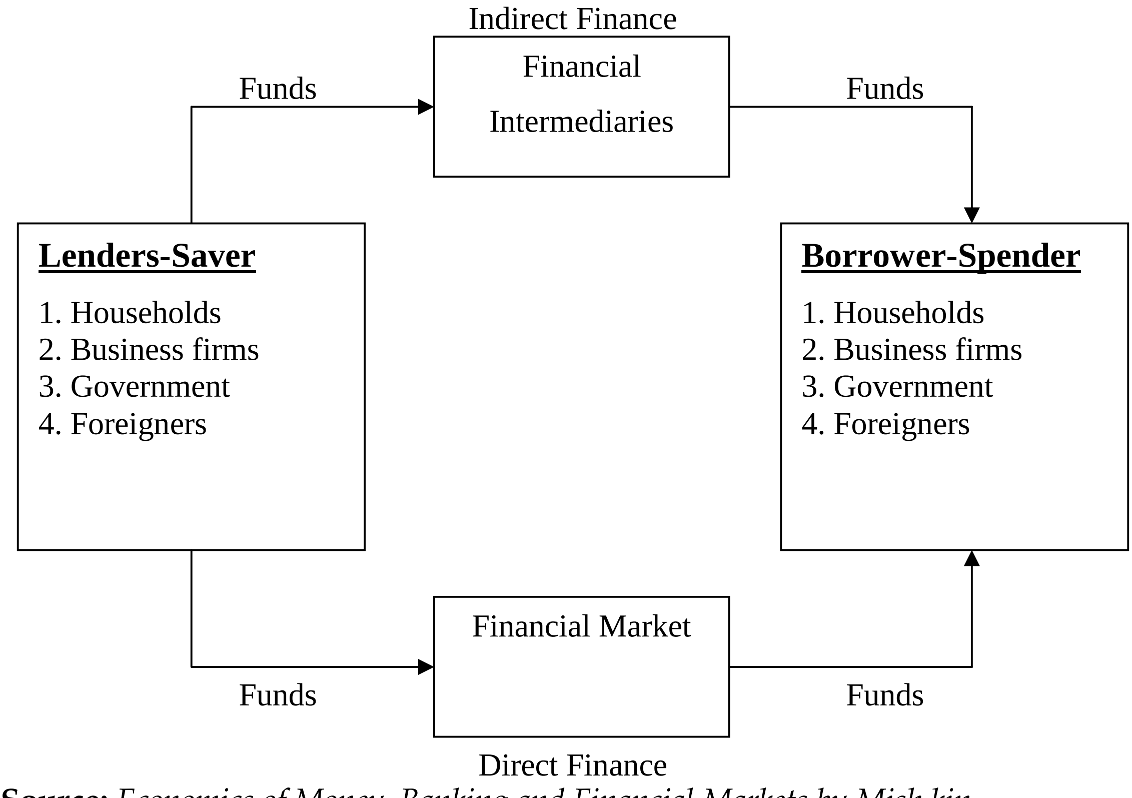
2.1.1 Financial Market

A financial market is a mechanism for trading financial assets or claims. Financial market provides a forum in which suppliers of loans and investment can transact business directly. The loans and investments of institutions are made without the direct knowledge of suppliers of funds or savers (Subedi, 2003: p.14).

Activities on financial markets have direct effect on individuals' wealth, the behavior of businesses, and the efficiency of the national economy. Well functioning financial markets and financial intermediaries are needed to improve economic well being and efficiency and are crucial to economic health. Indeed when the financial system breaks down as it has in Russian and in East Asia recently severe economic hardship results (Mishkm, 2000: p. 20).

Figure 2.1

Flow of Funds through the Financial System



Source: *Economics of Money, Banking and Financial Markets by Mish kin.*

The above figure shows the function of financial system. Those who have saved and are lending funds, the lender-savers are at the left and those who must borrow funds to finance their spending, the, the borrower-spenders, are at the right. The principal bender-saves are households, but business enterprises and the government (particularly state and local govt.) as well as foreigners and their governments, sometimes also find themselves with excess funds and so lend them out. The most important borrower-spenders are business and the govt. (particularly the federal govt.), but households and foreigners also borrow to finance their purchases for cars, furniture and house. The arrows shoe that funds flow form lender-savers to borrower-spenders via two routes. In direct finance (the route at the bottom of figure), borrowers borrow funds directly form lenders in financial markets by selling them securities (also called financial instruments), which are claims on the borrowers future or assets. Securities are assets for the person who buys them but liabilities for the individual or firm that sells (issues) them.

Financial market consists of the money market and capital market in terms of their maturity of the financial instruments used in transmitting funds from saver to spender.

Money Market

The money market is a financial market in which only short-term debt instruments (generally those with original maturity of less than 1 year) are traded, the capital market is the market in which longer-terms debt generally those with original maturity of one year or grater) and equality instruments are traded money market securities are usually more widely trade than long-term securities and so tend to be more liquid. Short-term securities have smaller fluctuations in poring than long-term securities, making them safer investments. As a result, corporations and banks actively use the money market to earn interest on surplus funds that they expect to have only temporarily.

Capital Market

Capital market proved to be the important segments of the economy since it facilitates and provides better institutional arrangement for the borrowing and lending of long-term fund. Capital market is the general barometer that measures the proper collection of capitalization of savings for investment in productive and income generation assets. The allocation efficiency in the use of funds is the basis for measuring the performance of capital market (Shrestha, 1980: p. 37).

Capital market is that market where the long-term financial assets (securities, non securities) are traded in order to arrange financial fund for productive sector. Any type of organization needed the funds to develop or operate their activities to achieve the particular objective. To arrange the fund, the different ways are available. One of them is fund arrangement from capital market. Capital markets activities concerned with securities and non securities investment activities.

2.1.2 Securities Market

Securities market is a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading (Sherpe et. al., 2003: p.47). It is an important constituent of capital markets. It is a wide term embracing the buyers and sellers of securities and constitutes all the agencies that assist the sales and resale of listed securities (Rugh, 1966: p.60). Without the efficient securities market, securities issued by a company will only be legal obstructions and the capitalization merely a blue print of financial planning (Kuchhal, 1974: p.245). In Nepal, the establishment of securities marketing center in 1976 AD developed the concept of securities. It was the first institution establishment for the purpose of developing securities market in Nepal.

The types of securities bought and sold may classify securities markets. On the basis of securities activity nature, there are two types of securities market. The first issuance, fund collection is performed as primary market and the second time transaction of initial public offering is known as secondary market of securities.

Primary Market

In the primary market, the original issue of the financial instruments of a company is performed. The term primary market is used to denote the market for the original sale of securities by an issuer to the public, financial securities are offered for the first time in primary markets (Thapa, 2004:p.17). In a primary market, funds flows from providers to the user, that means the contributions of primary markets to company financing is direct in the sense that it providers additional funds to the issuing companies either for starting a new enterprises or for expansion or diversification of the existing one (Zutter, 2001:p.3).

A primary market is a financial market in which new issues of security, such as a bond or a stock, are sold to initial buyers by the corporation or government agency borrowing the funds (Mishin, 2000, p.23).

Before the securities marketing center, the case of new issues were very few. The issuing companies were undertaken by issuing companies themselves (CEDA, 1997: p.78). Talking about the current status of securities market the issue of capital in the primary market is regulated by the securities Board, Nepal. Tenth Plan (2002-2007) has also set the quantitative target to raise 5 billion from primary market (Tenth Plan, 2002-2007, p.90).

Primary markets provide an important allocation function by channeling the fund to those who can make the best use of them presumably, the most productive (Subedi, 2003: p.47).

Primary market activities are managed by investment banks as a fund manager or issue manager. The people responsible for finding investors for the initial public offering (IPO) of securities sold in the primary markets are called investment bankers. Investment bankers are also called underwriters; they purchase new issues from security issuers and arrange for their restate to the investing public (Francis, 1992: p. 68).

Primary markets refer to the sale and distribution of securities when they are originally issued by the money raising corporation or governmental unit (Ritter, Silber, 1993: p.33).

Generally primary issue of securities can be made by equity and debt offering. Primary issue Methods are as follows:

Public issues: Offering securities to the public for subscription through prospectus which is known as Initial Public Offering (IPO).

Rights issues: Offering securities to the existing shareholders, only if its shares have already been fully paid up.

Prof. Share issues: Offering preference shares to public

Private placement throughout deals: Procuring subscription by offering securities to the specific investors.

Offering for sale: Offering securities by promoters/group of person holding substantial shares of a company, especially in case of closely hold public companies.

Bonus Share and Debenture issues ect

The company to trade in the capital market issues the new securities. Here the securities of large business firms issued for the first time bought and sold. The issuer of such securities may directly sell through private placement without underwriting to the investors. Besides, the securities may be sold after being made underwriting by the institution like investment banking. The issuer company collect amount and invest in the productive sector to earn the profit. Price of stocks ever is in the par value so no problem of pricing (Sharma, 2002: p.34).

In order to issue different securities in the market, following procedures should be followed:

- Declaration of public issue in AGM of concerned company,
- Agreement of issue manager & issuing company about new issue,
- Managed all activities by issue manager (Analyzing financial reports and company broacher, preparation of prospectus etc.),
- Submitting Prospectus to NRB, SEBO or concerned dept,

- Registration on SEBO to issue the securities: Prospectus, Memorandum, Article of association,
- Approval from SEBO for the issue of share (SEBO analyses the prospectus & other company activities in detail & gives approval for issue),
- Within 2 month of getting approval from SEBO, share should be floated to the public.
- Different persons and parties can involve in the issue management process of the securities and these persons and parties are called issue managers. Following are the functions of issue managers to trade securities.
- Preparation of announcement and designing of application form,
- Finalizing the application collection counter (According to Development Region not more than 15),
- Selection of bankers to the issue (Fund is in the custody of issue manager & bankers to the issue),
- Publication of announcement (Maximum 15 days & minimum 7 days),
- Collection of application forms and then starts data entry.
- Share allotment according to the rule (minimum 20 persons for amount of 1 lakh).
- Refunding and certificate distribution.
- Settlement of account and hand over to issuing company etc.

The performance of banking and financial sector is going efficiently. But some government sector companies which had floated shares publicly, have turned to be sick or at least project is not moving ahead. Some companies have been under the process of liquidation and many are lagging behind their implementation schedule. There is general deficiency of competent managerial capability to promote and run the project successfully.

Secondary Market

Capital (Securities) market apart from the primary market also includes markets where securities which have been issued, are traded. These secondary markets are called stock market or stock exchanges. The presence of an active secondary market actually promotes the growth of the primary market and capital formation because investors in the primary market are assured that a continuous market exists and should occasion arise they can liquidate their investment in the stock exchange. The participants in the secondary market are linked by formal trading rules and communicate networks for trading in securities exchanges (Sharma, 2002: p.17).

The primary market and secondary markets have a symbolic relationship while the primary market creates long term securities, the secondary market provide liquidity through marketability of those instruments. Fresh capital issues are influenced by the level and trend in stock prices at the time and trend in stock prices at the time of issue. Actually a new issue activity in the primary market adds depth to the secondary by enlarging the supply of instruments for trading and investment in the secondary market. Stock prices in turns are influenced by the large size and bunching of new issues. Besides this, primary and secondary markets are indispensable ingredients of the capital market and are the basis to meet the financial requirements of corporate bodies (Subedi, 2003:p.27).

Nepal Stock Exchange Ltd (NEPSE) the secondary market operator and is providing the secondary market services in Nepal. Tenth plan of Nepal has set the target to reach the amount of transaction in Secondary market up to Rs.10 billion (Tenth Plan, 2002-2007: p.90).

2.1.3 Actors of the Market

Both primary and secondary market could not operate solely. Different actors take part in the market. Some of these actors are defined in this section.

i) Organized Stock Exchanges

Organized securities exchange and automated over-the-counter (OTC) markets are the increasing phenomenon in emerging markets. The centralization of trading imparts transparency to the process, and the availability of electronic audit trails represents an opportunity to monitor trading that did not exist until recently. These developments strengthen the monitoring functions of self regulating organizations and regulatory agencies and enhance investors' protection (Thapa, 2001: p.20).

Organized securities exchanges have physical locations, they are also normally organized on a not for profit basis, and the shareholders hold exchange membership. They trade listed securities following a set of rules and procedures designed to impart maximum competition and transparency to the process. Trading normally must take place on the exchange floor and only admitted brokers (who execute public orders) and dealers (who trade their own accounts), are permitted to trade on the exchange (Vayanos, 2001: p. 34).

Some exchanges use the specialist system where an individual or firm manages the 'book' of public orders. In return for the advantage of seeing the order flow, specialists are required to maintain 'orderly' markets by using their own funds to temporarily bridge the gap between excess buy or sell order (Thapa, 2004: p.21).

Secondary markets can be organized in two ways, one is to organized exchanges where buyers and sellers of securities (or their agents or brokers) meet in on central location to conduct trades. The New York and American stock exchange for stocks and the Chicago Board of Trade for Commodities (Wheat, corn, silver and other raw materials) are example of organized exchanges (Mishkin, 2000: p.24).

