

PRIMARY MARKET'S PROBLEM AND PROSPECTS IN NEPALESE CAPITAL MARKET

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RECOMMENDATION

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CAPITAL MARKET**

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DECLARATION

I hereby declare that the task performed in this thesis entitled “**PRIMARY MARKET'S PROBLEM AND PROSPECTS IN NEPALESE CAPITAL MARKET.**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Study (M.B.S.) under the supervision of **Mrs. Ruchila Pandey, Associate Professor** of Shanker Dev Campus, Faculty of Management, T.U.

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.....

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ABBREVIATIONS

AGM	:	Annual General Meeting
APT	:	Assets Pricing Theory
BJM	:	Biratnagar Jute Mills Ltd.
BOD	:	Board of Directors
CIT	:	Citizen Investment Trust
CMB	:	Capital Merchant Banking and Finance Limited
CRO	:	Company Registrar's Office
EPF	:	Employes Provident Fund
FDI	:	Foreign Direct Investment
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GNDI	:	Gross National Disposal Income
IPO	:	Initial Public Offering
IAMSS	:	Integrated Automated Market Surveillance System
MCR	:	Market Capitalization Ratio
MOU	:	Memorandum of Understanding
NEPSE	:	Nepal Stock Exchange Ltd.
NRB	:	Nepal Rastra Bank
NYSE	:	New York Stock Exchange
NSTC	:	Nepal Security Trading Center
OTC	:	Over the Counter
ROC	:	Registrar of Companies
Rs.	:	Rupees (Nepalese currency unit)
RTS	:	Registrar to Share
SEB	:	Securities Exchange Board
SEBON	:	Securities Board, Nepal
SEC	:	Stock Exchange Center
SMC	:	Securities Market Center
SAARC	:	South Asian Association for Regional Cooperation

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CHAPTER - I

INTRODUCTION

1.1 Background

A mutual fund was also floated but has not been listed in the Stock Exchange and has been closed after about two years of Over The Counter (OTC) trading. No active market exists for treasury bills, which are currently floated on an auction basis by the Nepal Rastra Bank to commercial banks and private companies. Government bonds used to be traded in the Securities Exchange Center. But following its conversion into the Stock Exchange, they are now traded over the counter by a government owned investment trust company. No other forms of money market instruments are available. Market Intermediaries and investors. This group represents the players in the market. The most significant change that occurred in the Nepalese capital market in 1993 was in this area. Previously, all transactions relating to capital markets from public issuance to trading and regulating are conducted under one roof, the Securities Exchange Center. The Securities Exchange Act amendment changed this government monopoly by introducing private intermediaries such as brokers, merchant banks and market makers. A separate regulatory body, the Securities Exchange Board, is created. capital market is the market where securities are traded. The capital market is broadly categorized into two markets. They are primary market and secondary market. The primary capital market denotes the market for the first time sale of securities by an underwriter to the public. Securities which are purchased from the primary are traded in the secondary market. Secondary market comprises the organized security exchanges and a specialist facilitates the transaction. Most of the capital market transaction occurs in the secondary market. Transactions of the secondary securities occur among the buyers and sellers of the stock. Capital gain and ordinary gain motivates people to buy and sell the securities. Securities in the secondary market are traded in organized Securities Exchange and Over the Counter Market (OTC) (*Source: Pandey; 1992:75*).

Nepal Stock Exchange Ltd. (NEPSE) is only one organized Securities Exchange in Nepal where transaction of secondary market carried out. Capital market plays a vital role in the

developing nation's economy. Due to the lack of capital for investment economic growth is low in Nepal. Capital market provides the required capital for the investment. The major function of the stock market is to provide steady and continuous market for the purchase and sale of securities at a competitive price by considering marketability and liquidity. The major concern of countries of the world has been to accelerate the economic growth and thereby increase the welfare on their people. Economic growth requires capital investment and would require fearing up of saving, creating, conducting and enabling investment atmosphere and developing efficient capital market to facilitate mobilization of both ownership and debt capital through appropriate instrument. The development of corporate culture depends upon a sound financial system, a set of complex and closely connected or inter-mixed institution, agents process, markets, claims etc, in an economy(*Source: Shrestha;2002:65*).

The worldwide movement towards open and market oriented economic system in the world economy. It has led to growth and expansion of banking and financial system too. As a matter development of new financial instrument and improved and diversified financial services are taking place. One of the concrete financial services is merchant banking function. Under merchant banking function financial institutions provide necessary information on the financial instruments to any industry or any concern involved in business, in addition to consultancy services on procedural formation to use the instruments and all necessary management services. Development of capital market in Nepal is linked with the establishment of commercial banks and long term financing institution like NIDC, market capitalization started in 1994 B.S. with the enactment of the Company Act in 1992 B.S. However, failure of a number of companies within a short time dampened the spirit and for a long period market capitalization took a back seat. Efforts were reinforced in 2033 B.S. with the establishment of Nepal Security Trading Center (NSTC) to make an in road in expanding the base for capitalization and assisting new companies to float easily. The Center also operated in a restricted manner and through the market capitalization process did not take off in a sound manner in the absence of an encouraging environment. Recognizing these short comings, along with the pursuance of liberal economic policies the government through a package of policies including capital market development policies in 2049 B.S. This helped to establish the Stock Exchange Market and the floor for secondary market operation. Within a short period, the market boomed and many new primary issues were also made. In this situation it is useful to

analyze the growth trends and assesses the strengths and weakness of the Nepal Stock Exchange Market (*Gurung; 2006: 85*)

In term of concept, it is very new in Nepal. It was begun with the floatation of shares by Nepal Bank Limited (NBL Bank) and Biratnagar Jute Mills Ltd. (BJM) in 1937 B.S. under Company Act 1936 B.S. No significant attempts has been made in 4-5 year plan to reform the capital market the establish of Security Exchange Center (SEC) in 2038 B.S. was the first and most important attempts made by the government to develop the stock market. The SEC served to promote the primary as well as secondary market for government and corporate securities from Fiscal Year 2040/41 B.S. Although, the growth of the Stock Market in high relative to the growth of economy, the shares of corporate sector in the national economy is still very low due to the illegible size of the corporate sectors. The incorporation of Securities Board Nepal (SEBO/N) under the Securities Exchange Act 1983 conversion to the SEC into Nepal Stock Exchange (NEPSE). Government policy on capital market reform has greatly contributed to development of primary as well as secondary market. It helps to raise the corporate securities stock prices and the market liquidity for corporate securities was observed immediately after the incorporation of the SEBON and the NEPSE for one year only (*Thapa; 2007:50*).

As democracy established in 2007 B.S., the interior government were much busy in advising the measure to recognize the sick industries and gave little attention to initiate and development of stock market until 2033 B.S. A government owned and operated Security Exchange Center was established in 2033 B.S. In 2047 B.S, when democracy was resolved the interim government, in its short period Citizen Investment fund (CIF) has established. The establishment of NIDC Capital Market Ltd. is also another major step to improve financial system in Nepal.

While no foreign investors are present, a recent policy announcement was made by the Securities Exchange Board to allow foreign institutional investors into the secondary market. Aside from brokerage functions, most of the other functions are being carried out by finance companies. Unlike, many other countries, these companies are also allowed to mobilize public deposits. Market trends, as a result of the interplay of the above three factors, the capital market performance in Nepal has witnessed a lot of changes.

Primary Market

The primary markets are media through which new financial assets are issued or enervated. They are the media by which demanders and suppliers of today's funds and the creators and acceptors of financial claims meet. In these primary markets, financial assets are created and exchanged, satisfied in the part of the financial needs of both demanders and suppliers of today's fund. At the present concept, it is the market for direct issuance of government securities. The primary market of the country is dominated by the government securities due to the existence of new issue market for individual securities. The growth of primary market is encouraging since many public limited companies including joint venture commercial banks have been successful to collect capital through floatation of securities to the general investing public (Shrestha;2006: 90).

The primary market (new issue market) deals with those securities, which have been made available to the public for the first time. Securities generally have two stages in their life span. The first stage is when the company initially issues the security directly from its treasury at a predetermined offering price. This is a primary market offering. It is referred to as the initial public offering (IPO). Investment dealers frequently buy initial offerings on the primary market and resell the securities on the secondary market.

The Capital Markets Staff of the Securities Administration Branch enforces primary market regulations. An example of primary market regulation is the obligation of a company to file a prospectus with the branch when it issues shares. The Capital Markets Staff receive and review the prospectus to determine whether it achieved full disclosure. Again, this review is not to approve the merits of the security, but to ensure that companies meet the minimum requirements of full disclosure. The contribution of primary market to company financing is direct in the sense that it provides additional funds to the issuing companies either for starting a new enterprise for expansion or diversification of the existing one. Before the establishment of security market center, the case of new issue was very few, the issue management activities were under taken by issuing company themselves. The securities board regulates primary market. The Board also prepares guidelines to regulate the primary issues.

In the past few years, the liquidity is very high in Nepalese market. With higher liquidity and very few alternatives available for investment, Nepalese investors are forced to look at the government bond market and commercial banks and finance companies. Since the commercial banks and finance companies too have not been able to fully utilize their funds the interest rate for deposit have considerably decreased and perhaps, the real rate of return after adjusting inflation may go to negative. Therefore the public investors are looking for other alternative, which gives them higher return for their investment. This may be one of the reasons for heavily oversubscribing the public issues offered by corporate bodies.

Securities Board of Nepal (SEBON), the regulator of capital market in Nepal has approved total issues of 48 ordinary shares and right shares of Rs. 6827.78 million for the fiscal year 2067/068. This is a sharp decrease of 51.6 percent in total amount compared to previous fiscal year. Approved for number of public issues for public approval for equities from SEBON during the year has decreased significantly and reached to 16 from 37 of last year. On the amount side, primary issue approval for public equity issue has decreased by 45 percent and reached to 1728.4 million. Similarly, total 31 approvals were provided to companies to issue right shares amounting to 5049.3 million which is decrease of 53.9 percent in amount. SEBON has also provided issue approval 12 percent Nepal Investment Bank bond 2075 debenture for the amount of Rs 50 million (*Source: Sebon Annual Report 2010/11*).

So, the development of primary market through public issues of securities is equally important to the corporate bodies, investors, securities dealer, securities exchange as well as other who are involved in the securities market. The public issues give an alternative means for the corporate bodies to meet their long term capital requirement. At the same time, the institutional and retail investors also get opportunities to invest their surplus funds in diverse portfolio with a higher return and low level of risk.

With the increase in public issue the services required in the other sectors of securities business such as issue management, market making, brokerage service, underwriting activities also increases. This will help to benefit the people involved in such type of business. When the public issues for corporate bodies increase the volume of trading in the stock exchange also

increase. So, the development of primary market has significant impact on the development of secondary market.

1.2 Statement of the Problem

Nepalese stock market has no long-history. It has only more than one and half decade. The numbers of listed companies in the Nepal Stock Exchange are increasing every year. But most of the companies are confined to the bank and finance companies sectors. There is a tremendous growth in the financial institutions over the period of time. Nepal Rastra Bank (NRB) has also made compulsion to issue at least 30 percent of shares to the public.

But the other sectors like manufacturing and trading are almost zero to issue share in the public. Since long, no new companies are established. As for second quarterly report 2068/069, 46 companies were not timely submitted their report to the SEBON. Investors are losing confidence on the share market mainly due to their experience of fraudulent and scandalous activities undertake by a handful of market swindlers. There has been also major problems involving misuse of insider information and growing tendency of frauds in securities transaction. Moreover, credulous investors too are responsible for showing irresponsible behaviors due to freed for quick gains from share market. Investors becomes miserable emerged from tactless advice of brokers through market disorders, price manipulation and fraudulent activities taken together have resulted the present bearish market in the country. How these securities frauds and manipulation have occurred and to what extent they can be overcome would be highlighted to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in share price. Development and expansion of capital market is essential for rapid economic growth. This study *Primary Market's Problem and Prospect in Nepalese Capital Market'* is the rare and perhaps first study which includes fiscal years 2050/051 to 2067/068. Hence, this study is also suffered from the constraint problem. This study is mainly concerned with the following issues:

-) What is the current situation of primary market in Nepalese capital market?
-) What are the major problems occurred in the primary market?
-) Does the numbers of issue managers and merchant bankers are sufficient in Nepalese Primary market?