Organized stock exchanges actually function as a hybrid of an auction market (in which buyers and sellers trade with each other in a central location) and a dealer market (in which dealers make the markets by buy and selling securities at given prices). Securities are traded on the floor of the exchange with the help of a special kind of dealer-broker called specialist. A specialist matches buy and sell orders submitted at the same price and so performs a brokerage function. However if buy and sell orders do not match up, the specialist buys stocks or sells from a personal inventory of securities, in this manner performing a dealer function (Mushkin, 1993: p. 333).

Thus the specialist maintains orderly trading of the securities for which he/she is responsible. The other method of organizing a secondary market is to have an over the counter (OTC) market.

ii) Over the Counter (OTC) Market

The securities market where the securities which are not listed in organized exchanges are traded is called ʻover the counter (OTC) market. An OTC market is away of trading securities that are not involved is organized exchanges. The OTC market competes with investment bankers and the organized exchanges because OTC dealers can operate in both primary and secondary markets. It is a negotiated market of securities linked with the network of telephone line internationally. This market in contrast to the formal security exchanges is an intangible organization (Kumar, 1993: p.456).

Transactions conducted outside organized exchanges are said to be in the OTC market. OTC markets do not have a single location, but reside in a network of commercial and investment bank trading rooms (Sears, 1993: p.122).

Transactions are conducted by telephone or computer system. Brokers/dealers handle customer order either by selling securities from their inventory (for a percentage markup or a bid-ask spread), or act as the customer’s agent by purchasing the security from another broker/dealer and charging for commission (Stephen, 1997, p. 471).

An over the counter (OTC) market allows buyers and sellers to transact without meeting at one physical place. For example, OTC transactions, such as the debt-based Euro-markets often take place over computer networks. The National Association of Securities Dealers Automated Quotation System (MASDAQ) market in the United States is a noteworthy examples of Computer linked OTC equity market (Grinblatt, 2003: p. 73).

iii) Financial Intermediaries

In an advance economy, channeling of funds from savers to investors, through financial markets reaches highly complex dimensions. A wide variety of financial instruments such as stocks, bonds and mortgages, are utilized as devices through which borrowers can gain access to the surplus funds of savers. Various markets speculate in trading one or another of these financial instruments.

Financial institutions such as commercial banks, saving banks, saving and loan associations, credit unions, insurance companies, mutual funds and pension funds that act as intermediaries in transferring funds from ultimate lenders to ultimate borrowers. Such financial intermediaries themselves borrow fro saver-lenders and then twin around and lend the funds to borrower- investors. They mobilize the savings of many small savers and package them for sale to the highest bidders (Mishkin, 2000: p.11).

Financial Institutions- such as banks, insurance companies and pension funds are called by special name- financial intermediaries.

Financial intermediaries are nothing more than financial institutions- commercial banks, saving banks, saving and loan associations, credit unions, pension funds, insurance companies and so on- that act as agents, transferring funds from ultimate lenders to ultimate borrowers.

Securities market intermediaries provide the services to the companies for raising capital by issuing shares to the general public. These services include: pre-issue, issue and post issue activities together with consultancy services like pricing of shares, method of raising funds and developing appropriate financial instrument (Bhattarai, 2002: p.13).

Investment bankers, brokers and dealers are crucially important as intermediaries in the distribution and trading of huge amount of securities, including corporate stocks, bonds, state and local government securities and central government securities.

Investment bankers operate in primary markets, selling and distributing new stocks and bonds directly from the issuing corporations to their original purchases. Brokers and dealers are involved in secondary markets, trading 'used' or already outstanding securities.

The difference between brokers and dealers is that brokers do not buy or sell for their own account. They match buyers and sellers of a particular security and earn a commission fee for bringing the two together. Dealers, on the other hand, "take position" in securities: they buy them for their own account hoping to resell at a higher price.

Funds can move from savers to users by a second route, called indirect finance because it involves intermediary that stand between those two parties and transfer of funds from one to the other. Security market intermediaries do this by linking savers with users (Thapa, 2004: p. 41).

The efficiency (performance) of the security market intermediation services can be illustrated by reviewing its different functions. Intermediaries in the security market have several basic functions such as,

Saving functions: Securities market intermediaries provide a conduct for the publics' savings. They provide a potentially profitable, low risk outlet for the saving which flow through securities market into investment. They are the indirect channel through which funds are transferred from surplus units to deficit units.

Wealth Functions: Securities market provides a means to store purchasing power until needed for future spending.

Liquidity function: Securities market intermediaries provide a means of converting the financial instruments into cash with little risk of loss. Thus they provide liquidity for savers who hold financial instruments but are in need of money.

Payments function: Securities market intermediaries provide a mechanism for making payments to its clients.

Risk function: Intermediaries of securities market provide the protection to their clients against the risk. They carry out the research, collect and analyze the required information.

Policy function: Securities Market intermediaries have been the channel through which government has carried out its policy. They are the effective implementer of the govt. policy.

Securities market intermediaries face the various kinds of constraints in performing above mentioned functions efficiently.

Legal Constraints: Securities transactions in the market involve lost of paper work to fulfill the legal requirements. It involves unnecessary time and costs in fulfilling such works. Hence the things impose legal constraints to market intermediaries.

Regulatory constraints: Due to the lack of proper co-ordination between regulating authority and the market intermediaries, they do not sometimes properly follow formulated regulations. This creates regulatory constraints on them.

Policy Constraints: Policy of securities market sometimes creates restrictions on the market intermediaries. Because of some these policies functioning of market intermediaries are not satisfactory as expected.

Since healthy securities markets are viewed as critical to a healthy economy and intermediaries stand at the center of many markets and have been the focus of many regulatory inquiries and some empirical studies by academicians (Stoll, 1978: p.1153). Despite this fact, it is the most untouched area of securities market in case of Nepal. Though the exchange of financial securities usually involves an intermediary in many cases the intermediary, in many cases the intermediary acts merely as an administrative conduct, with the terms of trade set by the transacting principals. There are, however, important instance where the intermediary sets the terms of which one or both principals committee to trade. For example securities primary offerings, an investment bank typically sets the issue price and in certain cases involving secondary market transactions, a specialist sets the price (Chalmers, 2001, p.229).

Investment decisions are taken within the frameworks provided by a complex of financial, institutions and intermediaries, which together comprise the capital market. It has a vital role in promoting efficiency and growth. It manages the flow of funds from surplus units to deficit unit and savings into investment in productive areas (Bhalla, 2003: p.167). These are the services which the securities market intermediaries alone can provide efficiently.

2.2 Case of Initial Public Offering in Nepal

A significant organization development in the Nepalese new issue market has been the emergence of intermediaries which play a critical role in the process of selling new issues (Shrestha, 1986: p.3). The legal frame work for their operation was prescribed by securities exchange act 1983 in which so far two amendments are made.

A healthy national stock market has been considered essential to national economic growth due to its different bundle of crucial services providing by its player's viz. intermediaries.

The participants of securities intermediation service are many and varied, but in our content, the brokers are acting as important middlemen the process of exchanging securities for the fund. Any, individual, firm or company desirous of engaging in the business of transacting securities must apply to the concerned stock exchange for the membership for the purpose of granting its membership, the stock exchange classified its members as follows:

a) Stock Brokers
b) Securities Dealers and
c) Market Makers

Generally stock exchange does not classify underwriters and issue managers as its members because stock exchange only deals in secondary market (Thapa, 2004: p.30).

This study especially deals with primary market activities. So it includes the study of underwriters/issue manager license granted by SEBO/N. It is because the IPO is made through these actors. Nepalese securities market at present has, 36 members/intermediaries comprising of Stock Broker (27), Issue/Sales Managers (7), and Securities Dealers (2).

In the security market, investors are termed as customers and customers may be individuals, firms, companies and organized institutions. Security market members start their work by taking orders from the customers for buying and selling their securities. Customers make agreement with issue managers, security dealers and market makers for underwriting and issue management of shares and against that they take service charge from customers. These terms are further described below:

- Stock broker is a securities business person who deals on behalf of the investors in buying and selling of securities of a listed Co.
- Issue manager is a securities business person who carries out functions relating to public. It Issues securities on behalf of the issuing company in the primary market.
- Security dealer is a securities business person who buys securities in his name at the primary market and sells them from secondary market (Stock exchange) either in his own name, or on behalf of customers' name through stork brokers.

Market marker, is a securities business person who deals with bonds, issued by government or bonds issued as per the guarantee made by the government. It carries out functions relating to public issue of mutual fund, unit fund and buying and selling of equity shares in his own name of at least three organized institutions with the objective of providing liquidity for them (Koirala and Bajracharya, 2004: p.2).

2.2.1 Stock Brokers

Any individual, firm or company desiring to engage in the business of buying and selling securities and in other related activities in the capacity of only as intermediary for clients without purchasing securities directly in its own name is granted membership as a broker (Membership of stock Exchange and Transaction Bylaws, 1998). If a broker wishes to purchase securities for himself or in his own name, he can do through other brokers by giving advance notice to the stock exchange (Stoll, 1984: p.1135).

The brokers require to be registered with the securities Board, Nepal to perform securities dealings. A broker seeking to registration with the board has to apply through the stock exchange. The registered stock brokers have to abide by code of conduct and general obligations, and responsibilities as specified in the securities Exchange Act, 1983.

Bookers are those who act strictly as agents for investors and do not assume risk (Stoll, 1984: p.1133). Broker is an agent for an investor and is compensated via commission. Brokering firms are significant source of information for investors about prospective securities return. Broker can be full service broker who provide investor with investment information and discount brokers who charge lower commissions and provide only transactions services (Buttalio, 1997: pp.341-343).

The information produced by brokers research is typically provided free of charge to investors in the expectations that it will stimulate trade, rewarding the brokerage house with commissions (Brennan, 1993: p.1379).

With increase in transaction in Stock Exchange, it is said that most of the brokers have opted for business other than shares trading and their shares business is done by their representatives who have limited knowledge of the share market (Shrestha, 1986:p.3). They have not even gone through introductory training arranged by the Stock Exchange on the operation of floor trading. Dhungel in the interaction program of Stock Brokers’ Association of Nepal stated that most of the brokers complained that brokers have to go through lot of paper works for transaction and settlement. Stock Exchange, to some extent, has computerized the activities with the view to decrease paper work and bring efficiency in supervision, settlement and reconciliation. Most of the brokers believe that the Stock Exchange also could help its members to computerize their activities at least by developing compatible and uniform computer software (CEDA, 1997: p. 6).

2.2.2 Securities Dealers

On the basis of the functions relating transactions in securities, the securities dealers are classified into two types of members:

- **<u>Security dealer (Primary Market):</u>** `

Security dealer (Primary Market) are the dealers who provide pre issue and post issue services for the sales management of securities which are being newly issued by a corporate body through a public issue or the circular method, underwrite and purchase of unsold issue share, or perform other related functions.

- **<u>Securities dealer (Secondary Market):</u>**

Securities dealer (Secondary Market) are the dealers who deals in securities through brokers in the name of investors or in his own name with the objectives of managing investments in securities presented at the Stock Exchange for transactions for trading in his own name or by concluding investment management contracts according to current Law.

2.2.3 Market Makers

Market makers fulfill the traditional wholesalers' role previously taken by jobbers (Cowdell, 2001: p.27). The Market makers is any company or corporate body which deals in securities at Stock Exchange in its own name or under its name on the basis of a pledge to provide liquidity to the securities issued by HMG, as well as to the securities listed at the Stock Exchange by concluding necessary contracts with the concerned corporate bodies, or to maintain stability in the prices of such securities, shall be granted membership as the securities Market Maker (CEDA, 1997: p.8).

2.2.4 Underwriter

Underwriting service is an importantly intermediary function in the primary securities market. They guarantee to take up unsubscribed issues in case of lack of subscribed from the people/investors (Marchirajo, 1996: p.3). They make a commitment to get the issues subscribed either by others or by themselves. Though underwriting is not mandatory, its organization is an important element in the development of primary market (Grinblatt, 2003: p.84). Underwriting is appointment by the issuing companies in consultation with the lead manager/merchant banks to the issue. A statement to the effect that in the opinion of the lead manger, underwriting' assets are accurate to meet their obligations should be incorporated in the prospectus (Khan, 1997: pp.13.25).

In Nepal, the corporate body which has no project evaluations for the purpose of obtaining bank finance requires underwriting. The underwriting arrangement in Nepal is carried out in three different ways such as:

- Full underwriting by one party (mostly the issue manager)
- Full underwriting by one party but back to back guarantee arrangement through private parties, and

- Consortium underwriting

They need to do underwriting for these large corporate clients or they are not profitable (Carter, 1998:p.285). That means there is an inescapable tension within the brokerage firm between the investment banking side and the research side. Investment bankers need to do "deals", naturally the firms overall interests are best served if those stocks and bonds prove to be solid investments for the firm's clients (Cassidy, 1993: p.23).