-) Are the banking and financial sectors covers the highest issue portion to the general public?
-) Are the government policies and regulators playing the vital role in Nepalese capital market?
-) Is the primary market impediment and future a prospect is going to be long term instruments?

Nepal Government is encouraging investors to initiate hydropower project. Some of the hydropower companies like Arun Valley Hydropower Company, Chilime Hydropower is also issued shares in the public. Similarly, trading company like Salt Trading Corporation is planning to issue debenture amounting to Rs 500 million to build shopping complex to expand its business in the real sectors. In this situation, what is the future prospect of Nepalese primary market?

1.3 Objective of the Study

The main objective of the study is to identify the existing problems and future prospect of Nepalese primary market. The other objectives of the study are as follows:

-) To state the current situation of primary market in Nepalese capital market
-) To explore the problems faced in the primary market.
-) To analyze the primary market according to the types of securities and sector wise issued.
-) To examine and recommend the future prospects of the primary market.

1.4 Scope of the Study

Stock market reflects the situation of economy. When stock market is booming the economy is good and market is declining the economy is in recession. It represents also the counties polices towards industries. Policy is formulated of regularized by rules and regulation between different Act and Guideline (rules and regulation). This study in needed to find our problems and prospects in the near future. What policies can be formulated, what regulatory acts are needed and necessity of amendments regarding the rules and regulation to develop it and make the market perfect functioning.

It is also needed to find out the views of potential investors and government and other financial institutions about the related organizations. Similarly, it is needed to study about AGM held by organizations in time and disclosures of them. The standard is one of the elements for the stock market development. Financial statement should maintain according which fulfill the requirements of related party's needs information.

1.5 Limitation of the Study

The study is made for the partial fulfillment of Master in Business studies program of Tribhuvan University. Hence, the limitation of this study is as follows:

-) It is not a comprehensive study and it focused to analyze certain aspects of primary market in Nepal.
-) The result obtained from this study can not be generalized.
-) The time and resources constraints are other limitation.
-) The study is based on eighteen years data i.e. from FY 2050/051 to FY 2067/068. So the conclusion may not be hundred percent exactly.
-) The methodology used in the study may not help draw premise conclusion of the study.
-) The study is mainly based on the secondary data i.e. collection from different sources.

1.6 Organization of the Study.

The study has been organized into five chapters. They are as given below.

Chapter I: Introduction

This is the introductory chapter, which has covered background of the study, focus of the study, statement of the problem, objective of study, scope of the study, limitation of study etc.

Chapter II: Review of Literature

This chapter has included conceptual framework i.e. theoretical analysis and review of related different studies. This chapter also considered review from different studies, review from journal, article and magazine and review from master's thesis for the concerned topic. It includes all the Nepalese context's problem and prospect of primary market.

Chapter III: Research Methodology

This chapter has deals with the research design, population and sample, sources of data, data collection and data analysis tools (financial tools and statistical tools) and methods of analysis and its descriptive presentation.

Chapter IV: Presentation and Analysis of Data

This chapter describes the research methodology employed in the study. It will include secondary data and primary data presentation, data analysis, interpretation and major finding.

Chapter V: Summary, Conclusion and Recommendations

The last chapter states the summaries, conclusion of the whole study and recommendations. This chapter deals with summary of Primary market's problem and prospect in Nepalese capital market whether the objectives are fulfilled or not conclusions are drawn and recommended on the basis of major findings. From the basis of major findings it also offers several avenues for future research. The exhibits bibliography and appendixes are incorporated at the end of the study.

CHAPTER – II

LITRETURE REVIEW

This chapter is divided into two parts. In the first part some conceptual framework has been provided and in the second part review of past research works, books, journals and articles has been provided.

2.1 Conceptual Framework

2.1.1 Financial Market

Financial Markets provide a forum in which suppliers of loans and investments can transact business directly. The loans and investments of intuitions are made without the direct knowledge of the suppliers of funds (savers), suppliers in the financial markets know where their funds are being lent or invested. The two key of financial markets are the money and the capital market. Transactions in short term debt instruments, or marketable securities, take place in the money market. Long term securities (bonds and stocks) are traded in the capital market (Gitman; 1998:72)

2.1.2 Money Market

Money market activities include primary and secondary market activities in short-term negotiable instruments such as Treasury Bills, Government Bonds, Certificates of Deposit, Banker's Acceptances and Commercial Paper or Promissory Notes. Merchant bankers are usually users and market-makers (dealers), rather than brokers in these types of paper.

In theory, the money market is different from the capital market. In practice, however, in most countries with efficient financial markets (that is, the money market and the capital market combined), the merchant banks are active in both. This is a simple function of the fact that a negotiable money market instrument for all practical purposes is simply a shorter-term capital market instrument. Therefore, the techniques and facilities needed to operate in the money market are essentially the same as those needed to operate in the capital market.

2.1.3 Capital Market

The capital market is defined as a place where finance is raised by companies for meeting their requirement of funds for new projects, modernization and expansion programs, long-term working capital needs and for various other purposes. The capital market mobilizes savings of individuals as investment in shares, debentures, Units of mutual funds and other like financial instruments, which are ultimately deployed for productive purposes in various sectors of the economy. A place where long term lending and borrowing takes place is known as capital market. The capital market is the market for long-term loans and equity capital. Companies and the government can raise funds for long-term investments via the capital market. The capital market includes the stock market, the bond market, and the primary market. Securities trading on organized capital markets are monitored by the government; new issues are approved by authority. Financial supervision and monitored by participating banks.

The activities of Nepalese capital market still remained sluggish during the fiscal year 2067/068. This year is the subsequent third year of bearish trend in the market. Almost all indicators in the primary as well as secondary market have decreased as compared to the previous year. The unending political transition period, directionless economic policy, liquidity crisis in financial sector may other factors have contributed for such decreasing trend. Furthermore, the issue of weak corporate governance and the turndown of few financial institution at the end of the fiscal year 2067/068.

Capital market refers to the links between lenders and borrowers of funds, arranging of funds-transfer process to seek each other's benefit. Capital market consists of the various suppliers and users of long term finance. It is differentiated from the money market which embraces short-term Finance. The capital market serves as a link between suppliers and users of Finance. It is a mechanism for the mobilization of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and the sellers of securities and all those agencies and institutions which assists the sale and release of corporate securities.

Primary markets are absolutely vital to capitalistic economic if they are to function properly, since they serve to channel funds from savers to borrowers. Furthermore, they provide an

important locatives function by channeling the funds to those who can make the best use of them-presumably, the most productive. In fact, the primary function of the capital market is to allocate resources optimally. A securities market with this characteristic is said to be other hand, is one with the lowest possible prices for transactions services.

The capital market is a financial relationship created by a number of institutions and arrangements that allows the suppliers and demanders of long term funds, funds within maturities of more than one year to make transactions. Included among long term funds are securities issue of business and government. The backbone of the capital market is formed by the various securities exchanges that provide a forum for debt and equity transactions. The smooth functioning of the capital market, which is enhanced through the activities of investment bankers, is important to the long run growth of business. The capital market also comprises two segments—the new issue of market that is commonly known as the primary market and the secondary market where already issued securities are traded. For the purpose of this manual, only primary market would be dealt in detail.

Table 2.1
Different between Money Market and Capital Market

<u>Basis or Difference</u>	<u>Money Market</u>	<u>Capital Market</u>
1. Time Period	This is the type of market which is meant for a short term securities. A money market typically involves financial assets that have a life span of one year or less.	This is the type of market which is meant for a long term securities. A capital market typically involves financial assets that have life span more than 1 year.
2. Liquidity	This type of market involves highly liquid.	This type of market involves less liquid than money market securities and debt.

3. Types of securities	Money market deals only with debt securities (short-term debt).	Capital market deals both with stock and debt securities (long-term debt) stock involves both common stock and preferred stock and long term debt involves debenture or bond.
4. Risk	Money market deals with low risk security.	Capital market deals with high risk security.
5. Instruments:	Money market instruments includes T-bills, commercial papers, bankers acceptance, etc.	Capital market instruments include debenture (Gov.bond), common stock, and preferred stock.

2.1.4 Security Market

Security market exists in order to bring together buyers and sellers of securities meaning that they are mechanisms created to facilitate the exchange of financial assets. There are many mechanism created to facilitate the exchange of financial assets.

Security market sets a price for the securities it trades and makes it easy for people to trade them. The securities market is a requisite for the sound development of an economy because it not only provides stable long-term capital for companies and an effective savings vehicle for the public, but also functions as an efficient tool for resource allocation. Mass participation in country's industrialization process is possible only through the efficient mechanism of securities markets as it promotes efficient collection of small and scattered savings from the investors and provides returns to them in the form of dividend. A developed securities market is the medium through which only productive firms that have better performance can easily raise capital. In other words, well-developed capital markets enable high-quality firms to increasingly finance themselves from securities (bond and equity) rather than from bank loans (Shirai; 2006:40). This type of behavior of developed market enhances economic growth process by productivity growth. Securities markets play a crucial role in the economy by channeling investment where it is needed and by putting it to best use (Liberma and Fergusson; 2006:120).

Security market sets a price for the securities it trades and makes it easy for people to trade them. Securities market facilitates the sale and resale of transferable securities. The security market can be defined as a mechanism for bringing together buyer and sellers of financial assets to facilitate trading. Securities market is classified into two; the market in which new securities are sold is called the primary market and the market in which existing securities are resold is called the secondary market. Secondary markets are created by brokers, dealers and market makers. Brokers bring buyer and seller together with themselves actually buying or selling; dealers set price at which they themselves are ready to buy and sell (bid and ask price respectively). Broker and dealer come together organized market or in stock exchange (Gitman; 1998:78)

Securities are traded in a market called securities markets. Although, securities markets are concerned in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities, such as equities, short and long term debt instruments, derivatives etc are the products that are traded in the markets, institutions such as investment bankers and security firms, securities issuing institutions such as government and corporate bodies and the participants of the securities markets. Securities markets major function is to provide line between saving and investment there by facilitating the creation of new wealth.

Securities market covers both primary and secondary. The difference between the two markets is, the primary market consists of the companies making the issue of securities and the members of the public subscribing to them. Whereas, secondary market involves the purchase and sale of securities already issued to the general public and is traded in the stock exchange. The primary market also comprises the offer of securities to the existing shareholders of the company on right basis.

This study is only concerned with initial public offerings so, it deals with the process and activities incurred in rising of funds from the primary market. The operation of the secondary market, though is an important operation scope of the merchant banking, is not covered in this

manual. Primary market and the secondary market are present in both the capital market and the money market.

2.1.5 The Primary Market

A primary market is the place where corporations and government issue new securities. All securities, whether in money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue- that is, the company actually receives the proceeds from the sale of securities. once the securities begin to trade among individuals, businesses, governments, or financial institutions, savers and investors, they become a part of the secondary market. The term 'primary market' is used to denote the market for the original sale of securities by an issuer to the public. The issuer receives cash which may be invested in productive assets or retirement of debt. Usually, managers are appointed to sell those securities due to little recognition of new company in the market. In the definition of primary market made above an addition is to be made. That is, depending upon the company offering securities for the first time or in succession, primary market can have public offerings as initial public offerings or the successive public offerings or so on.

In the definition of primary market made above an addition is to be made. That is, depending upon the company offering securities for the first time or in succession, primary market can have public offerings as initial public offerings or the successive public offerings or so on.

2.1.5.1 Characteristics of Primary Share Market:

Characteristics of primary share market are as follows:

-) The new securities are traded in primary market.
-) Primary market makes the financial capital available to make new investments in building equipment and stock of necessary goods.
-) The transactions are less in primary market.
-) Buying security in primary market is less risk
-) overwhelming presence of retail investors and a very small role of institutional investors

After the establishment of Securities Board of Nepal in 1993, the following instruments have been used by the Nepalese corporate bodies to raise capital from primary market.

2.1.6 Public Offerings

It is the raising of long-term funds for governments or corporation from a fund sufficient public group in the primary market. The most important aspect of public offerings is its role as the single most effective means by which government and corporate entities can obtain long-term (debt or equity) on a permanent basis. This not only permits them to broaden their sources of finance beyond the banking system but, because the banking system is usually a short–or medium term floating rate lender, the securities market is often the only means of obtaining large sums of fixed rate, long-term funds.

2.1.6.1 Advantages of an IPO

As discussed above, the primary reasons for conducting an IPO are to raise money and to create liquidity for investors. There are also important incidental benefits to going public. Objective benefits include (i) obtaining a readily ascertainable market value for the company's stock, (ii) the ability to make acquisitions through the payment of securities rather than cash, (iii) greater access to financing through commercial lending, (iv) greater access to the financial markets for follow-up offerings, and (v) heightened name recognition and prestige among customers and suppliers. Less objective benefits are the sense of success and accomplishment that accompanies a successful IPO and becoming a publicly traded company.

2.1.6.2 Disadvantages of an IPO

The major disadvantage to becoming a publicly traded company may be compliance with the act reporting requirements. While registering under the act is quite simple, the periodic and event-based reporting obligations under the act require a significant amount of time and expense. In addition, the act obligations will compel disclosure of information that the issuer, its directors, management and controlling stockholders might otherwise want to keep to themselves. Financial and business information, executive compensation, transactions between the company and its directors, management and major stockholders, and certain employee benefits must all be disclosed in reports filed with the SEC, mailed to the stockholders, and made available to the public upon request. Directors and officers, as well as major

stockholders, also must file reports with the SEC disclosing most transactions in the company's securities. Also, the failure to accurately make such reports may result in civil or criminal penalties.

The direct financial costs, including legal, accounting and printing fees, of conducting an IPO and of being a publicly traded company are substantial, as are the indirect costs of the time required to be spent on these matters by management.

Also, the management and governance of a publicly traded company is more difficult and less flexible. The solicitation of stockholder votes on any matter is strictly regulated under the act, and rules of the exchange on which the securities are listed require certain matters to be approved by stockholder vote even if not otherwise required by state law. Additionally, because of pressure to raise the price of the company's stock, management may feel persuaded to adopt policies aimed at achieving short-term results rather than long-term goals.

2.1.6.3 Timing of an Public Offering

Obviously, not all companies that would like to go public are in a position to do so. Factors relevant to a company's ability to successfully close an IPO include (i) its past financial performance, its financial projections for the future, and its ability to generate consistent increases in revenues and earnings, all of which are crucial for a public company to survive in the market place, (ii) the experience and depth of the company's management team, (iii) a solid product position in the market with growth potential, (iv) a focused mission set forth in a well written business plan to present to prospective underwriters, and (v) attorneys, accountants and public relations firms experienced in working with the SEC. Especially in the case of technology-based companies, the determining factor in the success of an IPO may ultimately be the receptivity of the stock market to new issuances in a Company's particular industry at the time that the IPO is undertaken.

The company will have to satisfy the underwriters that all of the above criteria are met, and even then the underwriter may insist on changes to the company's capital structure as a condition to its engagement. For example, the underwriters might require the company to affect a reverse stock split prior to the closing of the IPO in order to price the shares being

offered in a typical IPO price range. If the underwriters do not feel that the company is offering a sufficient number of shares to ensure an acceptable "float" of publicly traded shares, they might require that certain stockholders participate in the offering by selling some of their own shares (a "secondary offering"). The underwriters might also insist on fundamental changes in the company's means of conducting its business as a condition to its engagement, such as the cessation of insider transactions and perceived conflicts of interest and the appointment of outside directors. Companies which are not willing to make such changes may not be able to attract an underwriter willing to manage the IPO.

If the issuer belongs to a certain industry that is particularly attractive to investors at the time of the proposed IPO, it will have more leverage in choosing and negotiating with an underwriter. Conversely, if market conditions are unfavorable at the time of the offering, the issuer will have less flexibility in how the deal is structured and may have to postpone the IPO altogether.

2.1.7 Types of securities offered in the primary market

Different types of securities offered in the primary market. They are:

2.1.7.1 Common Equity/ Stock

These are the offerings that entitle the holders or the buyers of the offerings the stake on the equity of the issuing company. In addition, they are entitled to:

-) Voting right at the general meetings of the company and have the right to control the management of the company.
-) Right to share the profits of the company in the form of distribution of dividend and bonus shares.
-) In the event of the winding of the company, equity shares capitals are repayable only after repayment of the claims of all the creditors and preference shareholders.

2.1.7.2 Preference Share/ Preferred Stock

Preference shares capital mean, in the case of a company limited by shares, that part of the capital of the company which,

-) Carries a preferential right to payment of dividend during the lifetime of the company;

-) Carries, on a winding up, a preferential right to be repaid the amount of capital paid-up.

The different types of preference shares are:

-) Cumulative Preferred stocks
-) Non-cumulative Preferred stocks
-) Redeemable Preferred stocks
-) Non-redeemable Preferred stocks
-) Convertible Preferred stocks

2.1.7.3 Bond/ Debenture

Debenture includes debentures stock, bonds and any other securities of a company, whether constituting a charge on the assets of the company or not. Debenture is a document that either creates a debt or acknowledges it, and any document, which fulfills either of these conditions, is debenture. The characteristic features of a debenture are as follows,

-) It is issued by the company and is in the form of a certificate of indebtedness.
-) It usually specifies the date of redemption. It also provides for the repayment of principle and interest at specified date or dates.
-) It generally creates a charge on the undertaking or undertakings of the company.

The different types of debentures are:

-) Secured debentures
-) Unsecured debentures
-) Redeemable debentures
-) Perpetual debentures
-) Convertible debentures

2.1.7.4 Warrants

The warrant gives a right to the holder to obtain equity shares specified in the warrant after the expiry of a certain period at a price not exceeding the cap price specified in the warrant. The warrant is a tradable and negotiable instrument and is also listed on the stock exchanges. It comes in different forms, mostly:

-) Bonds with warrants
-) Preferred stocks with warrants

Beside these instruments there is other instrumental mix available to the investment bankers to provide to the primary market investors. But, these are beyond the scope of this manual to describe.

2.1.8 Initial Public Offering (IPO) Manual

Initial Public Offerings (IPO) manual is the detail procedure of handling Initial Public Offerings of the companies seeking “going public” for the first time. This manual outlines all the activities and steps that have to be observed by all issuing companies and issue managers in respect to Initial Public Offerings (IPO). This manual has been prepared with a view to present a detailed, descriptive and step-by-step action sequences in the Initial Public Offerings, relevant to all the companies offering shares to the general public. But, it is subject to periodic amendments and supplements.

The Public Offering is not an easy task. There are many organizations involves during this periods. They are:

2.1.8.1 Issuing company

Issuing company is the company raising funds from the general public through the process of public offering. The purpose of public offerings is for the collection of funds from general public, a fund sufficient group, by the company as per its requirement of business expansion. The company seeking for public offerings could be a completely new company (initial public offerings), a new company set by the existing company (initial public offerings) or by existing listed company (successive public offerings).

As per the Company Act, only public companies are liable to go for public offerings. The Act specifically states that private companies are not allowed to sell their shares and debentures in the free market. For public company issuing debentures, the reasons for such issue, project to be financed and its estimated budget along with the information about secured or naked nature of the debenture, needs to be approved from the governing bodies.

NRB has made mandatory that financial institutions must go for common stock public offerings within specified time of operation commencement. NRB has also set forth different

minimum percentage of equity holding to be offered to the public shareholders. For commercial banks, minimum shares to be held by public is 30%; for finance companies, it is 40%; for development bank it is minimum 30% and maximum of 50%. In the case of foreign participation, their equity holding would be arranged from the percentage allocated for the public. For finance companies, in the event of foreign participation, the minimum percentage to be allocated to the general public is 25% of paid-up capital.

For other public companies such compliance to go into public offerings of equity holding are absent. For such companies, going into public signifies the need of funds for the company rather than the obligation.

The Provisions and Conditions for Securities Registration and Issue, 2051 has set the guidelines that before going into public offerings, issuing company should take into consideration that,

a. If the issuing company is industrial institutions

-) The institution has bought the land or made other provisions in which necessary infrastructure like factory; office buildings, go downs etc. are already build in or made necessary arrangements for it.
-) Necessary technology has been selected for which spare parts of machineries needed have been bought. If not, LC has been opened to buy the necessary technologies.
-) Estimated budget has been proposed for the project to be implemented and for which if loans are required, such agreements are already made.
-) In the absence of long-term loan agreement, issue securities are underwritten.
-) Necessary approvals according to the existing Acts have been taken.

b. If the issuing company is financial institutions

-) According to the nature of the business, required infrastructures are installed.
-) Approval has been taken under the Company Ordinance 2063.
-) For commencing other activities, authority and approval from governing bodies based on existing Acts has been taken.

2.1.8.2 Merchant Bankers

Merchant bankers are intermediaries in which they work as mediators in the fund mobilization from the general public to the business groups. The funds are raised from the hypothetical market that comprises widely spread fund surplus groups, mainly the general public and the concentrated fund deficient groups, mainly the business groups. Funds are raised under different tool names that have long term and short-term maturing period. According to such maturity period of the tools traded, market is identified as capital market for long-term and money market for short-term tools to be traded.

The role of merchant bankers in this market is to help create and expand securities underwriting, the secondary market for securities and money market. They also provide additional services in advising corporations and managing investment portfolio for the needing groups.

The concept of merchant Banking differs from other commercial and development banks in respect that they do not require large funds to be invested as a principle. Their sources of income are basically the service charge they charge to their clients for playing intermediary role in the fund mobilization and their advisory role. Typically, the activities of domestically oriented investment banks can be grouped under,

-) Securities Underwriting
-) The secondary market for securities
-) The money market
-) Corporate advisory services
-) Investment portfolio management services, and also
-) Venture capital
-) Leasing/Hire purchase
-) Other services (insurance, real estate etc.)

The role of merchant Banking in managing the public offerings comes under the heading of securities underwriting. The working process of which would be described comprehensively later.

For the working of merchant Banking function in Nepal, Nepal Rastra Bank (NRB) has set forth the working guidelines. Guidelines have identified working of merchant Banking into two sets of functions. The first set is the non fund-based functions and the second set is fund-based functions.

Fund-based activities identified for the merchant Banking are:

-) Bridging finance
-) Underwriting
-) Project Finance
-) Venture Capital
-) Acquisition & Merger

Non fund-based activities identified for the merchant Banking are:

-) Share issue management
-) Mutual Fund
-) Portfolio Management
-) Corporate Counseling
-) Project Counseling
-) Debenture Trusteeship
-) Arranging International Finance
-) Investment Advisor
-) Advising Corporate Mergers

NRB has set the directives as for non fund-based activities of merchant Banking, for underwriting and for bridging finance it is not necessary to take separate approval from NRB. But, for other fund-based activities of merchant banking, it is necessary to take separate approval from NRB for different activities to be undertaken.

Under the NRB directives of per client loan advancement and facility limit provision, such loan and facility can be provided to a client up to:

-) In maximum of 25% of primary capital in fund-based activities.
-) In maximum of 50% of primary capital in non fund-based activities.

In Nepal there are 14 merchant banks are already established. They are providing issue manager, lead underwriter, Register, Transfer of Shares etc. services to other institutions.

2.1.8.3 Securities Board

Securities board has been formed under the Securities Exchange Act, 2040 Clause 3. This legislation has required for the creation of an independent statutory Board to be an apex authority for the securities market, thus resulting into the formation of Securities Board. The Securities Related Act, 2007, has incorporated a provision that requires the public companies to register all the securities with the SEBON before their issuance. According to this provision, SEBON registered the ordinary share and rights share of 47 companies comprising seven commercial banks, 21 development banks, 16 finance companies two insurance companies and one hydropower company amounting to Rs.6777.2 million in the fiscal year 2010/11 (*Source: SEBON Annual report 2010/11*).