The process of facilitating the flow of funds from surplus savings units to deficit savings units with primary securities held by financial institutions and secondary securities held by surplus saving units is referred to as intermediation process. The indirect financing through these intermediaries facilitates economic growth by allowing capital to be channeled to productive investments. The intermediation that occurs may be described in four broad categories:

- Denomination intermediation: Pooling of relatively small number of investments to finance projects that require large amounts of capital.
- Maturity intermediation: make funds available with both shorter and longer term maturity to match with the financing need of the user.
- Risk intermediation: issuing companies do not bear the risk of subscription. They are usually backed by financial strength/ guarantee of the intermediary.
- Information intermediation: issuing companies do not need to research the market potential in which they ultimately float their shares. They can rely on information and services provided by the intermediaries.

2.3 Investment Banking and its Function

The process of marketing to the general public securities issued by private corporations is complicated and time consuming. So the corporations take help of the professional groups and their primary activity is that of marketing securities. The functions of these groups are generally referred to as investment bankers. The investment bankers therefore, are the middlemen between corporations and the general public in the accumulation of investment funds (Melcher, 1980:p.223). The people responsible for findings investors for the initial public offering (IPO) of securities sold in the primary market are called investment bankers. Investment bankers are also called under writers; they purchase new issues from securities issues and arrange for their resale to the investing public (Francis, 2000:p. 68).

The investment bankers in the modern sense is the intermediary who mobilize the funds of a large number of individuals by selling those securities did not appear until the end of the eighteenth and the beginning of the nineteenth centuries (Moultan, 1938: p.154).

Primary and most important function of the investment bankers is capital formation or the raising of new capital for the corporation. In respect of the shares offered to the public, device is available to the promoters to ensure success of the issue. This device is underwriting. The under writers, in return for a consideration undertake to purchase the shares not taken up by the public. Thus underwriting is a method by which a company ensures that the whole of the issue or at least a part of it to cover amount of minimum subscription is taken up (Sharma and Chauhan, 1967: p. 226).

Investment bankers advise their clients, handle the administrative tasks, underwrite the issue and distribute the securities as follows (Francis, 1990: p.67):

The Advisory Functions

The issuing company to analyze its financing needs and suggests various ways to raise the needed funds. The underwriter may also advise in mergers, acquisition and refinancing operations. They advise the corporation whether it should issue bonds or stock. If they suggest issuing bond, they give advice on what the maturity and interest payments on the bond should be. If they suggest that the corporation should sell stock, they give advice on what the price should be.

The Administrative Function

The investment banker shares with the issues responsibility of seeing that everything is done in accordance with the relevant securities laws.

The Underwriting Function

Underwriting refers to the guarantee by the investment banker that the issuer of new securities will receive a fixed amount of cash. The investment bankers purchase on issue and sell it to the public. It is the risky task for underwriters. Because of unforeseen changes in market conditions, the underwriter may not be able to sell the entire issue, or they may have to sell it at less than the price they paid for it.

Perhaps the most difficult decision in a flotation is setting the 'right' price. The right price is not too low. This would be unnecessarily costly to the issuer. It also can't be too high; this might cause losses for underwriters. To minimize risk, the price generally is set at the end of the registration period. If the syndicate waits to set the final price until the issue is ready for marketing, it will have the most up to data information on the market situation. When the price is right, market conditions are good and the issuers and under writers are reputable, the flotation will 'go out the window'- it will be sold in one or a few days. When one or more of these conditions is lacking, it may become a sticky issue, taking a week, month or even more to sell, and it may result in multimillion dollar losses for the underwriting syndicate, if it is a big deal (Francis, 2000: p. 72).

The Distribution Function

Investment bankers distribute the securities by underwriting or private placement. In other words, Investment banker may buy the issue and then sell the securities- an underwriting or the investment banker may simply act as an intermediary in bringing together issuer and investors in a private placement (Francis, 2000: p.74).

2.4 Market Regulation

The concept of market regulation is that aspect of securities supervision that oversees the operations of the markets and professionals within these markets (Extracted from website of SEBI). This usually includes registration requirements for securities in over-the-counter markets and for those listed on exchanges, registration of broker/dealers, and the setting of capital requirements for securities firms, exchanges, clearing corporations and depositories. The activities performed by Securities market intermediaries, whether trading for their own account or acting as agents for the public, entail responsibilities and obligations to serve the public first (Shrestha,1993,p. 15).

It is therefore normally necessary to establish a government agency to regulate or oversee the actions of individuals or firms authorized to perform intermediary operations and act as self-regulatory organizations. In addition to the standards of transparency, fairness and integrity which are expected of individuals who choose this profession, great importance is also attached to the financial strength of the securities broker.

Regulation of Primary Market

Primary market is the new issues market for the securities floated by companies in the securities market. There has been first amendment in Securities Exchange Act, 1983 in paving the way for the proper restructuring and regulation of securities market through the establishment of SEBO. Securities Exchange Regulation, 1993 came into effect for the implementation of Securities Exchange Act, 1983. The Various legal provisions govern the primary issues of the securities by public limited companies. The companies need to be first registered in the registrar of Companies and after approval from there it has to fulfill the rules governing the primary issues.

However, the continuing reforms are taking place in the effective regulation of primary market. Directives for allotment of securities, 1993 came into effect to bring about efficiency and transparency in allotment and distribution of securities. Again, directives on the issuance of securities and issue management, 1998 was put force to bring greater transparency and accountability in the process of public offering. The new issue guidelines have been developed with the objective of encouraging corporate bodies to enter into the capital market and helping investors to have adequate information on new issues by specifying the responsibilities of issue managers.

Regulation of Secondary Market

Not only the regulation of primary market is required, it is equally vital to regulate the secondary market that involves frequent buying and selling of securities on the trading floor on the basis of open out cry system through the network of securities persons known as brokers, market makers, securities dealers. In historical perspective, securities market originated in this country in the name of securities marketing center in 1976. This center operated without involvement of brokers for number of years and later on it was changed into Securities Exchange Center with the enactment of Securities Exchange Act, 1983 to facilitate and promote the growth of capital market in the country. It is only after the long gap of ten years these has been the programmed initiating the capital market reforms in the country. The basic objective of NEPSE is to impart free marketability and liquidity to the government by facilitating securities transactions in the market. Trading floor was opened on 13th January 1994 through market intermediaries such as brokers and market makers.

In the initial start, there are 31 member brokers and six market makers to operate on the trading floor as per the securities Exchange Act, 1983 (trading report, 1995/95). The trading system was conducted in an open out cry system or open auction principles on the trading floor. Bid and Ask price are quoted to match the deal between brokers and market makers. The opening price is put to the limit of five percent of rise and fall of the previous day trading price and prices can be changed within the limit of two percent rise and fall in every transaction of equity share. Settlement of transactions will be within three working days under T+3 systems for equities and within the same day under T+O systems for debenture. The rate of brokerage commission varies from 1 to 1.5 percent depending upon the volume of transactions.

In order to improve the secondary market and transparency in securities transactions, efforts are going on to regulate brokers and other market intermediaries by both SEBO and NEPSE. SEBO has made attempts to establish a system of time stamping of the orders received from the clients. SEBO has introduced market surveillance system on stock exchange floor to ensure effective timing of the trading, brokers involved trading, traded companies, volume and value of trading, clearing and settlement and mutual transaction. SEBO has been making aware from time to time to securities business persons that it is mandatory for them to submit annual report along with the financial statement trading report within four months after expiry of each fiscal year. But still there is no adequate and proper reporting of the brokering companies.

<u>Self-Regulatory Organizations</u>

The first level of regulation in capital markets is generally provided by private sector self-regulatory organizations, supplemented by an additional layer of public oversight. SROs are usually nonprofit institutions such as securities exchanges and professional societies of broker/dealers, securities analysts, etc. These institutions are empowered by legislation or regulatory authority to create rules, and monitor and enforce industry practices among their membership. Sometimes SROs are given explicit statutory authority to conduct a particular activity, such as the National Association of Securities Dealers (NASD) operation of the NASDAQ over-the-counter stock market, or the Securities Protection Insurance Corporation's operation of the insurance fund guarantee for customers of the securities industry.

Regulatory agencies typically can only hold securities industry professionals to a legal standard of conduct,- while SROs are able to hold themselves to more rigorous, ethical and moral codes that exceed legal requirements (Sherman,1999,pp.5-8). SROs have a difficult task in upholding these codes of conduct and at the same time represent the economic interest of their membership. This potential conflict of interest has occasionally surfaced, forcing the regulatory authorities to intervene in the SRQ's monitoring and enforcement functions.

2.5 Code of Conduct for Securities Market Intermediaries in Nepal

The regulation also lay down a code of conduct for every market intermediaries to be registered with SEBO. The code seeks to ensure that

<u>Mandatory Provisions for Issue Managers</u>

- Ensure quality and reliability of share issuance and sales management services provided by the share issuer and the sales manger,
- Publish a reliable, factual and informative (not hiding any information) information sheet and ensure the protection of the interest of the investors,
- Take responsibilities of hearing and solving grievances of investors by the share issuers and sales manager till shares are listed,

- Clearly stipulate the accountability of the share issuer and sales manager for all the information made public,
- Provision of submitting Due Diligence Certificate and other relevant documents along with application for share issue permission.

Regulation of Financial System

The government regulates the financial markets and financial intermediaries for the main reasons:

- To increase the information available to investors.
- To ensure the soundness of the financial systems, and
- To improve control of monetary policy.

Regulations include requiring disclosure of information to the public restrictions on who can set up a financial intermediary, restrictions an what assets financial intermediaries can hold, the provision of deposit insurance, reserves requirements, and the setting of maximum interest rates that can be paid on checking accounts and savings deposit.

The comparison of Nepalese Code with Indian Code clearly indicates that Indian Code touches the every aspects of the market related with issue managing activities. It does not mean that Nepalese Code is not adequate but from positive perspective it provides us with the guidelines of what or what not to be included in the Code.

2.6 Review of Articles and journals in Nepalese Context

Regarding the structure and performance of Nepalese primary market, important contributions have been made by different scholars. There are able to give the general concept, measurement and current status of Nepalese primary market. However, only limited researches have been undertaken on that field. In this section, some books, journals and other studies have been reviewed in order to draw the basic idea of primary market that certainly helps to complete the current research.

Review of Nepalese Journals/Periodicals

Rajendra Ghimire (2002) has suggested the investor to be careful at the time investing in primary as well as secondary market. He suggested that not to be excited to make heavy investment on primary issue because the allocation would be low and they may have to wait for six months before the scrip they invest on will be open for trading on the secondary market. Even then it will not offer the price sufficient to compensate for the wart.

Almost all the companies are not capable to perform the activities efficiently so as to generate the forecasted profit in Nepal. The companies, while appealing for the subscription of the shares forecasted higher earning and dividend policy but they became unable to do accordingly in the future. This helps reduce the confidence limit of the investors in the Initial Public Offering (IPO

K.D Koirala and Puskar Bajracharya (2004) published an article on degree of risk to the stock broker, issue managers, dealers and market makers. According to them degree of risk to the stock broker and issue manager is lower than the security dealers and market maker in dealing securities transaction. It is because the stock broker buys and sells securities and earns commission on return and in the case of getting down the market price of shares during the intermediary period, he loses good will and a small amount of commission. The issue manager, on the other hand, deals securities in primary, market where the degree of risk is comparatively lower and earns its commission. To him buying securities from the primary market in his name and selling them in secondary market through stock broker is riskier business than mentioned before considering issue, managers business as a long term liability to the company, no transaction was carried out in 2001/02.There are no Organized institutions as a market maker in Nepal. Once which was registered and renewed before did not get renewed 2001/02.

Ramesh Vaidya and Puskar Parajuli (2004) wrote an article in SEBO Journal entitled 'public offering of securities' and clarified about the primary market. In the journal, they took primary market as Initial Public Offering (IPO). He stated that public offering involves rising of funds for governments or corporations from the public through the issuance of various securities in the primary market and is often the only major source of obtaining large sums of fixed rate, long term funds (Vaidya and Parajuli, 2004: p.88).

Review of Master Degree Thesis

Although no specific studies were undertaken on the structure and performance of primary market of securities market in Nepal, there can be found some literatures on securities market and its regulations and some on intermediaries services. The review of those available literatures is presented in this section.

Roma Thapa (2004) has conducted a research entitled **'Structure and Efficiency of Securities Market Intermediaries Service in Nepal'.** Using various tools and techniques, she concluded following:

- The securities market intermediation services in Nepal are not efficient from the overall prospective.
- The structure of securities market intermediation services is also not yet well developed.

- When the efficiency of intermediation service is measured in terms of ratios and percentages, some of them are found to be efficient.