The need of legislative body is for maintaining healthy and orderly development of the securities markets and to ensure adequate investor protection. Establishment of SEB is necessary to promote markets that ensure:

-) **Fairness:** The markets must promote integrity in dealings, high standards of conduct and good business practice.
-) **Efficiency:** The markets should with professionals and be well informed, offering high standards of service at reasonable cost.
-) **Confidence:** The market must inspire confidence in both investors and issuers to actively participate in and rely more on the securities markets.
-) **Flexibility:** The markets should be resilient, innovative and be continuously responsive to the needs of all market participants.

With the objective of providing this to the market, in accordance with the Act, the Security Exchange Bylaws 2054 has defined the work, responsibility and the authority of the Board as:

-) To work in safeguarding the interest of investors and help develop capital market.
-) To advise Nepal Government (NG) in formulating policies for the development of the capital market.
-) To implement the policies set forth by NG regarding securities exchange.

-) To supervise the work process management and working procedure of those involved in securities exchange to make issue management of securities regular and well managed.
-) To approve registration of securities and issue of securities.
-) To register the name of securities issue dealers and give them approval letter.
-) To interrogate and supervise the workings of securities exchange dealers.
-) To formulate clauses to be followed by the securities exchange market and the dealers in security exchange market.
-) To supervise, interrogate the working of securities market, securities dealers and the listed companies and when necessary make needed directions or undertake necessary actions.
-) To develop and implement directives for proper management of securities market and for regular and well managed securities exchange.
-) To approve Securities Market Sub-directives.
-) To collect notices, data and prospectus from the listed companies and companies with securities registered; make above available information to the interested investors.
-) To work for the healthy, competitive, regular and managed operation of the capital market with the objective of safeguarding the interest of the investors for continuous growth of the market.

This Bylaw is the amendment of Securities Exchange Bylaws 2050.

Legal Provisions and Legal Enforcement

) Mutual Fund Regulation, 2010

With an objective of making mobilization of the scattered savings of the small investors through capital market with the medium of Mutual Fund and to invest such amount in the capital market, SEBON has enforced Mutual Fund Regulation from September 27, 2010 with the consent from Government of Nepal. The provision has incorporated the following provision: fund sponsors, fund supervisor, duties, functions and power of fund manager and depository, licensing of fund manager and depository, fund registration and operation, area and limit of investment and procedure for cancellation of scheme.

) Central Securities Depository Service Regulation, 2010

In exercise of the power conferred by section 116 of Securities Act, 2007, and upon the approval of Government of Nepal, SEBON has enforced Central Securities Depository Service Regulation, 2010 effective from October 06, 2010 with a view in making the processes such as clearance and settlement and transfers of shares prompt and efficient. The regulation has incorporated the provision of licensing and qualification of Central Securities Depository Company and Depository participants, dematerialization of securities certificate, beneficiary owner's account and disclosure regarding central depository service.

) Credit Rating Regulation, 2011

With an objective of entering credit rating business in Nepal and making them regular and systematize, SEBON in exercise of the power conferred by section 116 of Securities Act, 2007, and upon the approval of Government of Nepal, has enforced Credit Rating Regulation, 2011. The regulation has incorporated the rating provision through credit rating companies prior to securities issuance. Likewise, process and qualification for the establishment of credit rating companies, qualification of director and chief executive officer, inspection, revision and withdrawal process of rating and the disclosures regarding credit rating companies were incorporated in the provisions.

) Amendment in Securities Registration and Issuance Regulation, 2008

In order to make securities registration and public issuance of shares more fair and transparent, making the prospectus more informative and empowerment of information disclosure of issuing companies, SEBON has amended the necessary schedule in securities registration and issuance regulation, 2008 and enforced it effective from July 17, 2010.

) Employee Service and Terms Regulation, 2011 of SEBON

SEBON with the cancellation of employees' service and terms bylaws, 2056 and in exercise of the power conferred by section 116 of Securities Act, 2007, SEBON has made necessary provisions in employees' service and terms regulation and submitted it to Government of Nepal, Ministry of Finance for the approval.

) Securities Listing and Trading Regulation, 2011

With an objective to make regularize and systematize regarding the securities listing and transaction activities, SEBON has prepared the initial draft of listing and trading regulation, 2011 in pursuant to section 116 of Securities Related Act, 2007 and work has been done to finalize.

) Compensation Fund Operation Regulation, 2011

In exercise of the power conferred by section 116 of Securities Act, 2007, provision regarding the compensation fund establishment and operation, SEBON has prepared the preliminary draft of Compensation Fund Operation Regulation, 2011 with a view to avoid possible loss in course of securities transaction by the investors.

) Portfolio Management Directives, 2010

With a view to make the functions of portfolio management more effective in regulating, the Board has framed and enforced Portfolio Management Directives, 2010 from December 01, 2010. The directives has incorporated the following provisions: provisions regarding duties, functions and power of portfolio manager, provisions of clients account, contract and area for making investment, provisions regarding code of conduct, account, record, suggestions and disclosure of portfolio manager, provisions regarding monitoring and supervision and providing customer services to nonresidential Nepalese people (NRN).

) Amendment in Securities Issuance Directives (guidelines) 2008

As in first amendment in Securities Registration and Issuance Regulation, 2010 has incorporated securities issuance provision to the industries affected people, SEBON as it needs to amend even in Securities Issuance Directives, 2008 has amended section 5, 16, 20, 23 and 29 of its directives on August 16, 2010 accordingly to that of Securities Registration and Issuance Regulation, 2010.

) Draft related to Underwriter, Share Registrar, Mutual Fund and Securities Allotment

SEBON to make underwriter, share registrar, mutual fund related activities more transparent and systematize, has prepared the initial draft of underwriter, share registrar and mutual fund

directives in pursuant to section 118 of securities related Act, 2007. Likewise, SEBON has prepared new draft of Securities allotment guidelines to develop proportionate securities allotment system.

) Investors Protection Fund Manual

The process of drafting necessary manual for establishing and operating one investor's protection fund as practiced in other countries with the amount collected from the unclaimed dividend and other income for long time and to use that amount on the development and promotion of capital market and investors training has been prepared and submitted it to Company Registrar office for further studies.

) Amendment in Securities Related Act for Commodities Market Regulation

As the trend of commodities market is already practiced in Nepal and to develop the regulatory provision for standardizing and managing such market, SEBON was participated in the committee formed by the Government of Nepal. Likewise, regarding for the amendment in Securities Related Act, 2007 for the regulation of commodity market, SEBON has submitted the reformed bill to the Ministry of Finance.

) Ordinance proposal for the amendment in some existing act

To amend the lesser issues in some existing Act concerned with Securities Related Act, 2007, Company Act, 2006, Income Tax Act, 2002, and Nepal Chartered Accountants Act, 1997, SEBON has sent amendment proposal to the Ministry of Finance. It is because Ministry of Finance has asked to send the matter of amendment and its cause to do so.

) Bylaws Approved

SEBON has approved Financial Administration and Procurement Bylaws, 2010 on August 04, 2010 and sent it to Nepal Stock Exchange Ltd. Similarly, SEBON has carried out study on listing by laws and members and trading bylaws attained from Nepal stock Exchange Ltd.

) Record Keeping and Reporting Format of Merchant Bankers

SEBON has enforced record keeping and reporting format to Merchant Bankers as per the provision of Securities Act, 2063 and Securities Businessperson (Merchant Banker)

Regulation, 2064. The Board believes that the implementation of record keeping and reporting format will bring uniformity among the statements to be submitted by the Merchant Bankers which will subsequently increase the transparency of their work flow.

Legal Enforcement

A. Resolution of Cases against the Board

In this Fiscal year 2010/11, the situation of a total of 10 cases related in varied subjects filed against

the board in Appellate Court and Supreme Court are as follows:

-) On the ten writs against the Board filed in Supreme Court has been countered from the Board.
-) On the three writs petition filed by Bench Mark, Mechikali and Sky Securities against the Board for the matter of not selecting in Nepse's recommendation on stock broker-ship has been revoked.

B. Settlement of Grievances

In the fiscal year 2010/11, a total of 15 grievances including request for suspending the transaction, company merger, irregularities in allotment, employee share, book closure of shareholders register, shares not being listed, submission of different financial detail, allocation of bonus share and dividend lesser than declared, orders not being executed, fine against share certificate being received, share application being canceled and not refunding the amount on canceled transaction were the grievances received by the Board and the task of resolution of such grievances has been carried out by taking information from concerned corporate body.

C. Ordering and Warning

1. According to Securities Related Rule and Regulation, there is a provision for listed companies to submit the annual report to the Board within the five months of ending of each fiscal year. But in practice, some listed companies have submitted their annual reports latter than the time they submit and some companies do not use to submit. By practicing the Securities Board of Nepal Related Regulation 2007, such companies are ordered to follow the rule at first, and then they are warned to submit the report within the deadline.

2. According to Securities Registration and Issuance Regulation, 2008, section 10 and subsection (1), the companies who are listed enabling to issue public share, cannot sale the shares (promoter share and other) within three years of public share allotment. But against this rule, a grievance was received in the Board that Promoter share of Gauri Shankar Development Bank Ltd. has been traded. In this case, SEBON warned the share seller, Stock Exchange Ltd. and concerned stockbroker not to repeat such mistake in the coming days.

3. Another grievance, regarding the rights share issuance and book closure, was received in the Board. The nature of grievance was; Capital Merchant Banking and Finance Ltd. issued the first notice to give rights share and fixed the book close date. Accordingly, investor bought the share but another notice was issued about not to issue the rights share and that arose confusion to the investor. In such case, Board warned the concerned party not to repeat such mistake.

Role of Securities Board in Issue of securities

In its approach to manage public issues of securities, the Board will bear in mind

a. Protection of rights and interests of the investor, especially,

-) The right to adequate, true and fair information
-) The need for liquidity
-) Prompt, fair and equitable allotment
-) Easy and efficient service in allotments and transfers

b. The need to encourage corporate entities to tap the securities markets for their diverse resources needs.

The Board would endeavor to evolve market and institutional structure, a set of instruments and methods of public offerings to cater the above objectives.

The legislative provisions relating to public issues of securities may be classified under:

a. Capital control, governing issue of securities and the terms of their issues;

-) To regulate terms of issues of securities from the viewpoint of investor protection, issuers needs and overall development of the securities market; and
-) To promote sound capital structure of companies.

b. Prospectus provisions, governing the disclosure of information at the time of issue of any security;

c. Obligations of regular disclosure of financial and other information on entities making public issues;

- d. Listing requirements governing traded securities;
- e. Provisions governing allotment and transfer of securities.
 -) Ensuring fair and equitable allotment; and
 -) Promoting speedier and more efficient service in matters of allotment and transfer.

2.1.8.4 Offices of the Registrar of Companies (ROC)

Registrar of Companies (ROC) is the governing body for any institution registered under Company Act. In its governing role, it observes and regulates any company going into public examining whether the process of “going public” is in accordance with the rules and regulation set forth by the existing Company Act or not.

As per the Company Act 2063, public companies need to publish their prospectus before issuing securities to the public. Before publishing prospectus, one copy of the prospectus needs to be submitted to ROC. In this process, ROC approves the prospectus to be published. While approving the prospectus, ROC makes sure that important information is not missed out and unnecessary information is not mentioned. In the presence of such changes, ROC sends it back to the company for necessary changes. Upon satisfactory changes ROC grants approval to issuing company to issue the prospectus. Apart from approving the prospectus to be published by the issuing company before going into public, ROC does not play other major role.

2.1.8.5 Stock Exchange Market

Stock exchange has been defined as anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling of or dealing in securities. The stock exchange therefore is the most important institution in the secondary market. In the primary market, it comes into play during primary share allotment, during issuing share in premium and when Securities Board asks Securities Exchange Market for its opinion.

Securities Exchange Act 2063 has stated that for the operation of the stock exchange market, approval needs to be taken from the Securities Exchange Board. Any registered institution except private companies willing to do or allow others to do security transaction should get approval for securities exchange market from the securities board.

After the issue of securities to the public, the Act requires that companies be listed in the Security Exchange Market before the floated shares can be traded in the market. Nepal Stock Exchange Limited (NEPSE) is the only stock exchange market in the country.

2.1.8.6 Financial Institutions

They are financial intermediaries like commercial banks, finance companies (merchant bankers), and development banks and cooperatives institutions. These institutions are established under the Company Act and Nepal Rastra Bank Directives. These financial institutions perform the role of intermediaries in the securities issue as per the authority received from the Securities Exchange Board. Financial Institutions are involved in securities issue process as:

-) Issue managers
-) Underwriters
-) Collection centers
-) Bankers to the issue

The role of financial institutions is to manage the issue process and be intermediaries in the process of transfer of funds from the investors to the issuing company. The financial institutions may also play a role of creditors to the issuing company by providing bridge finance.

Securities Issue By laws has specified required capital for intermediaries in the securities issue and transaction as,

Transaction Type	Authorized Capital (‘000)	Paid-up Capital (‘000)
Issue registration & issue management, Issue Underwriters	NPR. 20,000.00	NPR. 10,000.00
Dealer in securities market	NPR. 10,000.00	NPR. 5,000.00
Market makers in securities market	NPR. 10,000.00	NPR. 5,000.00
Brokers in securities market	NPR. 400.00	NPR. 200.00
Intermediaries in securities transfer, registration etc.	NPR. 400.00	NPR. 200.00

Source: SEBON Annual Report

2.1.8.7 Nepal Rastra Bank (NRB)

Nepal Rastra Bank is the central banking authority in Nepal. It is the governing authority in setting guidelines to all the financial institution regarding its area of operation. But, in the case of public offerings, its involvement is very minimal. Its role in the issue process is only to grant financial institutions approval to be involved with different role in the issue process. Also for different fund based activities of merchant banking, approval needs to be taken from Nepal Rastra Bank.

2.1.9 Terms Involved in the Process of Initial Public Offerings of Common Stock

2.1.9.1 Initial Public Offering (IPO)

It is a process by which an institution raises desired capital through issuing of securities (common stock, preferred stock, bond, commercial paper and debentures) in the capital or money market for the first time.

For the purpose of public offerings, Company Act has specified that the public issue process of any public company should be managed through the institution receiving authority from SEBO. Internationally, financial institutions with the merchant banking operations, manage the overall issue process of any public limited company. Such institution managing the overall process of the public offerings is termed as an issue manager.

2.1.9.2 Issue Manager

Issue manager is the institution solely holding the responsibility of managing the public offerings of any issuing company. Securities Exchange Act, 2040 clause 18, has defined issue managers as institutions holding license from the Security Board to manage public offering process. The format of application letter and required information to be provided while registering for issue manager are given in the appendix.

2.1.9.3 Lead Manager

In the event of more than one issue managers managing the issue of securities of any company, the term lead manager is used to identify the individual issue managers. The existing Act and the Directives have not clearly identified the maximum number of lead managers managing securities issue of any company at the same time.

2.1.9.4 Underwriting

Underwriting is an agreement between the issuing company and a financial institution like bank, merchant banker, broker or other person, providing for their taking up the shares or debentures to the extent specified in the agreement between them, if it is not subscribed by the public. The underwriting agreements ensure that the public issued is fully subscribed. The commission paid to the underwriters as consideration for the underwriting arrangement is known as underwriting commission.

The existing Company Ordinance does not require that the underwriting of all securities issued to be mandatory. Clause 26 of Company Act has specified that “in the event of issued securities subscribed less than the 50%, such securities should not be distributed to the general public”.

The Securities Exchange Directive 2055 has made mandatory for underwriting for those institution stated as “institution established as manufacturing industry and has not appraised its venture project from the financial institution for the purpose of loan agreement, should underwrite its securities before being offered to the general public”.

But in the case of financial institutions, the governing body NRB requires that issue of securities by commercial banks and development banks are fully underwritten. But in the case of finance company the requirement has been relaxed. Similarly, Beema Samiti has made the public issue of securities of insurance companies to be fully underwritten. Under the underwriting provision, such information is to be mentioned in the prospectus. The reservation for preferential allotment for reserved categories should be excluded and underwriting is compulsory only to the extent of the offer to the public.

2.1.9.5 Lead Underwriter

Lead Underwriter is the one that arranges the whole underwriting process for the issuing company with the help of other sub-underwriters. The issuing companies and intermediaries should note that underwriting is a serious contractual arrangement having financial implications on the issuer and the underwriter. The business of underwriting, therefore, presupposes inherent financial strength on the part of the underwriters. In the process of

identifying underwriters, therefore, issue manager must satisfy himself about the net worth of the underwriters and their outstanding commitments and disclose.

In the event that the issued shares are not fully subscribed by general public, the distribution of unsold share to the underwriters would be held on the pro-rata basis based on the number of shares committed by them to underwrite.

2.1.9.6 Underwriters or Sub-Underwriters

They are the smaller institution agreeing to underwrite fewer number shares. Underwriters and sub-underwriters work under the management of the lead underwriter. Their financial responsibility remains within the total amount of shares agreed by them to undertake.

2.1.9.7 Banker to the Issue

Banker to the Issue(s) is (are) normally a commercial bank(s), which provide(s) the custodian service to the issuing company and keep the subscription money. Bankers to the issue may or may not receive applications from the investors, issue acknowledgements for the same, and enter the application details in application schedules. It also involves in the process by realizing the proceeds of the cheques/draft and issue final certificates to the issue manager for the number of applications and amount collected. Issuing company in consultation with the issue managers makes the appointment of bankers to the issue.

The bankers to the issue generally comprises the consortium of bankers providing working capital finance to the company, the banks providing underwriting assistance for the issue, the bank associated with the issue managers and other banks which are regularly and efficiently handling public issue work.

2.1.9.8 Collection Centers

Collection Centers are normally financial institutions such as banks, finance companies, brokerage houses etc. Collection centers receive applications from the investors, issue acknowledgements for the same, and enter the application details in application schedules. They also realize the proceeds of the cheques/draft and issue final certificates to the issue

manager for the number of applications and amount collected. The appointment of collection centers is made in consultation with the issue managers.

2.1.9.9 Prospectus

The prospectus is defined as, “any document described or issued as a prospectus and includes any notice, circular advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of shares in, or debentures of, a body corporate”.

The Company Act 2063 has made mandatory that any public institution going into public offerings must issue the prospectus before issuing the securities to the public. Act made provision before publishing for the public, the prospectus signed by the board of directors should be sent to get approval from the Office of Registrar of the Companies and Securities Board. The requirement is made to make sure that the information provided to the public is as per requirement and is not manipulated to mislead the public. The prospectus published for the public should state in the publication the approval from the Office of Registrar of the Companies.

The Company Act 2063 has stated that matters referred in the prospectus are the liability and responsibility of company publishing it. Board of Directors signing the documents is answerable to the matters stated in the prospectus. In the event that, company has knowingly published false statement in the prospectus and believing on which if securities has been purchased and loss incurred, such loss coverage would be the personal liability of the directors signing the prospectus.

In short, prospectus is a legal document containing important features of Article of Association, Memorandum of Association, important decision taken by the board of the company affecting the future of the company and important conditions to be obeyed by the general applicants. The main purpose of the publishing prospectus is to inform public about the company and the issue.

2.1.9.10 Budget for the Issue

Budget for the issue is a tentative figure of expenses that is estimated to incur in the process of public offerings. The budget is to be born fully by the issuing company, if not, according to the understanding reached between issuing company and the issue manager/s.

2.1.9.11 Application form

It is a form provided to general public to apply for the issued securities by a company. The application forms needs to be filled both in English and Nepali. It contains:

-) Information about the company and issue
-) Space for applicants to fill in his/her information

Application form is the legal document that the investor provides to the company stating the number of shares of a company he/she is willing to accept. The applicants submitting the application forms would imply that he/she has accepted the terms and conditions stated in the application form with the full knowledge about the matters referred in the prospectus. Attached with the application form a photocopy of citizenship is collected as a proof to applicants' acceptance to terms and condition and a remedy to possible discrepancies in identification. In case of minor applicants, citizen certificate of parents or guardian is to be attached.

2.1.9.12 Bridge Financing

It is a short term lending provided to the issuing company till the date of share allotment, backed by the collection from public issue. The company is to make the payment after receiving allocated shares money from public offerings. Normally financial institutions provide bridge loans to companies against their underwriting commitments. The said loans are adjusted against allotment of shares/debentures. The bridge finance is issued when

-) Companies require to meet their immediate requirement of funds
-) If there is a substantial lead-time between making a public issue and commencement of commercial production
-) If issues is to be deferred to the most opportune time.

2.1.9.13 Memorandum of Understanding

In the process of issuing securities to the public, beside issuing company, different intermediaries are involved. Memorandum of Understanding is the legal agreement made between issuing company and different intermediaries. This agreement states the terms and condition in respect to the function and authority of the involved parties. Securities Issue and Issue Manager Directives, 2054 (7) has provided guidelines while going into agreements.

Different MOU to be signed in the process of issue offerings are,

-) MOU between issuing company and the issue manager/ lead managers: This is required as the Company Act requires securities issue process of any public company is to be done through the registered issue manager. This legal agreement between issuing company and issue manager specifies terms & condition, responsibilities and the authorities of involved party.
-) MOU between issue managers and the underwriters: Except for the finance companies and manufacturing industries (except identified in Securities Exchange Directive 2055), all other public institutions, as per their respective directives, underwriting is mandatory.
-) MOU between issue manager and the bankers to the issue.
-) MOU between issue manager and the collection centers.

Except for the MOU between issuing company and the issue manager, other MOU is to be signed by issue manager on behalf of issuing company with the notification and the consent of the issuing company.

In the case of MOU signed between issuing company and the issue manager, Company Act 2063 requires that copy of such agreements needs to be submitted to Office of Registrar of Companies within 7 days of such agreements made.

2.1.9.14 Issue Commission

It is the commission charged by the issue manager to the issuing company for the service it has provided. Issue commission is paid for issue management process. The responsibility of issue

manager in the issue process and for which issue commission is to be charged is to be demarcated in the agreement itself. The commissions are normally set as per the negotiation. Securities Issue Bylaws (2nd amendment), 2054 has set the maximum limit for issue commission as follows:

Particulars	Percentage (of the issued amount)
For issue up to NPR. 25 lakhs	2.25 %
For issue above NPR. 25 lakhs to 50 laths	2.00%
For issue above NPR. 50 lakhs to 1 core	1.75%
For issue above NPR. 1 corer	1.50%

2.1.9.15 Underwriting Commission

Underwriting commission is the amount charged by the underwriters for underwriting the securities issued. Securities Issue Bylaws (2nd amendment), 2054 has specified that underwriters may charge in maximum 3% of underwritten amount as the service charge to the issuing company. The commissions are normally determined as per the negotiation.

2.1.9.16 Collection Charges

Collection charges are the amount charged by the collection centers for collecting the application forms and other documentation process. The collection charges are also charged on percentage of the amount collected. The percentage charged also depends upon the negotiation between issue manager on behalf of issuing company and the collection centers.

2.1.9.17 Refund Charges

Refund charges are the amount charged by the collection centers for refunding the oversubscribed money to the general investors. The refund charges are charged on percentage of the total amount refunded. The percentage charged depends upon the negotiation between issue manager on behalf of issuing company and the collection centers.

2.1.9.18 Fix Charges to the Collection Centers – Finance Companies

It is a fix charged given to the collection centers like finance companies for making required preparation for collecting application from the investors and conducting other required activities. The fix charge amount provided to the collection centers is also based on the negotiation.

2.1.9.19 Listing in the Nepal Stock Exchange Limited

The Securities Registration and Issue Approval Provision and Directives 2051 has stated that securities issued publicly or procedurally should be listed in the registered securities exchange market or provision to be listed within 3 months of closure of the issue. For listing securities in the market, the issuing company should comply by the clauses as,

-) Percentage of public issue stated by the securities exchange market
-) Required number of public shareholders
-) Easy transfer of ownership of issued securities
-) Other stated directive for the listing of the securities in the market

Since, the securities listing is mandatory for the securities issued, SEBO/N requires that the issue process be approved from the securities exchange market before approving for the public offerings. Securities exchange market gives approval based on its criteria for approval.