Pramila Sharma (2002) conducted the research on **'Problems and Prospects of Primary and Secondary Market in Nepal'.** She used both primary as well as secondary data in order to find out problems and prospects regarding both market in Nepal. Her findings were as follows:

- The structure of both segment of the market has witnessed significant change.
- Establishment of merchant banks, provision of speedy up allotment, proportionate allotment of shares and in secondary market an institutional mechanism was, in adequate, non transparent, hardly regulated and rarely geared to investors protection.
- Prescribed norms for intermediaries like brokers, dealers in trading/settlement are not followed properly.

Laxman Pandey (2002) conducted a research on **"Public Response to Primary Issues of Shares in Nepal".** His main objective was to measure investors' attitude towards initial public offering (IPO) in Nepal. He used both primary and secondary data and analyzed the pattern of public response to shares and concluded the following:

- Public response towards the security is high due to lack of opportunities for investment in other fields,
- Public are attracted towards shares than other sectors in order to increase their value of investment and to receive dividend, capital gain or bonus share,
- Due to delay in allotment, refund of money, delivery of certificate and listing of shares in the stock exchange, people are starting to loss confidence,
- The dynamism of the stock market has been greatly reduced by the domination of the long-term shareholders, who prefer holding the shares with the hope of increasing their wealth. This can be justified by small number of share that is traded on the stock market,
- Issue of some foreign joint venture banks were over subscribed to an extent of 19 times and this became simply overwhelming to the company as well as to the managers which lead to delay to in allotment of shares, refunding and distribution of shares certificate to the allotted public etc.

These all studies mentioned above provide the base for current research.

2.7 Research Gap

After reviewing some journals, periodicals, articles and master degree thesis, the researcher feels the following research gap:

Previous researchers have not highlighted the initial status of the issue of securities in Nepal; they took only 5 to 7 years data in the analysis process. Considering this fact, entire period of the securities have been taken as sample. That means this research presents the real picture of initial public offering in Nepal.

This research presents the linear relationship between and among selected variables of stock market in Nepal.

These gaps are to be filled by means of this research.

CHAPTER-III

RESEARCH METHODOLOGY

This study tries to adopt well designed research in a very clear and direct way using both financial as well as statistical tools. Detail research methods are described as follows:

3.1 Research Design

To achieve the stated objectives of this study, descriptive as well as analytical research design have been used. Some financial and statistical tools have been applied for analysis purpose. This research deals with more descriptive and quantitative or analytical evaluation.

3.2 Source of Data

To accomplish the stated objective, this research will be based upon the secondary data for the historical performance assessment and the primary data for the qualitative assessment of information. As the input for the study, the secondary data that will be collected through various published and unpublished documentary type sources. The sources of relied secondary data are as follows:

- Various publications of SEBO/N, Government agencies and bodies relating to the subject matter,
- Books relating the subject matter,
- Periodicals, newspapers and magazines,
- Various broachers, journals as well as booklets,
- Website of Securities Board of Nepal (SEBO/N), Nepal Stock Exchange (NEPSE), Nepal Rastra Bank (NRB) and others.

3.3 Population and Sample

In Nepal, Right Share, Ordinary Share, Preference Share, Debenture, Unit Scheme and Mutual Fund are the major securities those mostly used to issue to the public in order to collect required funds. All these securities are taken as sample for this study. Primary focus of selecting these securities as sample is to highlight real status of the right share issue during the study period.

3.4 Methods of Presentation and Analysis of Data

Method of analysis is applied as simple as possible. Results are presented in tabulator form and clear interpretations are given simultaneously. Detail calculations are presented in appendices at the end of the study.

3.5 Tools for Analysis

Tools used in this study are as follows:

3.5.1 Regression Analysis

The following tools have been used along with the regression model.

- **Coefficient of Multiple Determination (R^2)**

Coefficient of multiple determinations is very useful tool in interpreting the value of multiple correlation coefficients. It is denoted by 'R^2' and can be obtained by squaring the coefficient of multiple correlations. 'R^2' is measure of the degree (extent or strength) of linear association or correlation between two variables, one of which happens to be independent and, other being dependent variable (s). More preciously, it measures the total variation in dependent variables, which is expressed as percentage. Value of R^2 is ranging from zero to one. To illustrate, if the value of $R^2 = 0.67$, which indicates that the independent variables used in the regression model explain only 67% of the total variation in dependent variable and the balance 33% (i.e. 100-67) is due to other variables. If we want to improve the accuracy of estimate still further, we may add more independent variable in regression model. Again, the value of $R^2 = 1.0$ indicates that the other unexplained variation is zero and the impact on dependent variable is exactly one i.e. 100% due to independent variables used

in the regression model. In another word, all the data lies in the scatter diagram fall exactly on the regression line. The regression model for the present study is presented in section 3.5 and R^2 is calculated from the same model.

Similarly, the coefficient of determination (R^2) helps how well the regression line fits the data and at the same time, it measures the proportion of variation in the dependent variable accounted for the explanatory variables.

- **Regression Constant**

Regression constant is a value of dependent variable when other independent variables are zero. In another word, it is the intercept of the model, which indicates the average level of dependent variable when independent variable is zero. If all the variables are omitted form the model, the regression constant indicates the mean or average effect on dependent variable. It is denoted by 'a',

- **Regression Coefficients**

Regression coefficients describe how changes in independent variables affect the value of dependent variable's estimate. Alternatively, the regression coefficient of each independent variable indicates the marginal relationship between that variables and value of dependent variable holding constant the effect of all other independent variables in the regression mode. They are denoted by b_1, b_2, b_3 … etc.

It is to be noted that a, b_1, b_2, b_3 etc. are the regression parameters of the equation or regression line whose values are to be determined. These coefficients can be calculated by solving the regression model. Here, all regression models are solved using the SPSS computer program. The equations for calculating these parameters have been mentioned in part 3.5.1.

- **T-Statistic**

T-statistic explains the role of each independent variable in dependent variable. In order to find out whether the explanatory variables do really have any significant influence on dependent variable, T-ratios have been calculated using SPSS model of computer. While applying this statistics, significance level is considered. If the calculated value falls below 10 percent significance level (because, it is acceptable level of significance), the calculated value is statistically significant and the independent variable (s) play statistically significant role to change dependent variable. Hence, t-test is very useful tool in testing the hypothesis. Generally, it is applied in testing

i. for significance of single sample mean, population, variance being unknown,

ii. for the significance of the difference between to independent sample means,

iii. for the significant difference between dependent sample means,

iv. for significance of an observed sample correlation coefficient and

v. for significance of regression coefficients (Shrestha & Siwal, 2057: PP. 232-235).

- **F- Statistics**

F-statistics is also known as 'F-test' or 'variance ratio test'. Generally, it is applied in testing

i. the equality of population variation
ii. the equality of several population means
iii. the significance of an observed sample correlation ratio and
iv. the linearity of regression (Shreshtha and Silwal, 2057: P. 262).

In this study, to find out whether the explanatory variables do really have any significant influence on dependent variable, F-ratios have been calculated. While applying this statistics, significance level is considered. If the calculated value falls below 10 percent significance level (because, it is acceptable level of significance), the calculated value is statistically significant and the formulated regression model can best explain the variation in dependent variable, otherwise, not.

3.5.2 The Simple and Multiple Regression Model

In linear regression models, the relationship of dependent and independent variables is studied. In simple regression model, the relationship between a dependent variable and an independent variable is studied. Similarly, there is only one dependent variable but independent variables can be two or more than two in multiple regression model. For the present study, the regression models to be estimated is the most commonly applied one such as the following (Lintner, 1956):

Simple Regression Models are as follows:

- **$NI_t = a + b_1 IPO_t + U_i$ …………………….. (i)**

This model examines the impact of initial public offering (IPO at time‘t’) on NEPSE Index. It is because; we have to show the impact of primary market on secondary market. Here, the indicator of primary and secondary market is initial public offering and NEPSE Index respectively.

- **$GDP_t = a+b_1IPO_t+U_i$ …………………….(ii)**

This model examines the impact of initial public offering (IPO at time‘t’) on GDP as it is the macroeconomic indicator. We have to show the impact of primary market on macroeconomic indicator. Firstly, as macroeconomic indicator, GDP is taken.

Along with this, the study attempts to examine the impact of a few more determinants of dependent variable with the help of collected sample data. These determinants are paid up capital, market capitalization and so on. Present study examines the impact of these variables on dependent variable. The various multiple regression equations estimated in the study are as follows:

To know the impact of, initial public offering (IPO at time‘t’) and paid up capital (PC at time‘t’, following regression model has been applied:

- $NI_t = a + b_1 IPO_t + b_2 PC_t + U_i$ ……… **(iii)**

To see the impact of initial public offering (IPO at time'tʼ) and market capitalization (MC at time'tʼ on NEPSE Index, following regression model has been implemented:

- $Ni_t = a+b_1 IPO_t +b_2 MC_t+ U_i$ ……… **(iv)**

To determine the influence of initial public offering (IPO at time 'tʼ), paid up capital (PC at time 'tʼ and market capitalization (MC at time 'tʼ on NEPSE Index at time 'tʼ, the following model has been applied:

- $Ni_t = a+b_1 IPO_t +b_2 PC_t+b_3 MC_t+ U_i$ ……… **(v)**

To observe the impact of initial public offering (IPO at time'tʼ), paid up capital (PC at time'tʼ, market capitalization (MC at time'tʼ) and Gross Domestic Product (GDP at time 'tʼ) on NEPSE Index at time'tʼ, the following regression model has been applied:

- $NI_t= a + b_1 IPO_t + b_2 PC_t+b_3 MC_t+ b_4 GDP_t +U_i$ ……………**(vi)**

To know the impact of, initial public offering (IPO at time'tʼ) and market capitalization (MC at time'tʼ) on Gross Domestic Product (GDP at time'tʼ), following regression model has been applied:

- $GDP_t = a+b_1 IPO_t+b2\ MC_t\ U_i$ ……………… **(vii)**

To see the impact of initial public offering (IPO at time'tʼ) and paid up capital (PC at time'tʼ on Gross Domestic Product (GDP at time'tʼ), following regression model has been implemented:

- $GDP_t = a+b_1 IPO_t+b2\ PC + U_i$ ……………… **(viii)**

To see the combined impact of initial public offering (IPO at time 'tʼ), paid up capital (PC at time 'tʼ) and market capitalization (MC at time 'tʼ) on Gross Domestic Product (GDP at time 'tʼ),following regression model has been implemented. This model is the expansion of model second and model eighth.

- $GDP_t = a+b_1 IPO_t+b2\ PC_t +MC_t +U_i$ ……………… **(ix)**

To determine the influence of initial public offering (IPO at time'tʼ) and NEPSE Index at time'tʼ on Gross Domestic Product (GDP at time'tʼ), the following model has been applied:

- $GDP_t = a+b_1 IPO_t+b2\ NI_t +U_i$ ……………… **(x)**

Finally, To observe the impact of initial public offering (IPO at time 'tʼ), paid up capital (PC at time 'tʼ, market capitalization (MC at time 'tʼ) and Gross Domestic Product (GDP at time 'tʼ) on NEPSE Index at time 'tʼ, the following regression model has been applied:

- $GDP_t= a + b_1 IPO_t + b_2 MC_t+b_3 PC_t+ b_4 NI_t +U_i$…………**(xi)**

The results of above mentioned regression models can be obtained by using the SPSS computer program.

Note: *U_i in all equations denotes error term and, ‘a’ represents regression constant in the model.*

Along with these, data are presented in table and demonstrated further with the help of diagrams so that the presentation will be easily understandable.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This is the foremost important chapter of current research in which relevant data have been presented and analyzed thereof in order to solve the research questions raised in first chapter. For analysis purpose, financial and statistical tools mentioned in the third chapter have been employed. Instrument wise and sector wise issue and other relevant data have been analyzed thereafter in first section. Similarly, the relationship of different variables have been observed using regression analysis and put it in the second section of the chapter. Basic findings have been incorporated at the end of this chapter.

4.1 Analysis of Total Public Issue Approval

Organizations need to collect required fund from different sources. Some organizations collect funds from the sources of debt and others from equity sources. They even collect required funds from individual sources and other from organized sources. These days, Nepalese organizations are being interested to collect the funds from organized sources by means of initial public offering.

4.1.1 Total Amount of Issue Approval during the Study Period

Nepalese liberalization policy enables the Nepalese organized sectors to issue the securities to the public and collect required funds. This policy leads to increase the trend of public issue of securities. Table 4.1 shows the real status of public issue approval during the period of 1993/94 to 2007/08 along with the portion of right share.