2.1.9.20 Pre Issue & Post Issue

Pre-issue in the issue process is defined from the point of approach by the issue manager to the prospective issuing company to the point of allotment of securities and refund of oversubscribed money to the investors. This segregation has been made on the basis of Company Act, as it requires that the process of securities issue, allotment of securities, collection of subscription needs to be done through institutions approved to carry out issue management.

2.1.10 Importance of Primary Market

In the past few years, the liquidity is very high in Nepalese market. With higher liquidity and very few alternatives available for investment, Nepalese investors are forced to look at the government bond market and commercial banks and financial companies. Since the

commercial bank and finances companies have not been able to fully utilize there funds the interest rate for deposits have considerably decrease and the real rate of return after adjusting inflation may go to negative. Therefore, the public investors are looking for other alternatives, which give them higher return for their investment. This may be one of the reasons for heavily oversubscribing the public issues offered by corporate bodies.

As discussed above, the primary market in Nepal can be divided into tow categories:

-) Primary Market for Government debt instruments
-) Primary market for corporate Stock and debt instruments.

The main aim of our Thesis is to study the primary Market in Nepal, so, in this chapter the various instruments used by the corporate bodies to raise capital from the primary market and the scenario of Nepalese primary market after the establishment of Securities board, i.e. from the fiscal year 2050/051 will be dealt in detail.

2.1.11 Function and Role of Primary Market

The main function of the New Issue Market is to facilitate the ‘transfer of resource’ form savers to users. Conceptually, however, the New Issue Market should not be conceived as seeing the purpose of raising finance for new capital expenditure. In fact, the facilities of the market are also utilized for selling existing concerns to the public as going concern through conversions of existing propriety enterprises of private companies into public companies.

The origination, however, thoroughly done, will not by itself, guarantee success in an issue. A second specialized service i.e. “underwriting” is required. Underwriting however is only a stop-gap arrangement to guarantee the success of an issue. It depends upon the ultimate analysis of their being acquired by the investing public. The sale of securities of the ultimate investors is referred to as distribution; it is another specialize job, which can be performed by brokers and dealers in securities who maintain regular and direct contact with the ultimate investors.

Thus, the ability of the New Issue Market to cope with the growing requirements of the expanding corporate sector would depend on these triple-service function desires. Institutional been efficient in their functioning, leaving investors under priced. Efficient financial intermediation involves reduction of the transaction cost or transferring funds form original

source to financial investors. The total cost of intermediation is influenced by financial layering, which makes the individual institution's costs additive in the total cost of intermediating between saver and ultimate borrows. The aggregate cost of financial intermediation from the origination saver to ultimate investors those in developing countries.

2.1.12 Relationship between Primary and Secondary Market

The New issue market and stock exchange are interlinked and work in conjunction with each other. It can't be described as two separate markets because of the kind of function perform. Although they differ from each other in the sense that the new issue market with new securities issued for the first time to the public and the stock exchange deals with those securities which have already been issued once to the public.

New issue market and stock exchange is the relative strength and public confidence in joint participation in the sale, purchase and transfer of securities. In Nepal, the new issue market and stock exchange are connected to each other even at the new issue. The usual practice by firm issuing securities is to register themselves on a stock exchange by applying for listing of securities. Further, the securities markets are closely connected to each other because of the sensitive nature of the movements of stock price to a great extent affected by environmental condition such as:

-) Political
-) Economic and social condition
-) Industrial pattern
-) Monetary and fiscal policies of the government.

The long- term and short-term change in these factors have an effect on the changes in prices of stock. The new issue market focused to find out these prices movement and general economic outlook to forecast the climate for investing and the success of new issue floated. Thus, the prices of share in the new issue market are sensitive to change in the stock market and act and react accordingly.

The primary and secondary markets have as symbolic relationship, which is confirmed by Granger's causality test. While the primary market crates long term securities, the secondary market provides liquidity through marketability of those instruments. Fresh capital issues are

influenced by the level and trend in stock prices at the time of issue. New issue activities in the primary market add depth to the secondary market by enlarging the supply of instrument for trading and investment in the secondary market. Stock prices in turn are influenced by the large size and bunching of new issues.

Capital is an extremely fascinating subject and efficient capital market is an indispensable prerequisite to economic development. In fact, even as regards the resources for the public sector, the capital market has a rather important role to play. This is given in some short point as follows:

-)] Lack of sufficient education of most of the brokers and the unreliability of a few brokers in financial matters would lead in other countries to immediate disqualification. The importance of transparency is not yet understood at all, partly due to an erratic tax system and an even more erratic tax collection.
-)] The transfer of shares will under go a sea change. The transfer will be mostly paperless, like in Bombay and at the National Stock Exchange in India. The need of approval of boards of directors or transfer of share will be minimized and will be more or less a thing of the past.
-)] The board of the stock exchange up to now dominated by government official with little power, will be submitted by a board dominated by broker houses, banks and finance institutions added by government represented and will have full enforcement powers.
-)] The actual broker community has in its majority little educational background, little know-how and nearly no international experience. In addition the financial standing is in most of the cases rather weak. The brokers of today will have been transformed in the next 10 years to financially much stronger brokerage houses with longstanding experience. Others, who are no changing, will be gone by then.
-)] In depth research of companies and sectors by brokers has not yet started. In ten year leading brokers will have their own in house research; smaller ones will rely on outside research. Rumors, today's bread and butter for brokers will still be influential, but much less than today.
-)] The role of shareholders value should be improve while the idea of share holder value is seen up to now only in the banking sectors, the shareholder value idea will be spread in 10 years from now to other sectors as well. But now day's institutional investors are rare

at the stock exchange. If the development in other countries like India is any indication, this should change in the next 10 years dramatically. In 10 year from now we believe, that institutional investors like Mutual Funds and Pension Schemes will dominate, while the role of the individual investors will be much lower than it is today's. As far as foreign investors are concerned, we are as yet not much hopeful. Still we do not exclude it, if the rules and regulations are getting more investor friend yard has liquidity topic can be solved.

-) At present available sectors for investment are extremely limited. Similarly, securities nowadays available are ordinary shares, preference shares, one debenture and one mutual fund.
-) The development of debt securities will be very important for the finance of long term investment, where entrepreneurs find it actually hard to the needed long term means from the banking sector- still the market will not be in a position to offer derivatives by then in a bigger extend (*Simha; 1997: 120-124*).

There is an absence of secondary market to ensure liquidity to the securities and demand. He has highlighted the problem of industrial finance in Nepal. According to him, the nature of the problem is both quantitative and qualitative; the problem of long run investment is due to political instability and inefficient economic policies (*Mahat; 1998: 50*).

The share market is inactive and what problems are the main causes for inactiveness and what measures should be done etc are carefully defined. Similarly, how the securities frauds and manipulation have occurred and to what extent they can be overcome would be highlighted to draw adequate feedback to the regulating and controlling authorities. Moreover, to devise suitable laws to prevent such frauds and minimize manipulation in share price by portfolio analysis (*Shrestha; 2002:98*).

Financial Markets in Least Development Countries evidences that in some Asian countries including Nepal economic development reflected in economic growth leads the financial development measured in the ratio of broad money to gross national product (M2/GNP). This implies that economic development has preceded the financial market development in the case of Nepal. But several other studies conducted in other LDCs reveal that the financial

development has preceded the economic development. The stock market development measured by market liquidity, market capitalization, market volatility, and total turnover is correlated with current and future economic growth, capital accumulation, and productivity growth, as evidenced by Levine and Zervos (2001). The efficient money, foreign exchange and capital markets increase investment to the most productive sector of the economy and thereby increase output through saving mobilization. Such markets also price the risk associated with any investment accurately (Habibullah; 2004: 124).

2.2 Review of Articles and Journals

Paul (1996) in his article "*The Review of International Capital Markets*" published in the journal "The American Economic Review" has pleaded that the development of world capital market appears to be reaching the state where they can make significantly greater contribution to world economic growth and trade. More importantly, the groundwork has been laid for the healthy development and future growth of international capital markets. Barring the intervention of war or other major disturbances, world capital market give promise of being able to play and increasingly important, through no predominant role in the movement of capital internationally.

Bhattarai. (2003) in his article "*Debentures are welcome*" published in New Business Age has conducted following description of Nepalese capital market. Nepal capital market is very lean in providing investment alternatives to the investors. Among possible various investments, alternatives like common stocks, government bonds, corporate bonds, preference share, right, option, warrants, convertible etc. very few are available for Nepalese investors. It can be said that the present capital market is almost monopolized by the equity shares. For those investors, who are risk seeker and want to invest in the fixed income securities, there are very few avenues available. The record of the securities Board of Nepal (SEBO) for the last nine years shows that 81.48 percent of total issue (including that for right shares) approved by the board was for the equity shares during fiscal year 1993/94 to 2001/02. Out of the total issued amount of Rs. 4352.89 million during the period, Rs. 1502.42 million is raised through right issue accounting for 33.15 percent of the total issue. This is the second largest issue during the period. The largest issue is that of ordinary shares which amounted to Rs. 2190.97 million in total issue of Rs. 4352.89 million and thus accounts for 48.33 percent. There seem to be

increasing trend to issue ordinary shares and right shares. But the market of derivative securities like option , right , warrants etc. has not been developed. Neither their exists any position in the present laws about selling and buying these securities. Also the investors are silent it. During this period the issuance of the preference share occupied the fourth position i.e. 5.22 percent of total issue. It is very nominal and does not provide sufficient investment opportunities to the investors who warrant to invest in the fixed income securities. Only four companies have issued such security during this nine years period. Also the transaction in these securities in the secondary market is very rare. Preference share is a hybrid security having the characteristics of both debt and equity. Other such hybrid securities are convertible preference shares and convertible bonds which are available in the world of financial market, but not in Nepal. Some of the companies are issuing the preference shares but they lack the conversion features, i.e. they are not made convertible into ordinary shares. In fiscal year 1997/98, Shree Ram Sugar Mills Ltd. (SSML) issued 14 percent convertible debenture but unfortunately it was heavily under subscribed and there was no conversion ratio (e.g. how many shares can a bond be converted?). This under subscription may also be the result of the poor performance of the company as well as the unawareness of the investors about convertible securities. Now the investors are aware to some extent than when the convertible debentures of SSML were issued.

Therefore, to expand the capital market and to provide various alternative investment avenues having different characteristics, appropriate legislative provision should be made. Bond is the another instrument providing fixed income to the investors and involves lower risk than the securities that yield variable income. Also the bond market in Nepal is very learn. Very few companies have issued bond in the market. The first issuance of bond issue was by Botteler Nepal Ltd. when it issued 18 percent coupon bond in 1986/87. During the nine - year period between 1993/94 and 2001/02 bond issue occupied the third largest share portion in the total issue amount approved by SEBO (5.99 percent). Only two companies have issued bond through the time gap between the issue of corporate bond is as high as five years. However, since last year, some positive signals can be observed in the Nepali capital market. Through the government bonds are not available are not available in the stock exchange floor, corporate bonds are being made available. The issuance of the 8.7 percent of Himalayan Bank Limited 2009 bond and its listing in the secondary market with separate trading system became

milestone in this regard. Before the listing of HBL's bond, SSML's bond was delisted (and redeemed) in fiscal year 2001/02. Out of 360,000 units of bonds issued by HBL, 100,000 were issued to the general public and the rest were privately placed which were heavily oversubscribed. Now, nearly one and half year after HBL bond, another big Nepali bank , Nepal Investment Bank Ltd. (NIBL) has issued Rs. 300 million Nepal Investment bond 2010 (with 7.5 percent interest with semiannual payment) providing the ordinary investors a good opportunity in the context of bearish interest rate market and the increasing dissatisfaction from the stock market. Out of 300000 units of issue, 100000 are issued to the general public and the rest are privately placed. Though the interest rate offered by NLBL is 1 percent lower than that in HBL's bond (where it was 8.5 with semiannual payment arrangement), it has good chances of being oversubscribed. This means, more of such bond issue can be expected in the future, particularly from the banks to meet their higher capital requirement under Nepal Rastra Bank directives.(Bhattari; 2003 New Business Age, December)

Gurung (2004) "*Growth and Performance of Securities Market in Nepal* "published in SEBON journal. Nepal Stock Exchange Ltd. only a single stock market is the main constituents of securities market in Nepal. This paper attempts to study the growth trend and analyze the performance of Nepalese securities market. Likewise, the variables such as number of listed and traded companies and their securities, number of transactions, trading turnovers, paid up value, market capitalization and NEPSE index are analyzed for the secondary market. Securities is a mechanism created to facilitate the exchange of financial securities or assets by bringing together buyers and sellers of securities (Sharpe; 1998). Securities markets provide an effective way of procuring long-term funds by issuing shares and debentures or bonds for corporate enterprises and government and at the same time provide an investment opportunity for individuals and institutions (Adhikari 2004). Thus, the market place for these financial securities is called securities market which is further subdivided into the primary and secondary market. The former market denotes the market for newly issued securities to the public whereas the latter market refers to the market for secondhand securities, traded previously in the primary market (Francis, 1991).The securities market plays an important role in mobilizing savings, and channeling them into productive investment for the development of commerce and industry of the country. It basically assists the capital formation and economic growth of the country. In many developing countries like Nepal, the undeveloped capital

market is still prevailing in the economy. The Nepalese securities market still could not take its height. But it is true that there is no presence even of organized money market in rural areas, which covers almost 90 percent of the total area of the country. Thus, the securities market is only confined to the very limited urban areas of Nepal. Despite these truths, an attempt has been made to analyze the growth trends and performance of Nepalese securities market.

The amount of paid up capital has increased in every subsequent FYs. However, the annual growth rate has not increased in the same ratio. Paid up capital of overall listed securities has increased from s.2182.2 million in 1993/94 to Rs.12560.07 million at the end of 2002/03. The overall growth rate is 19.91 % over the observed period. This indicates the pace of investment in corporate sector through securities is still in snails pace. The market capitalization based on closing market price of listed securities was worth of s.13872 million in 1993/94. It decreased during the subsequent two years which significantly recovered in the later years of the study period. Share prices in the market went up during the first FY of opening up of NEPSE. However, it could not sustain in subsequent few years then it started to pick its height, as a result, market capitalization reached up to Rs.46349.4 million in the FY 2000/01. Annual growth rate is positive in all observed FYs except in 1994/95, 1995/96 and 2001/02. The initiation of reform program in the economy after restoration of democracy, the problem of peace and insecurity, frequent closure of market, occasional programmes of peace talk with Maoist etc. have made frequent changes in the value of market capitalization during the study period as the value of market capitalization changes due to the changing sentiments of the investors. The overall growth rate of the market capitalization during the study period is 17.13 %. The erratic trend in the value of market capitalization and its low contribution to GDP imply the poor and immature capital market, de-motivation in investment in the companies, and downward trend of economy during the study period.

NEPSE index at the end of 1993/94 was 226.03 then it started to move down and reached a level of 163.35 in 1997/98. Then, in the two subsequent FYs it was increased and reached to a peak level of 360.70 points in the FY 1999/00. From FY 2000/01 onwards there has been downward trend in NEPSE index. These facts prove that the NEPSE index has highly fluctuated during the observed period. On the whole, the market was bullish in 1997/98 to 1999/00 and then it took its bearish trend till the last fiscal year. The overall growth in NEPSE

index during the study period is 3.55% . The very low and highly fluctuating NEPSE index growth rate indicates poor performance of public limited companies listed in stock exchange. This further implies unsatisfactory performance and deteriorating economy of the country.

Securities market plays a pivotal role in mobilizing savings and channeling them in productive purposes and many more like providing liquidity on securities so that one can minimize the risk and maximize the returns. The study on the securities market performance reveals that there is no synchronization among different securities market performance indicators, but it is true that they almost have depicted an erratic trend during the observed period. This indicates the unstable and poor performance of securities market. Relative to the overall economy, the size of securities market is very small and the liquidity of securities also is poor. These facts suggest that the Nepalese capital market now is passing through a bearish situation. The growth and performance of Nepalese securities market, even after the introduction of new mechanism in 1993/94, are not satisfactory though it is improving gradually.

Kadariya, (2012) conducted on “*Factors affecting investor decision making: A case of Nepalese capital market*” Journal of Research in Economics and International Finance (JREIF), July 2012. The financial market has been suffering from the unforeseen and sudden economic turbulences that have been directly or indirectly contributing for the stock returns from the past decades. The study primarily analyzes the market reactions to tangible information and intangible information in Nepalese stock market and to examine the investors’ opinions in Nepalese stock market issues. The sample size is 185 stock investors and the response rate is 27 percent. The major findings of the study are the capital structure and average pricing method is one factor that influences the investment decisions, the next is political and media coverage, the third factor is belief on luck and the financial education, and finally the forth component for stock market movement is trend analysis. Thus, it is concluded that both the tangible and intangible information are essential to succeed in Nepalese capital market.

The study on market reactions to tangible and intangible information, the stock return of the firm is decomposed into tangible and intangible return components. The tangible returns is based on the past fundamental growth measures and intangible returns is then the part of the

past returns that remains unexplained, and presumably is the result of an investor response to information not contained in the accounting growth measures. The accounting growth measures represent the basic accounting variables that can be easily extracted from widely available public disclosure like annual reports, quarterly and monthly reports, and that can be used for the market prediction. Theoretically, in the presence of the efficient capital market the stock prices incorporate all the public and private information, and nobody can outperform the market. But, in practice, the use of technical and fundamental analysis is helpful to excel the market performance. Based on the evidences of previous studies that intangible returns reversal is possible and the book-to-market is the good proxy of intangible returns (Daniel and Titman, 2006).

Specifically, in Nepalese context, the study is primarily designed to fill the absence of similar studies. The evidence of efficiency of stock market is controversial and inclusive, some evidence suggest that Nepalese stock market is inefficient whereas others find it is inefficient in short-run and efficient in long-run. The central idea is that it is not efficient and there is possibility of outperformance in the market. The educated and well aware investors could score better than others. The market without clear reasons experience the bearish trend and it has gradually deteriorates the investors' sentiments towards the market reversal in near future. The so-called market crash, because most of the listed stock became overpriced, has sharply decline holding capacities of most of the investors and forced them to supply regardless of minimum trading prices in the market. The significant increase in the supply side of the securities and the absence of explain the variations in stock returns. These variables are taken as explanatory variables for the study that help to confirm the existence of similar results in Nepalese context. The primary analysis includes the demographic features of the respondents, their perception towards the capital market issues as well as the specific analysis identified the four major components that an used to analyze prior to making the investment decisions. The summary of the major findings of the researcher study are as follows:

-) The primary data analysis shows that Nepalese stock market starts to attract younger investors in recent period as the majority of the stock investors are younger.
-) The proportion of educated investors is high in the market; most of them are self-employed and small.
-) Investors have strong voice in the Nepalese stock market.

-) The limited investors use their own skills and analytical power in investment decision.
-) The most influencing factors for decision making are media and friends.
-) Majority of the stock investors prefer capital gain rather than the usual cash dividends and seasonal issues.
-) Banking and finance sector remains the most popular investment sector among the Nepalese investors.
-) The most used methods of investment are fundamental analysis, and the market noise, media and informal talks.
-) Investors believe on their ability when they earn and blame for market when they incur losses.
-) The tangible components such as dividends, earnings, umber of equity, and book-to-market ratio and the intangible component like political party led government are considered the top five most important factors for investment decisions as per the opinion of individual stock investors.
-) The capital structure and average pricing method is one factor that influence the investment decisions, the next is political and media coverage, the third factor.

Chandan (2012) in his article *Why is Nepal Poor ?* published in The Rpublica daily on 25th may 2012. in 1820, Nepal's GDP per capita was US\$ 397, which was US\$312 higher the Singapore's and us\$ 121 lower than Australia's. by 1913, a Singaporean and an Australian were 2.37 time and 14.93 time richer than a Nepali was. Furthermore, in 1950 Botswana's a landlocked in shop Saharan Africa it GDP pre capital was US\$ 148 lower than Nepal's (at US\$496). Fast forward to 2008, a Botswana was 4.21 times richer the Nepali (a Singaporean and Australian 24.79 times and 22.31 times respectively). Based on 2010's current purchasing power parity, Nepal is the twentieth poorest country in world and it GDP per capita is below the average of low income countries. why is Nepal languishing behind while other countries, which started with pretty much similar income level in the past two centuries, are witnessing high level of prosperity? why are resource-rich as well as land locked countries making bigger strides than Nepal in the past decades? Extractive Institutions In short Nations like Nepal fail because of the continued supremacy of extractive political and economic institutions over pluralism and the freedom to engage in productive activities without fear of expropriation and extortion. Extractive economic institutions are the practices and policies that are designed to

extract incomes and wealth for the benefit of a few elites and the expense of ordinary citizens. some of these are insecure private property rights, expropriation of returns to investment, unfriendly labor regulations , on competitive practices, and imprudent macroeconomic management such as high inflation and currency controls. these have stifled entrepreneurial spirit and dis-incentivezed saving, investment and innovation. but they have helped rulers and elites concentrate power and wealth even at the cost of unrest, strife and civil war. The power holder are neglecting investment in basic public services such as education, innovation, technology, health care and Infrastructure- the driver of economic growth – and resisting reforms because it threatens the power and wealth of the extractors. Even when there are institutional changes, the elites ensure that the new institutions are not pluralistic enough to challenge their hold on power and wealth. The vicious circles between political and economic institutions has impeded economic growth and restricted pluralistic distribution of political power. Both before and after the economy was liberalized, the same set of businesspersons, corporate houses and politicians has been tightly controlling economy activities, leading to suppression of creative destruction. Some of the examples syndicate in the transport sectors, middlemen in agriculture, unruly and politically affiliated labor unions, macroeconomic in prudence for the benefit of party cadres, land and fertilizers capture, extralegal levies, control of the telecom. (Chandan; *The Rupublica daily* 25 may 2012)

2.3 Review of Past Thesis

There are many Master degree thesis prepared by various researches in the past year. Among them, some theses are reviewed here for analysis of literature.

Panta (2003) Conducted research on the topic of “*Stock Exchange: Current status and problems of stock market in Nepal*” an Unpublished Master Level thesis submitted to Central Department of Management, Faculty of Management T.U. has conducted following objectives and major findings.

Objectives:

-) To find the trend of share market in Nepal.
-) To examine the present status of primary as well as secondary market.
-) To evaluate the problem and prospects of Nepalese stock market.

Major findings :

-) The development of stock market primarily depends on program and their implementation.
-) In Nepal, the overall policy environment has not been conducive to the development of the stock market therefore it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
-) Restriction on foreign portfolio investment hindered market development.
-) NEPSE does not have appropriate policies and memberships are fee structure to attract members outside KTM.
-) In Nepal, banks dominate primary market in government debt instruments. OTC trading is not permitted therefore secondary market is totally inactive.
-) Lack of necessary provisions in the laws and regulation of the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).
-) The transparency and openness of transaction, quality professional's services, adequate. Corporate financial disclosures and improved legal, regulatory and supervisory frame – are the urgent needs of Nepalese stock market.
-) Nepalese stock market is different from other developed market.

Pandey (2005) Conducted research on the topic of "*Public response to Primary Issue of Shares in Nepal,*" an Unpublished Master Level thesis submitted to Central Department of Management, Faculty of Management T.U. has made following objectives and major findings.

Objectives

-) To identify the problems of primary share issue market,
-) To assess the growth of primary issue market,
-) To analyze the pattern of public response to shares
-) To find the reasons of variation of primary market.

Major findings:

Public response in primary market is high due to lack of opportunities for investment in other fields. No proper investment analysis is been made.

-) Despite proper investment, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend capital gain or bonus shares.
-) It can be seen that public response to primary issues on Banking and Financial sectors is normally higher than that of the manufacturing and services sector. Major causes for poor response in the period 1995-1998 were; interest rates were higher as compared to dividend yield, the public companies were not performing well and people did not know about the importance of investing securities.
-) Now the public response to share is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment.
-) The average interest rates have gone down, more can be obtained from investment in stock.