Table 4.1

Amount of Issue Approval and Portion of Right Share during the Study Period

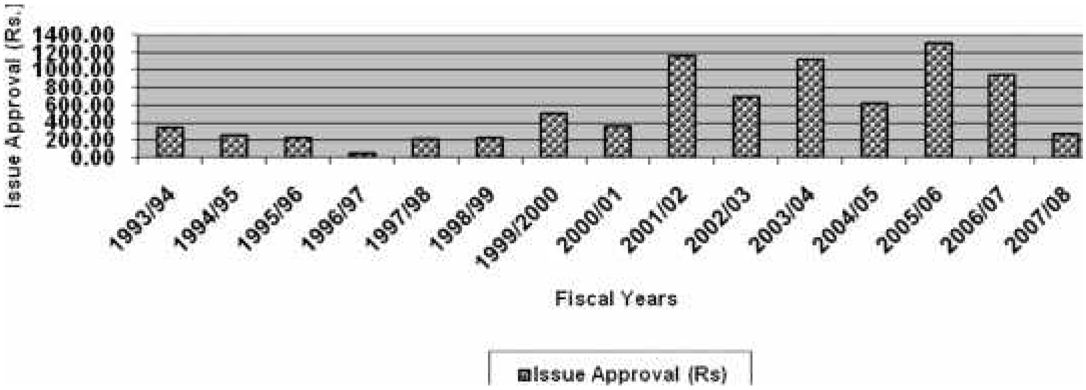
S. No	Year	Total Issue Approval (Rs.)
1	1993/94	344.40
2	1994/95	254.20
3	1995/96	293.70
4	1996/97	332.20
5	1997/98	462.40
6	1998/99	258.00
7	1999/2000	630.30
8	2000/01	717.20
9	2001/02	1555.10
10	2002/03	853.80
11	2003/04	1547.80
12	2004/05	1315.80
13	2005/06	2547.87
14	2006/07	2757.50
15	2007/08	673.42
Total		**14543.69**

Sources: *Annual Report of SEBO/N (Different Issues) and www.sebonp.com*

Table 4.1 presents the total amount of issue approval during the study period. It shows that there is higher amount of issue approval during the year 2006/07 (Rs.2757.50 million). However, it has decreased to Rs.853.80 million in 2003/04. The second highest amount of issue approval is Rs.2547.87 million in 2005/06 followed by Rs.1555.10 in 2001/02.The amount of issue approval in 1994/95 is lowest (i.e.Rs.254.20 million) than all other years under studied. Figure 4.1 shows these facts more clearly.

Figure 4.1

Total Issue Approval during the Study Period



Above figure shows the status of issue approval amount and portion of right share during the study period. It shows that no right shares were issued in the year 1993/94 and 1994/95. Similarly, the portion of the right share is higher in the year 1998/99. These shares have been issued regularly up to the year 2007/08. It indicates that the companies are intended to collect required funds by providing an opportunity of investment to their existing shareholders.

All the issue approval companies can issue their securities to the public and raised required funds. However, all companies may not issue the specified securities to collect the funds. They can issue less than approved amount but not more than it. Firstly, organizations decide to collect required funds through the issue of primary securities to the public. Then, they issued the approved securities to the public. If initial investors (from the general public) apply to buy more than issued securities, pro-rata allotment basis will be applied to distribute the securities to the public. A case of over apportionment arises if the issuer companies are performing better. On the other, investors will be interested to invest in these shares because primary securities, generally, are issued at par value. Right shares are issued for existing shareholders but not new investors. In order to know the trend of issue approval amount and right shares, the trend line can also be drawn. Figure 4.2 shows the trend more clearly.

Figure 4.2

Trend of Issue Approval during Study Period

Figure 4.2 demonstrates the trend of issue approval amount and right shares during the study period. The trend shows that issue approval amount has been decreased in 1994/95 as compared to 1993/94. Since then, it has been increased gradually in another three years i.e. up to 1998. However, the amount is drastically decreased to the half in 2003/04. The fluctuation takes place up to the end of the period i.e. 2007/08. Here, we see that the trend of right share issue is same as total issue approval.

Amount of issue approval largely depends on the requirements of the organizations or need of the funds. If companies want to raise the funds through the issue of securities, they apply to the SEBO. Based on the certain conditions, SEBO approved the proposal and issuing company can go to the public in order to raise the required funds either through the new issue or right offering.

4.1.2 Number of Issue Approval

After the permission given by SEBO/N, different organized sectors involved in issue of securities. During the study period, the number of issue approval ranges from 5 to 34. The real status of number of issue approval is presented in following table.

Table 4.2

Number of Issue Approval

S. No.	Year	Number of Issue Approval	Percentage
1	1993/94	17	7.76
2	1994/95	12	5.48
3	1995/96	12	5.48
4	1996/97	5	2.28
5	1997/98	12	5.48
6	1998/99	5	2.28

7	1999/2000	9	4.11
8	2000/01	9	4.11
9	2001/02	16	7.31
10	2002/03	17	7.76
11	2003/04	16	7.31
12	2004/05	12	5.48
13	2005/06	34	15.53
14	2006/07	31	14.16
15	2007/08	12*	5.48
Total	**12**	219	100.00

Sources: *Annual Report of SEBO/N (Different Issues) and www.sebonp.com*
Note: *Data for the year 2007/08 are updated by SEBO/N on 4th November, 2007.*

As presented in above table, it is clear that issue approval size is ranged from 5 to 34. The highest size is 34 in 2005/06. It is 15.53 percent out of total issue during the study period. Second highest size is 31 in the year 2006/07. Total issue approval size during the study period is 219. It is already mentioned that the number of issue approval depends upon the fulfillment of the criteria determined by SEBO/N and the need of fund for the companies.

4.1.3 Analysis of Instrument wise Issue Approval

Here, instruments are called the types of securities that the companies intended to issue to the public. During the study period, different six types of securities were approved and issued. They are ordinary share, right share, preference share, debenture, unit scheme and mutual fund. In this study, unit scheme and mutual funds have been issued in lower size than other securities.

4.1.3.1 Analysis of Instrument wise Issue Approval during 1993/94

In this year, 17 companies were given the permission of issue approval. Among them, 14 companies decided to issue ordinary share, 2 companies preference share and remaining one mutual fund. In this year, right shares were not approved and issued. Table 4.3 shows these realities more clearly.

Table 4.3

Instrument wise Issue Approval during the year 1993/94

S .No.	Types of	Issue Approval	%	Rank

	Securities	Number	Amount (Rs. in million)		
1	Ordinary Share	14	207.90	66.17	I
2	Preference Share	2	16.50	4.79	III
3	Mutual Fund	1	100.00	29.04	II
Total		17	344.40	100.00	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

Table 4.3 shows the instrument wise issue approval during the year 1993/94. In this fiscal year, 17 companies viz. Nepal Med Ltd., Nepal Share Markets Co. Ltd., Himalayan General Insurance Co. Ltd., Harisiddi Bricks & Tiles Factory Ltd., Nimrod Pharmaceuticals Ltd., Necon Air Ltd., United Insurance Company Ltd., Nepal SBI Bank Ltd., Nepal Film Development Company Ltd., Peoples Finance Co. Ltd., Annapurna Finance Co. Ltd., Agro Nepal Ltd., Birat Shoe Ltd. and NIDC Capital Markets Ltd. got the approval to issue their securities to the public. Among them, 14 companies approved their ordinary share amounted to Rs.227.90 million. Similarly, 2 companies approved preference share of Rs.16.50 million and a company approved mutual fund amounted to Rs.100.00 million.

Three instruments of securities were approved during the year 1993/94 where ordinary share covers 66.17 percent, mutual fund covers 29.04 percent and preference share covers 4.79 percent. In this year, the coverage of ordinary share is highest among others and coverage of right shares is zero.

4.1.3.2 Analysis of Instrument wise Issue Approval during 1994/95

During the fiscal year 1994/95, 11 companies got permission to issue their securities to the public. They are PTCL, ALNL, EICL, HTIL, BTIL, KFCL, LTSL, CIT, EBL, and KBCL. In this year, CIT got permission to issue both ordinary share and unit scheme. Approval amount of this year is Rs.254.21 million. Table 4.5 these reality clearly.

Table 4.4

Instrument wise Issue Approval during the year 1994/95

S. No.	Types of	Issue Approval	%	Rank

	Securities	Number	Amount (Rs. in million)		
1	Ordinary Share	11	204.21	80.33	I
2	Unit Scheme	1	50.00	19.67	III
Total		12	254.21	100.00	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

Table 4.4 shoes the number of issue approval and amount of issue approval during the year 1994/95. In this year, CIT got permission to issue both ordinary and unit scheme. Out of these two types of securities, ordinary share was amounted to Rs.204.21 million whereas unit scheme was amounted to Rs.50 million.

Only two securities were issued in 1994/95. Among them, ordinary share covers 80.33 percent whereas unit scheme covers 19.67 percent. Total securities as issue approval were issued to the public in this year in order to collect required funds. Right shares were not issued in this year as same as previous year.

4.1.3.3 Analysis of Instrument wise Issue Approval during 1995/96

Regarding the issue approval, mutual fund and unit scheme also were issued along with ordinary share during the year 1993/94 and 1994/95 respectively. However, both of these two instruments were approved and issued in the year 1995/96. Instead of these two securities, right share were issued in 1995/96 along with ordinary share. Table 4.5 shows this reality clearly.

Table 4.5

Instrument wise Issue Approval during the year 1995/96

S. No	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	10	224.74	76.51	I

2	Right Share	2	69.00	23.49	II
Total		12	293.74	100.00	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

Table 4.5 presents the status of issue approval during the year 1995/96. According to the table, 12 issue approval were made in this year in which 10 were ordinary share and remaining 2 were right share. All 10 approval securities amounted to Rs.293.74 million were issued to the public and collected as required funds. Out of which, Rs.224.74 million was collected through ordinary share and remaining Rs.69.00 million through right share.

76.51 percent fund were approved, issued and collected through the ordinary share whereas the remaining 23.49 percent funds were collected through right share. Here, the right shares cover 23.49 percent of the total issue in the year.

4.1.3.4 Analysis of Instrument wise Issue Approval during 1996/97

In the history of issue approval, the portion of issue approval, the portion of ordinary share was higher in previous threes fiscal years under studied. However, the portion of right share was higher in 1996/97. In 1996/97, Rs.332.20 million was approved to issue by means of ordinary share and right share. Table 4.6 presents the facts clearly.

Table 4.6

Instrument wise Issue Approval during the year 1996/97

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in Million)		
1	Ordinary Share	2	57.00	17.16	II
2	Right Share	3	275.20	82.84	I
Total		5	332.20	100.00	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

Table 4.6 presents the status of issue approval during the year 1996/97. In this year, 5 companies got permission to issue their securities. They are NHML, BOKL, HGIL, BNL, and NSML. By issuing these securities, the companies collected Rs.332.20 million; Rs.275.20 million through right shares and remaining Rs.57 million from ordinary share issue. If we demonstrate these by the help of percent, it will further be clear.

In total composition of issue approval, the portion of right share is higher than ordinary share. More precisely, right share covers 82.84 percent in total approval whereas remaining 17.16 percent for ordinary share. In this year, companies were more interested to collect the required fund through the issue of right share. Right share is the share by which the company decided to give the first right to existing shareholders to purchase. By issuing right share, company can minimize its issuance cost.

4.1.3.5 Analysis of Instrument wise Issue Approval during 1997/98

Presentation of issue approval year by year provides the idea about types and size of securities issued to the public. In the year 1997/98, debentures were also issued to the public in order to collect the required fund. Three types of securities were issued viz. ordinary share, right share and debenture. Through the issue of these securities, Rs.462.36 million was collected as required funds. It was 100 percent of total approval amount. In the issuance of these securities, 12 companies were involved viz. GFCL, NBBL, SSML, NIL, NUCL, NBL, MFCL, PMCL, AFCL, LFCL and GFIC. In this year, SSML got permission to issue both ordinary share and debenture. Consequently, total number of issue approval during this year was 12. These all the facts are presented in the table 4.7.

Table 4.7

Instrument wise Issue Approval during the year 1997/98

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	(Rs. in million)		
1	Ordinary Share	8	119.40	25.82	II
2	Right Share	3	249.96	54.06	I
3	Debenture	1	93.00	20.12	III
Total		12	462.36	100.00	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

Table 4.7 presents the securities' share in total issue approval during the year 1997/98. In total issue approval of Rs.462.32 million, ordinary share contains Rs.119.40 million, right share Rs.249.96 million and remaining Rs.93.00 million through debenture. Like 1996/97, the share of right share in total issue approval is highest in 1997/98 also. We can clarify these all facts more understandable manner using percentage method.

In total issue approval, portion of right share is highest among others. More precisely, it covers 54.06 percent followed by ordinary share (25.82 percent) and debenture (20.12 percent). Debenture was not approved and issued in previous year. Here, debenture is an instrument by issuing it, the company can collect required fund. For debenture issue, issuing company should pay interest instead of dividend on the debenture at specified rate or percentage annually. An important point to be noted here is that the portion of right share has been decreased in this year as compared to previous year.

4.1.3.6 Analysis of Instrument-wise Issue Approval during 1998/99

In 1998/99, altogether five securities were approved to issue. Among them, 3 were ordinary share, 1 was preference share and another 1 was right share. In the issuance of these approved securities, four companies were involved. They were AICL, TRHL, PFCL and NSML. One company i.e. TRHL approved and issued two securities viz. ordinary share and preference share. By the issuance of these securities, Rs.258 million was collected as required fund. These issues or funds were managed by CIT, NCML, NMB, and AFCL. Table 4.8 shows these facts clearly.

Table 4.8

Instrument-wise Issue Approval during the year 1998/99

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	3	148.00	57.36	I
2	Preference Share	1	80.00	31.00	II
3	Right Share	1	30.00	11.63	III
Total		5	258.00	100	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

Table 4.8 presents the status of instrument wise issue approval during the year 1998/99. In this year, 5 securities were approved and issued in order to collect required funds. By issuing the ordinary share, Rs.148 million was collected. Similarly, through the issuance of preference share and right share, Rs.80 million and 30 million were collected. We can clarify all these facts from more understandable manner using percentage analysis tool.

Table 4.8 shows that the portion of ordinary share is higher among three instruments. According to the figure, ordinary share covers 57.36 percent area out of total area whereas preference share and right share covers 31.01 percent and 11.63 percent respectively. The portion of right share decreased in this year as compared to 1997/98.

4.1.3.7 Analysis of Instrument wise Issue Approval during 1999/2000

In the year 1999/2000, ten companies were approved to issue their securities to the public. These companies are UFCL, NICL, NMBL, NAL, LFLC, PFCL, AFCL, SICL, OHL, and CIT. Among them, NMBL did not issue the approved ordinary share amounted to Rs.50 million. Total amount of approval was Rs.630.31 million. Similarly, CIT issued unit scheme amounted to Rs.93.25 million as additional sale of the fiscal year. Table 4.9 presents the total instrument wise issue approval for the year 1999/2000.

Table 4.9

Instrument wise Issue Approval during the year 1997/98

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	6	412.46	65.44	I
2	Right Share	3	124.60	19.77	II
3	Unit Scheme	1	93.25	14.79	III
Total		10	630.31	100.00	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

Table 4.9 shows the total issue approval during the year 1999/2000. It shows that altogether 10 securities were approved this year amounted to Rs.630.31 million out of which, ordinary share covered Rs.412.46 million. Similarly, the share of right share and unit scheme was Rs.124.60 and Rs.93.25 million.

In this year, three instruments of securities were approved. Among them, ordinary share covered higher portion i.e.65.44 percent. Similarly, right share and unit scheme were 19.77 percent and 14.79 percent respectively in total composition of issue approval in this year. However, 7.93 percent out of total approved amount was not issued to the public. More precisely, it was Rs.50 million of ordinary shares for NMBL. As the previous years except in 1996/97 and 1997/98, the portion of ordinary share was higher among other instruments in total amount of issue approval. In this fiscal year, the right share placed second position in total securities.

4.1.3.8 Analysis of Instrument wise Issue Approval during 2000/01

During the discussion of primary market, in Nepal, the year 2000/01 also played major role. In this year, 10 companies approved their securities in order to issue to the public. Like the year 1999/01, only three types of securities viz. ordinary share, right share and unit scheme were approved and issued. Issuer companies were AFL, NMBL, AEFL, NBFL, NFL, NBCL, EBL, NDBL, BKL and CIT. Table 4.10 presents the real status of total issue approval during this year.

Table 4.10

Instrument wise Issue Approval during the year 2000/01

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	6	268.50	37.44	II
2	Right Share	3	365.79	51.00	I
3	Unit Scheme	1	82.91	11.56	III
Total		12	717.20	100.00	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

In total, Rs.717.20 million was approved in this year as total issue approval in which, ordinary share, right share and unit scheme covered Rs.268.50 million, Rs.365.79 million and 83.91 million respectively. However, ordinary share amounted to Rs.150 million of NBCL was not issued to the public. Similarly, unit scheme of CIT amounted to Rs.82.91 million was the additional sale of the scheme for that fiscal year. The portion of right share was higher among the total securities. It covers 51 percent followed by ordinary share (37.44 percent) and unit scheme (11.56 percent). In this year, the right share placed first position in all three securities issued.

4.1.3.9 Analysis of Instrument wise Issue Approval during 2001/02

The large amount of public issue was approved in the year 2001/02.Similarly; number of issue approved in this year was also higher.17 companies approved their securities in order to go to the public for the collection of required funds. They are HDL, NHML, UFCL, DCBL, AFCL, SBIL, NIDC, NBCL, UFL, HBL, NLIL, NUBL, EBL, ILFL, GFL, SIFL and CIT. In total, they approved their issue amounted to Rs.1555.11 million through 5 securities viz. ordinary share, debenture, preference share and unit scheme. Table 4.11 demonstrates all these facts clearly.

Table 4.11
Instrument wise Issue Approval during the year 2001/02

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	10	528.76	34.00	I
2	Right Share	4	387.87	29.94	II
3	Preference Share	1	140.00	9.00	IV
4	Debenture	1	360.00	23.15	III
5	Unit Scheme	1	138.48	8.90	V
Total		**17**	**1555.11**	**100.00**	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

According to table 4.11, five instruments amounted to Rs.1555.11 million were approved in this year followed by right share (387.87 million), debenture (360million), preference share (Rs.140 million) and unit scheme (Rs.138.48million). In this year, both number of approval securities ant approval amount were higher than previous years. The portion of ordinary share was higher among other instruments. More precisely, the portion of ordinary share was 34 percent followed by right share (24.94 percent), debenture (23.15 percent), preference share (9 percent) and unit scheme (8.91 percent). It is observed that the portion of preference share and unit scheme was nearly equal.

As presented in the table 4.11 and figure 4.12, numbers of securities approved were higher. Similarly, the instruments were also different kinds. It indicates that Nepalese organized sectors are showing an intention to use different securities in order to develop Nepalese primary market. As same as previous year, right share placed second position in total of five securities approved and issued.

4.1.3.10 Analysis of Instrument wise Issue Approval during 2002/03

Nepalese organized sectors can play major role in the development of primary market. Showing great intention to issue different securities to the public shows the continuous development of primary market in Nepal. If they issue higher portion of securities to the public, idle funds will be collected and utilized in productive sectors. In the year 2002/03, the amount of issue approval was drastically decreased to Rs.853.83 million. 18 companies approved total of four securities viz. ordinary share, right share, mutual fund and unit scheme. These companies are LICL, NSML, MFL, NIDC, NIBL, JFCL, CFCL, NFCL, PFCL, PFL, BFL, OFL, LBL, SFL, CIT, MBL, MFL and NBIL. Table 4.12 shows the share of total four kinds of securities in the total composition of issue approval during the year 2002/03.

Table 4.12

Instrument wise Issue Approval during the year 2002/03

S. No	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	12	551.50	64.59	I
2	Right Share	4	162.24	19.00	II
3	Mutual Fund	1	100.00	11.71	III
4	Unit Scheme	1	40.09	4.70	IV
Total		**18**	**853.83**	**100.00**	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

Table 4.12 shows the structure of total issue approval during the year 2002/03. Out of four securities approved in this year, the portion of ordinary share was Rs.551.50 million followed by right share (Rs.162.24 million), mutual fund (Rs.100 million) and unit scheme (Rs.40.09 million). After long time, mutual fund was approved and issued in this year. This instrument was issued in 1993/94 only. Its position was second among three securities in that year whereas its position was third in 2002/03.As shown in last column of the table, portion of right share in composition of total issue approval during the year 2002/03 was higher than other three securities followed by right share, mutual fund and unit scheme. Unit scheme of CIT was issued as additional sale of scheme for the fiscal year. In total composition, portion of ordinary share, right share, mutual fund and unit scheme was 64.59 percent, 19 percent, 11.71 percent and 4.7 percent respectively. Approve and issue of higher portion of ordinary share helped the public to be the new shareholders of issuer company. Types of securities have been decreased in this year as compared to 2001/02 but the right shares placed second position as previous years.

4.1.3.11 Analysis of Instrument wise Issue Approval during 2003/04

As observed total issue approval during the study period, 2003/04 placed second position. First position was in 2001/02 as the total issue approval amount was highest. The amount in 2003/04 was Rs.1547.20 million. Total of four securities approved and issued in this year. These securities were ordinary share, right share; debenture and unit scheme. 17 companies approved and issued their different shares to the public. These are AEFL, NIBL, CMBL, KBL, SFL, FFCL, NCCL, PICL, NBFL, PBBL, CDBL, LBL, KMBL, NBBL, WMBL, NHPL and CIT. Table 4.13 demonstrates all these facts clearly.

Table 4.13

Instrument wise Issue Approval during the year 2003/04

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	11	754.60	48.77	I
2	Right Share	4	429.92	27.79	II
3	Debenture	1	300.00	19.39	III
4	Unit Scheme	1	62.68	4.05	IV
Total		**17**	**1547.20**	**100.00**	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

Table 4.13 presents the total issue approval during the year 2003/04. Like previous year i.e.2002/03, an equal number of securities were issued in this year. Out of four securities approved and issued in this year, the portion of ordinary share was higher than others followed by right share, debenture and unit scheme. More precisely, it was Rs.754.60 million, Rs.429.92 million, Rs.300 million and Rs.62.68 million respectively for ordinary share, right share; debenture and unit scheme. The portion of ordinary share was higher than other securities. In total structure, the share of ordinary share was 48.77 percent followed by right share (27.79 percent), debenture (19.39 percent) and unit scheme (4.05 percent). In this year, the debenture was approved and issued after two years. Previously, it was approved and issued in the year 2001/02 covering 23.15 percent out of total structure. Observing the status of debenture, it was very lower portion and intended to issue by limited number of organization. It indicates that Nepalese organizations hesitate to use debt capital in their capital structure. An important point to be noted here is that the right shares placed second position like previous years.

4.1.3.12 Analysis of Instrument wise Issue Approval during 2004/05

It is the last year of issue approval under study. In this year, 13 organizations were involved in the issue of different four types of securities to the public. These organizations were AFCL, BFL, DDBL, NUBL, EBL, SBIL, EFL, NIBL, CMPL, NFCL, CHCL, DCBL and CIT and four securities were ordinary share, right share, debenture and unit scheme. They issued all their approved securities and collected Rs.1315.80 million as required fund. In total structure of issue approval, four securities were involved as presented in table 4.14.

Table 4.14

Instrument wise Issue Approval during the year 2004/05

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	5	300.89	22.87	II
2	Right Share	6	699.42	50.88	I
3	Debenture	1	300.00	22.80	III
4	Unit Scheme	1	45.49	3.45	IV
Total		**13**	**1315.80**	**100.00**	

Sources: *Annual Report of SEBO/N, 2004/05, Thapathali, Kathmandu.*

Table 4.14 shows that four securities were approved to issue in the year 2004/05. Out of them 6 were right share, 5 were ordinary share and one was debenture and unit scheme each. Through the approved and issued of these securities, issuer companies collected Rs.1313.80 million. Out of which the portion of right share was Rs.300.89 million followed by ordinary share (Rs.300.89 million), debenture (Rs.300 million) and unit scheme (Rs.45.49 million). However, unit scheme of CIT amounted to Rs.45.49 million was additional sale of the scheme for the fiscal year. According to the table, right share placed first position covering 50.88 percent in total issue approval followed by ordinary share (22.87 percent), debenture (22.80 percent) and unit scheme (3.45 percent). It is observed that the right share placed first position in this year after 2004/05.

4.1.3.13 Analysis of Instrument wise Issue Approval during 2005/06

In the year 2005/06, only three securities were approved and issued. They were ordinary share, right share and debenture. Total of 34 issues were approved and issued thereafter in this year. Following table show these facts clearly.

Table 4.15

Instrument wise Issue Approval during the year 2005/06

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	16	456.42	17.91	III
2	Right Share	14	1241.45	48.73	I
3	Debenture	4	850.00	33.36	II
Total		**34**	**2547.87**		**100.00**

Sources: www.sebonp.com

According to above table, three kinds of securities viz. right share, ordinary share and debenture were approved and issued in the year 2005/06. Out of total securities, right share covers 48.73 percent followed by debenture (33.36 percent) and ordinary share (17.91 percent). As our concern, the right share placed first position in total issue approval and issued amount.

4.1.3.14 Analysis of Instrument wise Issue Approval during 2006/07

Total of four securities were approved and issued in the year 2006/07. They were right share, debenture, ordinary share and preference share. In the total composition of securities issue approval, portion of right share was higher. Following table clarifies all these facts.

Table 4.16

Instrument wise Issue Approval during the year 2006/07

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	14	290.25	10.53	III
2	Right Share	15	1817.25	65.90	I
3	Debenture	1	250.00	9.07	IV
4	Preference Share	1	400.00	14.51	II
Total			**2757.50**	100.00	

Sources: www.sebonp.com

According to above table, right share covers far higher portion as compared to other securities. Total of Rs.2757.50 funds were collected through the issue of different securities in which 1817.25 millions were collected through right share. It is 65.90 percent of the total approval and issued. Debentures and preference share of an organization each and ordinary share of fourteen organizations were approved and issued to the public and collected the funds that covers only 9.07 percent, 14.51 percent, 10.53 percent respectively for the current year of 2006/07.

4.1.3.15 Analysis of Instrument wise Issue Approval during 2007/08

This is the last observation of this research. In this year, total of 12 issues are approved but how many of them are issued is unknown. It is because this is the latest status of approval. In this approval, the portion of right share is higher. The right share covers Rs.401.02 million in total approval of Rs.675.42 million. Following table depicts this fact.

Table 4.17

Instrument wise Issue Approval during the year 2007/08

S. No.	Types of Securities	Issue Approval		%	Rank
		Number	Amount (Rs. in million)		
1	Ordinary Share	7	274.40	40.63	II
2	Right Share	5	401.02	59.37	I
Total		**12**	**675.42**	**100.00**	

Sources: www.sebonp.com

According to above table, the right share and ordinary share cover 59.37 percent and 40.63 percent respectively in total issue approval in the coming year 2007/08. In this year, right share placed first position in total issue approval. How much of these securities will be issued is unknown as investors purchased these securities out of total approval and the result to be seen.

The above discussion of instrument wise issue approval provides the base to assess the status of right share issue in Nepal. During the study period, higher of Rs.1817.25 million in 2006/07 was collected through right offering. Total of Rs.6253.72 million right shares have been approved during the study period that covers 43 percent of the total approval. Table 4.15 shows the summary result.

Table 4.18

Status of Issue Approval during 1993/94 to 2007/08

SN	Year/ Securities	Ordinary Share	Right Share	Preference Share	Debenture	Unit Scheme	Mutual Fund	Total
		(Rupees in Million)						
1	1993/94	227.90	-	16.50	-	-	100.00	344.40
2	1994/95	204.21	-	-	-	50.00	-	254.21
3	1995/96	224.74	69.00	-	-	-	-	293.74
4	1996/97	57.00	275.20	-	-	-	-	332.20
5	1997/98	119.40	249.96	-	93.00	-	-	462.36
6	1998/99	148.00	30.00	80.00	-	-	-	258.00
7	1999/00	412.46	124.60	-	-	93.25	-	63.31
8	2000/01	268.50	36.79	-	-	82.91	-	712.20
9	2001/02	528.76	387.87	140.00	360.00	138.48	-	1555.11
10	2002/03	551.50	162.24	-	-	40.09	100.00	853.83
11	2003/04	754.60	429.92	-	300.00	62.68	-	1547.20
12	2004/05	300.89	669.42	-	300.00	45.49	-	1315.80
13	2005/06	456.42	1241.45		850.00			2547.87
14	2006/07	290.25	1817.25	400.00	250.00			2357.5
15	2007/08	274.40	401.02					675.42
Total Approval		**4819.03**	**5894.72**	**636.50**	**2153.00**	**512.90**	**200.00**	**13573.15**

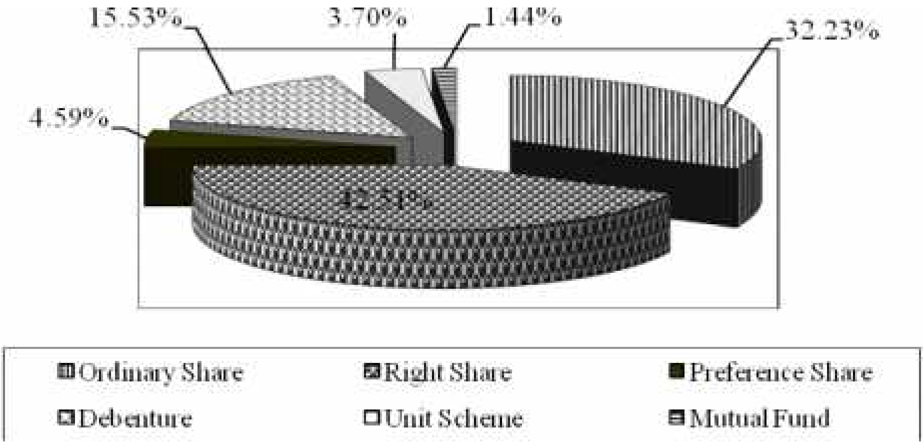
(-)Not issued	350.00	-	-	-	-	-	350.00
Total IPO	4469.03	5894.72	636.50	2153.00	512.90	200.00	13223.15
Percentage	32.23	42.51	4.59	15.53	3.70	1.44	100.00
Rank	II	I	IV	III	V	VI	

Sources: *Table 4.3 to 4.17*

Table 4.15 shows the instrument wise issue approval for each year under study. The approved instruments were issued for all years under study except 1999/00, 2000/01 and 2001/02. In these three years, total ordinary share of Rs.350 million (i.e.Rs.50 million, Rs.150 million and Rs.150 million respectively) were not issued out of total approval. It covers 4.09 percent of total issue approval. In order to know the total initial public offering, these not issued amounts are deducted from the approval amount. Figure 4.15 shows instrument wise area coverage of total public offering during the year 1993/94 to 2004/05.

Figure 4.4

Instrument Wise Issue Approval during the Study Period



Portion of right share is observed highest among all the securities. Right share covers 42.51 percent followed by ordinary share (32.23 percent), debenture (15.53 percent), preference share (4.59 percent), unit scheme (3.70 percent), and mutual fund (1.44 percent). The summary result shows that majority of the Nepalese organized sectors are intended to collect required fund through the right share offering.

4.2 Regression Analysis

The relationship between two or more variables may be various types. However, this analysis is confined to the study of linear relationship between initial public offering and other selected balances. With the help of simple and multiple regression models, the relationship nature and significance have been strived to identify.

4.2.1 Simple Regression Analysis

In the category of simple regression analysis, only two models have been formulated and analyzed in which, the relationship between (i) NEPSE Index (NI) and Initial Public Offering (IPO) and (ii) GDP and IPO has been observed. In first model, NEPSE Index is dependent variable and IPO is independent variable. Similarly in second model, GDP is dependent variable and IPO is independent variable. Table 4.29 presents the result of these models.

Table 4.19

Simple Regression Results

Regression Models	Intercept	IPO	R^2	F-Sig.
1.$NI_t = a+b_1IPO+U_i$ **(Dependent Variable: NEPSE Index)**	216.173 [6.313] (0.00)	0.027 [0.644] (0.534)	0.04	0.415 {0.534}
2.$GDP_t = a+b_1IPO+U_i$ **(Dependent Variable: GDP)**	218119.10 [7.184] (0.000)	180.56 [4.898] (0.001)	0.70	23.993 {0.001}

Source: Appendix

Note: *Figure in parenthesis [ ], ( ) and { } indicate calculated t-value, t-significance and f-significance respectively. For more detail, please refer to appendix D.*

4.2.1.1 Analysis of Regression Result of IPO on NEPSE Index

The regression model, $\mathbf{NI_t = a+ b1IPO_t + U_i}$ has been formulated to observe the impact of initial public offering on NEPSE Index. Here, NEPSE Index and IPO are taken as dependent and independent variable respectively. This model tries to highlight the impact of primary market on secondary market. The result presented in first panel of table 4.29 shows that the coefficient of IPO is 0.027 meaning that Rs.1 increase in IPO leads to the average of about 0.027 points increase in NEPSE Index. However, it is statistically insignificant even at 10 percent level of significance. Value of R square is 0.040 which implies that only 4 percent variation in dependent variable can explain by independent variable. In order to increase the predicting power, other more variables should be added in the model. In this model, it is observed that there is no role of primary market on secondary market.

4.2.1.2 Analysis of Regression Result of IPO on GDP

Another regression model, **GDP_t = a+ b1IPO_t + Ui** has been formulated to see the impact of IPO on GDP as GDP is the macroeconomic variable. Result presented in second panel of table 4.29 shows that coefficient of IPO is 180.569. It indicates that Rs.1 increase in IPO leads to Rs.180.60 increase in GDP which is statistically insignificant even at 1 percent level of significance. R square of 0.706 indicates that the predicting power of the model is also higher. F-Value is 23.99 which is statistically significant even at 1 percent level. All the result indicates that there is major role of IPO to change the GDP. It implies that we should increase in IPO to change the GDP.

4.2.2 Multiple Regression Analysis

There may be the role of multiple variables to change the NEPSE Index along with IPO. Considering this fact, the multiple regression models are employed to see the linear relationship between the selected variables of the companies. In order to identify the impact selected variables viz. total assets, cost of goods sold and capital employed, seven different models of multiple regressions have been formulated and tested. The summary result of these formulated models is presented in following table.

Table 4.20
Multiple Regression Results

Regression Models	Intercept	Regression Coefficient of			R^2	F-Sig.
		IPO	PC	MC		
3. $NI_t = a+b_1IPO_t + b_2PC_t + U_i$	198.323 [5.196] (0.001)	-0.044 [0.552] (0.994)	0.009 [1.041] (0.325)		0.143	0.751 {0.499}
4. $NI_t = a + b_1 IPO_t + b_2 MC_t + Ui$	157.961 [7.637] (0.000)	-0.090 [-2.953] (0.016)		0.005 [5.366] (0.000)	0.771	15.181 {0.001}
5. $NI_t = a+ b_1IPO_t + b_2PC_t + b_3MC_t + U_i$	161.697 [22.451] (0.000)	-0.010 [-0.724] (0.490)	-0.018 [-8.158] (0.000)	0.007 [16.475] (0.000)	0.975	106.021 {0.000}
6. $GDP_t = a+ b_1IPO_t + b_2MC_t + U_i$	170118.27 [7.749] (0.000)	84.132 [[2.596] (0.029)		3.887	0.900	40.343 {0.000}
7. $GDP_t = a + b_1NI_t + b_2PC_t+U_i$	174864.58 [10.976] (0.000)	9.200 [0.277] (0.788)	20.851 [6.042] (0.000)		0.942	72.850 {0.000}
8. $GDP_t = a+ b_1IPO_t + b2 MC_t + b_3 PC_t + U_i$	166946.46 [10.292] (0.000)	16.441 [0.537] (0.606)	15.136 [3.265] (0.011)	1.601 [1.679] (0.132)	0.957	59.327 {0.000}

Source: Appendix

Note: *(1) Figure in parenthesis [ ], ( ) and { } indicate calculated t-value t-significance and f-significance respectively. For more detail, please refer to appendix D.*

(2) IPO, PC and MC denote Initial Public Offering, Paid up Capital and Market Capitalization respectively.

4.2.2.1 Analysis of Regression Result of IPO and Paid up Capital on NEPSE Index

The third regression model, $\mathbf{NI_t = a+b_1IPO_t +b_2PC_t + U_i}$ has been formulated to see the combined effect of initial public offering and paid up capital on NEPSE Index. This model is the expansion of first model. Here, one more variable Viz. paid up capital has been added to the model. Predicting power of the model is increased to 14.3 percent from 4 percent, however, there is no role of IPO and paid up capital on NEPSE Index.

4.2.2.2 Analysis of Regression Result of IPO and Market Capitalization on NEPSE Index

The forth regression model, $\mathbf{NI_t = a + b_1IPO_t + b_2MC_t + Ui}$ is also expansion of first model and it is formulated to see the combined effect of initial public offering and market capitalization on NEPSE Index. After increase one more variable viz. market capitalization, the predicting power is increased to 77.1 percent and formulated model can best describe the variation in dependent variable as it is statistically significant also. Similarly, the role of these two variables is observed significant. That means, one rupee increase in IPO leads to 0.90 points decrease in NEPSE Index whereas one rupee increase in market capitalization leads to 0.005 points increase in NEPSE Index. Here, negative relationship between IPO and NEPSE Index is observed. These all are statistically significant also meaning that IPO and market capitalization can play major role in the development of secondary market.

4.2.2.3 Analysis of Regression Result of IPO along with Paid up Capital and Market Capitalization

In the first model, additional two variables viz. paid up capital and market capitalization are also added. Now, fifth regression model becomes $\mathbf{NI_t = a+ b_1IPO_t + b_2PC_t +b_3MC_t +U_i}$ and it tries to describe the role of these all three variables viz. IPO, paid up capital and market capitalization. The predicting power of the model has been increased to 97.5 percent in this model and the F-value indicates that the formulated model can best describe the variation in dependent variable as it is statistically significant even at 1 percent level of significance. Here, negative relationship of NEPSE Index with IPO and paid up capital is observed. It indicates that one rupee in IPO and paid up capital leads to average of 0.10 and 0.018 points decrease in NEPSE Index. However, the result between IPO and NEPSE Index is statistically insignificant. On the other, the negative relationship of NEPSE Index with IPO and paid up capital is contradictory to the general theory.

4.2.2.4 Analysis of Regression Result of IPO along with Paid up Capital, Market Capitalization and GDP on NEPSE Index

In the process of analyzing the relationship between dependent variable viz. NEPSE Index and independent variables viz. IPO, Paid up capital, market capitalization and GDP, another regression model has been formulated as $\mathbf{NI_t = a + b_1IPO_t + b_2PC_t + b_3\,MC_t + b_4GDP_t + U_i}$**.** The result of this model indicates that predicting power is higher meaning that the formulated model can best describe the variation between dependent variables. It is statistically significant even below 1 percent level. As previous model, there is negative relationship between dependent variable viz. NEPSE Index and independent variables viz. IPO and paid up capital is observed. However, it is again contradictory with general theory. However, the result of NEPSE Index and IPO is statistically insignificant. The role of paid up capital and market capitalization is significant whereas GDP plays insignificant role.

4.2.2.5 Analysis of Regression Result of IPO along with Market Capitalization on GDP

The seventh model is $\mathbf{GDP_t = a + b_1IPO_t + b_2MC_t + U_i}$ which tries to observe the relationship between dependent variable viz. GDP and independent variables viz. IPO and market capitalization. The result shows that predicting power of this model is higher i.e. 90 percent meaning that the model can best describe the variation in dependent variable. According to the result presented in table 4.30, both IPO and market capitalization play significant role to change to change the dependent variable i.e. GDP. It implies that IPO and market capitalization largely affect the GDP of the country.

4.2.2.6 Analysis of Regression Result of IPO along with Paid up Capital on GDP

In order to observe the relationship between dependent variable viz. GDP and independent variables Viz. IPO and paid up capital, the regression model, $\mathbf{GDP_t = a + b_1IPO_t + b_2PC_t + Ui}$ has been formulated. The result presented in table 4.30 shows that predicting power of the formulated model is 94.2 percent which is statistically significant also. It indicates that the formulated model can best explain the variation in dependent variable. Coefficients of IPO and paid up capital are positive meaning that there is positive relationship between dependent variable i.e. GDP and independent variables viz. IPO and paid up capital. However, the result of IPO and GDP is statistically insignificant. Paid up capital can play major role to change the GDP of the nation which is statistically significant also.

4.2.2.7 Analysis of Regression Result of IPO along with Paid up Capital and Market Capitalization on GDP

In order to observe the role of additional variable, market capitalization is added to the previous model (i.e. model 8). Now, the model becomes, **$GDP_t = a + b_1IPO_t + b_2PC_t + b_3MC_t + Ui$.** After adding this variable in the model, predicting power is increased to 95.7 percent. It implies that the formulated model can best explain the variation in dependent variable viz. GDP. It is statistically significant even below than 1 percent level. However, paid up capital only plays significant role to change GDP. Other variables have no significant bearing on GDP.

Table 4.21

Multiple Regression Results

Regression Models	Intercept	Regression Coefficient of					R^2	F-Sig.
		IPO	PC	MC	NEPSE	GDP		
$NI_t=a+b_1IPO_t +b_2PC_t +b_3MC_t + b_4GDP_t +U_i$	141.439 [4.763] (0.002)	-0.012 [-0.820] (0.439)	-0.020 [-5.703] (0.001)	0.007 [13.354] (0.000)		0.0 [0.705] (0.504)	0.977	74.636 {0.00}
$GDP_t = a+ b_1IPO_t +b_2NI_t +U_i$	118317.17 [1.939]	168.204 [4.968] (0.001)	-	-	461.676 [1.830] (0.101)	-	0.786	16.487 {0.001}
$GDP_t = a + b_1IPO_t+b_2MC_t + b_3PC_t + b_4NI_t$	78.673 [0623] (0.553)	22.141 [0.679] (0.519)	24.869 [-0.419] (0.687)	-2.442 [-0.419] (0.687)	545.914 [0.705] (0.504)	-	0.960	41.820 {0.000}

Source: Appendix

Note: *Figure in parenthesis [ ], ( ) and { } indicate calculated t-value t-significance and f-significance respectively. For more detail, please refer to appendix D.*

4.2.2.8 Analysis of Regression Result of IPO along with NEPSE Index on GDP

In the process of analyzing the relationship between the selected variables, another regression model, **$GDP_t= a +b_1IPO_t + b_2NI_t + U_i$** has been formulated. This model can explain 78.6 percent variation in dependent variable as value of R square is 0.786. It is statistically significant even below than 1 percent. In this model, IPO plays major role to change the GDP. However, the role of NEPSE

Index is statistically insignificant even at 10 percent level. It implies that IPO can play major role to change the GDP of the nation.

4.2.2.9 Analysis of Regression Result of IPO along with Paid up Capital, Market Capitalization and NEPSE Index on GDP

Finally, the combined role of IPO, market capitalization, paid up capital and NEPSE Index on GDP has been observed by formulating the model, $\mathbf{GDP_t = a + b_1\ IPO_t + b_2\ MC_t + b_3PC_t + b_4NI_t + U_i}$. According to the result presented in table 4.31, value of R square is 0.960 meaning that 96 percent variation on dependent variable can explain by independent variables included in the model. It is statistically significant even below than 1 percent level. As observed in the table, NEPSE Index plays major role to change GDP. However, role of NEPSE Index along with these all variables on GDP is statistically insignificant.

4.3 Major Findings

It is the section that presents the major findings of the study. After analyzing the relevant data and different aspects of primary market in Nepal, the researcher got following major findings:

1) Of the all five securities viz. right share, ordinary share, preference share, debenture, unit scheme and mutual fund, the portion of right share is higher during the study period as it placed first position in total public offering. The summary result shows that majority of the Nepalese organized sectors are intended to collect required fund through the issue of right share.
2) The trend of right share issue is constant up to the year 2002/03. Since then, the trend is increasing up to 2006/07 and started decreasing in 2007/08. It indicates that the trend of right share is fluctuating during the period. However, the portion of right share is relatively higher as compared to other securities.
3) In total initial public offering, portion of right share is higher in 1996/97 during the study period (82.84 percent) followed by 2006/07 (65.90 percent), 2007/08 (59.55 percent), 1997/98 (54.06 percent) and so on.
4) Regression analysis shows that there is major role of IPO to change the GDP.
5) The regression result shows that IPO and paid up capital do not affect NEPSE Index while IPO and market capitalization play major role in the development of secondary market.
6) The negative relationship of NEPSE Index with IPO and paid up capital is contradictory to the general theory.

7) The role of paid up capital and market capitalization is significant whereas GDP plays insignificant role.
8) IPO and market capitalization largely affect the GDP of the country.
9) Paid up capital can play major role to change the GDP of the nation which is statistically significant also.
10) Paid up capital only plays significant role to change GDP.
11) IPO can play major role to change the GDP of the nation.
12) NEPSE Index plays major role to change GDP. However, role of NEPSE Index along with these all variables on GDP is statistically insignificant.

Basic findings mentioned above help to conclude the present research from the specific manner.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This is the final chapter of the whole research and in this chapter, an attempt has been made to summarize the whole study. Conclusion of the study is also an issue to be presented here in this chapter. Constructive suggestions and recommendations have also been made

5.1 Summary

This study has covered the period of 15 years being from 1993/94 to 2007/08. Secondary data have been used in analysis process. Statistical tool has been employed for the purpose of analyzing the data and the collected data have been presented in graphical and tabular form.

Chapter one describes about the general introduction, objectives, problems and limitations of the study allowing first step to go through study. In chapter II, relevant literatures as obtained from journals, books, articles and different studies have been incorporated. Chapter third is research methodology which includes plans and strategy like research design, population, sample, sources and types of data, tools to be applied etc. Chapter next to the third is data presentation and analysis.

In Nepalese context, a capital market was initiated in the country with the establishment of Security Marketing Center (SMC) in 1976 in the government sector according to the industrial policy of that time. The establishment of Security Marketing Center was also considered as the first foundation stone for the institutional development of securities market in Nepal. Its objectives were, among other, to assist public limited companies to raise capital through the issue of shares and debentures and to create a market place where purchase and sale of securities take place through intermediaries operating on the floor of the exchange. Regarding the promotion of securities market, different efforts have been added in order to develop the Nepalese securities market through the planned development. However, planned development at this sector initiated only after the 8th plan. It was converted into Security Exchange Center (SEC) in 1984. And NEPSE Ltd was established in 13th January, 1994, and it started its organized open-out-cry-system in its floor from that time. Now, Nepal stock exchange started to trade the securities by computerized system and to calculate the Sensitive NEPSE Index. This is the cornerstone in development of securities market in Nepal after Peoples' Movement – II. With the development of global market, we should initiate new tools and techniques in order to improve Nepalese securities market. This study highlights the real status of the issue of right share in Nepal.

In the composition of primary issue approval, right share, ordinary share, preference share, debenture, unit scheme and mutual fund are involved. Out of these securities, right share covers 42.51 percent; ordinary share covers 32.23 percent, preference share (4.59 percent), debenture (15.53 percent), unit scheme (3.70 percent) and mutual fund (1.44 percent). Right share covers highest position among all securities.

While analyzing the simple regression model, it is observed that there is negligible role of primary market on secondary market whereas GDP is largely affected by primary market. Multiple regression models are also formulated and tested in order to increase the predicting power of the dimple regression model. Among seven models analyzed, IPO and market capitalization can play major role in the development of secondary market. NEPSE Index also plays major role to change GDP. However, role of NEPSE Index along with these all variables on GDP is statistically insignificant.

5.2 Conclusion

The discussed findings and summary lead the whole study to conclude as follows:.

Out of the total securities approved and issued in Nepal, right share covers major portion during the study period. However, the trend of right share issue is almost constant up to the year 2002/03. Since then the trend started to increase up to 2006/07 and to decrease in 2007/08 indicating that the trend is fluctuating. IPO and market capitalization can play major role in the development of secondary market. NEPSE Index also plays major role to change GDP. There is no role of primary market on secondary market whereas GDP is largely affected by primary market.

5.3 Recommendations

Following recommendations can be made based on the above conclusion:

- In total public issue in Nepal, there is the higher portion of right share. This would be the benefit for existing shareholders. This process reduces the issuing cost for the institutions and save the profit also. However, this process discourages new investors in the market. Therefore, the companies are recommended to issue new securities in order to attract new investors and to develop the security market as well.
- IPO and market capitalization can play major role in the development of secondary market. Therefore, it is necessary to manage these variables properly in order to strengthen the Nepalese secondary market.
- Secondary market i.e. NEPSE Index plays major role to change GDP. However, role of NEPSE Index along with these all variables on GDP is statistically insignificant. If the initial public offering along with right share and market capitalization changes, the NEPSE Index, an indicator of stock market, also changes. Therefore, regulatory bodies of the Nepalese stock market are recommended to monitor the securities issue effectively.
- There is major role of IPO to change the GDP. Nepalese policy makers are, therefore, suggested to simplify activities regarding initial public offering along with right share issue so that gross domestic product of the nation can be increased.

The researcher hopes that above recommendations will be an effective guideline to understand about initial public offering in Nepal and to take effective investment decisions.

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Website

http:\\www.nepalstock.com

http:\\www.nrb.org.np

http:\\www.sebonp.com

ANNEXES

Appendix

Raw Data for Regression Analysis

Year	NEPSE Index	Initial Public Offering	Right Share Issue
1993/94	226.03	344.40	0.00
1994/95	195.48	254.20	0.00
1995/96	185.61	293.70	69.00
1996/97	176.31	332.20	275.20
1997/98	163.35	462.40	249.96
1998/99	216.92	258.00	30.00
1999/2000	360.7	630.30	124.60
2000/01	348.43	717.20	365.79
2001/02	227.54	1555.10	387.87
2002/03	204.86	853.80	162.24
2003/04	222.04	1547.80	429.92
2004/05	286.67	1315.80	699.42
2005/06	447.43	2547.87	1241.45
2006/07	544.12	2757.50	1817.25
2007/08	938.52	673.42	401.02

Sources: SEBO/Thapathali, Kathmandu

ABBREVIATIONS

AFCL	:	Annapurna Finance Company Ltd.
B.S	:	Bickram Sambat
BOD	:	Board of Directors
BOKL	:	Bank of Kathmandu Ltd.
CIT	:	Citizen Investment Trust
EBL	:	Everest Bank Limited
FOM	:	Faculty of Management
GDP	:	Gross Domestic Product
GON	:	Government of Nepal
IPO	:	Initial Public Offering
Ltd.	:	Limited
MBS	:	Masters of Business Studies
N.D	:	Not Defined
NABIL	:	Nepal Arab Bank Ltd.
NBL	:	Nepal Bangladesh Bank Ltd.
NEPSE	:	Nepal Stock Exchange Ltd.
NFCL	:	National Finance Company Ltd.
NIBL	:	Nepal Investment Bank Ltd.
NIBL	:	Nepal Investment Bank Limited
NIDC	:	NIDC Capital Markets Ltd.
NRB	:	Nepal Rastra Bank
RRR	:	Realized Rate of Return
SCBL	:	Standard Chartered Bank Ltd.
SEBO/N	:	Security Board of Nepal
SEC	:	Security Exchange Center
SEC	:	Security Exchange Center
SMC	:	Security Marketing Center
T.U.	:	Tribhuvan University
T-bills	:	Treasury Bills
Viz.	:	Namely
Vs	:	Versus

WTO	:	Word Trade Organization
YFCL	:	Yeti Finance Company Ltd.