Paudel (2007) Conducted research on the topic of *"Investing in shares of Commercial Banks in Nepal: An assessment of Return and Risk Elements,"* Unpublished Master's thesis, Shanker Dev Campus T. U.

Objective:

-) To find the investing in shares of Nepalese commercial banks.
-) To assess the return of Nepalese commercial banks by investing share.
-) To examine the risk elements of Nepalese banks while investing in share.

Major findings:

-) The shares of commercial banks in Nepal are heavily traded in the stock market and, therefore, these shares play a key role in the determination stock exchange indicators.
-) The average mean return on market portfolio, as measured by percent changes in the NEPSE index, was 5.51 percent over the sample period.
-) All the shares produced higher rates of return than the return on market portfolio. However, the risk-return characteristics do not seem to be the same for all the shares reviewed.

-) The shares with larger standard deviations seem to be able to produce higher rates of return.
-) The portion of unsystematic risk is very high with the shares having negative beta coefficient. The risk per Units of return, as measured by the coefficient of variation, is less than that of the market as a whole for all the individual shares.

Adhikari (2008) Conducted research on the topic of "*Primary Market And It's Problem And Prospects In Nepalese Capital Market.*" an Unpublished Master Level thesis submitted to Shanker Dev Campus T.U. has made following objectives and major findings.

Objective:

-) To explore the problems faced in the primary market.
-) To study and analyze the present position held by primary market in Nepalese capital market.
-) To recommend the future prospect of Nepalese primary market.

But the limitation of this study is to analyze only 12 years data from fiscal year 2050/51 to 2062/63. And the resources are constrained.

Major findings:

-) The total number of issue of the Nepalese capital market is increasing day by day. The number of issues was 16 in the fiscal year 2050/51 but at the end of the fiscal year 2062/63 it has reached 162 issues. The highest numbers of issue is 29 (17.90%) in the fiscal year 2062/63. The second highest issue is 18 issues (11.11%) in the fiscal year 2059/60 and it is the third highest issue.
-) In the fiscal year 2060/061 and 2061/062 number of issues were 14 (8.64%) in each year. Similarly, the number of issues during the period were 5 (3.09%), in the fiscal year 2053/054 and 2055/056 each, 6 (3.70%) in the fiscal year 2056/057 , 9 (5.56%) in the fiscal year 2057/058 and 12 (7.41%) in the fiscal year 2052/053 , 2054/055 each and 2058/059 each.
-) Total issued amount is Rs. 9597.48 million during the end of 2066/067 . Ordinary share, right share, debenture and preference share are issued Rs. 3760.53, Rs.3697.45, Rs.1903 and Rs. 236.5 respectively.

- J The highest amount issue is ordinary shares which is approximately 40% of the total issue amount. Right issue is around 39% of total issue amount which is the second highest. Debentures and preferences share are issue approximately 19% and 2% respectively of total issue amount. It shows that most popular and common security issue in Nepalese primary market is ordinary share.
- J In the fiscal year 2061/062 total amount issue is Rs. 1626.82 million which is 16.95% of the total issue amount. The highest amount issue of Rs. 2443.28 million in the fiscal year 2062/063. It is the 25.46 % of the total issue amount. In the fiscal year 2061/062 total amount issue is Rs. 1626.82 million which is 16.95% of the total issue amount. Lowest issue amount is Rs.173.96 million in the fiscal year 2051/052 which is 1.81% of the total issue amount.
- J Commercial banks have issued highest amount issue as comprised to other sectors. Their issue amount is Rs. 5036.99 million which represent 52.48% of the total issue amount. Finance companies have issued Rs. 1777.88 million i.e. 18.52% Manufacturing sector Rs. 878.38 million i.e. 9.15%, Development bank and other sector issues Rs.260.20 and Rs.535.41 million i.e. 2.71% and 5.58% respectively of the total issue amount. Insurance companies issues Rs. 285.20 million i.e. 2.97%,. Hotel and trading sectors Rs. 796.45 and Rs. 26.97 million i.e. 8.30% and 0.28% respectively of the total issue amount.
- J Highest issue managed by NCML i.e. 47 and other issue jointly managed with NMB and CIT. CIT has managed 31 issue alone and other jointly with RBB and NMB which is the second highest. Lowest issue managed by NFCL i.e. 7 and AFC has managed 9 issues out of total issue which is second lowest.

Pradhan (2010) has study on "*Market behavior in a small capital market*" an unpublished thesis submitted to Shanker Dev Campus has made following objectives and major findings:

Objectives:

- J To assess the stock market behavior in Nepal.
- J To examine the relationship of equity market to book value prices, earning and dividend with liquidity, profitability, leverage, asset turnover and interest coverage.

Major findings:

-) Stock with large ratio of dividend per share to market per share have lower leverage ratio.
-) Stocks with large ratio of dividend per share wear positively correlated.
-) Positive relationship between the dividend per share to market price per share and interest coverage.

Bhatta (2011) conducted on the topic of “*Diversification of Risk Through Portfolio*” an unpublished thesis submitted to Nepal Commerce Campus Faculty of Management, T.U. has made following objectives and major findings.

Objectives:

-) To find the required rate of return and internal rate of return through portfolio context.
-) To examine the systematic risk and diversification of risk through portfolio context.
-) To analyze whether Nepalese capital market is efficient on the stock price or not.

Major findings:

-) Investor expect higher returns forms those stocks which associates higher risk.
-) Nepalese capital market is not efficient one so the stock price does not contain all the information relating to market and company itself; investor analyze neither the overall relevant information of the stock nor the member of stock exchange try to disseminate the information.
-) Investor in Nepal has not yet practice to invest in portfolio of securities. An analysis of two securities portfolio shows that the risk can be totally minimized if the correlation is perfectly negative.
-) The analysis shows some correlation has negative and some has positive one. Negative correlation between security returns is preferred for diversification of risk”.
-) The analysis of risk and returns shows many companies with higher unsystematic or specific risk .

Bhattarai (2012) has conducted on the topic of "*Stock Market Development And Economic Growth in Nepal.* " an unpublished Master level thesis submitted to Shanker Dev Campus has made following objectives and major findings:

Objectives:

-) To explore the present stock market position of Nepal.
-) To examine the performance of NEPSE in relation to development of capital Market.
-) To evaluate the relationship between stock market development and economic growth.

Major findings:

-) The size of secondary stock market as measured by market capitalization is small but it has an increasing trend. It is in an average around 0.1. The sizes of secondary market measured by number of listed companies has also increasing trend from FY 1993/94 to 2010/11.
-) The liquidity of secondary stock market as measured by ratio of value of share traded to GDP and turnover ratio is very low but it is increasing. The ratio of value traded to GDP and turnover ratio is in an average around 0.004 and 0.07 respectively.
-) The Nepalese stock is highly volatile. The ratio of market capitalization value traded is very small. Low turnover ratio, value traded and high volatility indicate that the stock market, in Nepal, is highly illiquid and risky.
-) Number of listed companies and their securities, annual turnover, market capitalization, paid up capital and NEPSE index have been found fluctuating in nature during the study period. This indicates the performance of Nepalese stock market is not stable though it is improving gradually.
-) The relationship between volatility (a stock market variable) with various economic variables is positive. This indicates that the investment in Nepal can increase through stock market.
-) The indicator of stock market is (i.e. turnover) has negative and insignificant relation with GDP.
-) The overall growth rate of NEPSE is 10.15 percent during the study period. The low and highly fluctuating NEPSE index growth rate indicate the poor performance of the public limited companies listed in the stock exchange.

-) If the firms are performing strongly in a bull market, it passes a optimistic message to the general investors who tend to invest more in the market and firms.

2.4 Research Gap

The review for mentioned literatures makes it clear that '*Primary Market's Problem And Prospects In Nepalese capital Market*' is the rare and perhaps first and recent study in Nepal. Previous researchers were not made completely FY 2050/051 to 2067/068 timeframe problem and prospects in Nepalese capital market. Moreover, previous researchers only focused to stock market development, relationship between stock market and economic growth, market situation and investors behavior only. Development and expansion of capital market is essential for rapid economic growth of country. Thus, in the primary stage of economic development, and stabilization of Nepalese stock market can play a crucial role. The reviews of above literature also make clear that the development of primary market, problem and prospects of it in Nepalese capital market. Hence, Primary market's problem and prospect in Nepalese capital market performance can be analyzed in terms of number of issue approval and public issue share, amount of issue approval, number of listed companies, annual turnover, market capitalization, numbers of issue managers, sector wise issue amount and in number and NEPSE index, annual growth of primary market, problem and prospect of Nepalese capital market.

CHAPTER - III

RESEARCH METHODOLOGY

Introduction

This chapter is dedicated to explain the methodology of this study. This chapter consists the definition of indicators, scope of the study, research design, nature and source of data, tools and techniques used to attain objectives of this study.

Research methodology describes the methods and process applied in the entire aspect of the study. In other words research methodology is a systematize way to solve the research problem. Research methodology refers to the various sequential steps (along with a rational, of each step) to be adopted by a researcher in studying a problem with certain object in view (Cothari, 1999). A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used. This chapter highlights the research methodology used for the study.

3.1 Research design

This study is carried out in the contest of Nepal, for the period 2050/051 to 2067/068. To carry out the study both qualitative as well as quantitative methods have been employed. A research design is a plan, structure, and strategy to obtain the objectives of the study. The research is based on the secondary as well as primary data and information. Hence, the explanatory or descriptive as well as analytical research design has been used. The variables related with the performance of the company, market information and relevant subjects are included in the study.

3.2 Nature and Sources of Data

The study is based on secondary data only. Researcher has collected data from NIDC Central Beauru of Statatisitcs, Nepal Rastra Bank, SEBON and NEPSE and T. U. Central Library, Various report published by National Planning Commission, ADB and World Bank etc. At

the same time, data from Annual Report of Security Board of Nepal and NEPSE for Fiscal Years 2050/051 to 2067/068 has also been collected.

3.3 Population and Sample

In Nepalese context, due to the lack of information and poor knowledge, potential investor is manipulated or exploited by the brokers, financial institution, company and other market intermediaries. So brokers, investors, experts are taken as a population and from the population brokers, experts and investors as well as the official of the companies are taken as sample.

3.4 Source and collection of data

-) Primary source of data
-) Secondary source of data

Primary sources of data are mainly based on interview and queries and secondary data are mainly based on Booklets, trading Volume issued by Nepal Stock Exchange. Other primary data are collected from Nepal Security Exchange Board Nepal.

Primary and secondary source of data

-) The major sources of secondary data are Nepal Stock Exchange (trading volume 2004/05, 2010/11), Rastra Bank, brokers and publication including daily papers. Secondary information was collected from these mentioned sources.
-) Information has also been collected form Department of Industry, Banks, Financial institution and SEBON/NEPSE to asses the trend and the future potential.
-) Interviews were conducted with the brokers and official of NIDC and stock exchange market and securities Board and selected experts to determine the quality, value and volume of transactions, identify reason for fluctuation in price and volume of transactions and to assess the future trend.
-) Interviews are making with a number of potential investors whose shares investment available in different companies to obtain their opinion and views regarding the present and future situation of stock market.
-) Other related different statistical and financial tools are used.

This study is based on primary source of data and less on secondary sources of data for showing problems and prospects of primary and secondary market in Nepal. The primary sources of data used are interviews and questionnaire but the secondary sources of data used for analyzing areas follows:

-) Trading report published by stock exchange Nepal.
-) Financial statement and other transaction of listed companies listed by NEPSE/N.
-) Outside published material directly related to problems and prospects of primary and secondary market.
-) Booklets published by other related agencies like SEBO, ministry of finance, and T.U. Library as the relevant materials.

3.5 Analysis of data

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic (Cottle et al: 2003). This study is mostly based on the analysis of secondary data with the help of different statistical tools. The empirical results have been extracted in this study by using annual data of listed companies from 2050/051 to 2067/068 B.S.

3.6 Statistical tools

Statistical tools are used to implicit the comparative results are as follows:

3.6.1 Multiple Bar- diagrams and graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

3.6.2 Pie- diagram

A pie- diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In this method all the given data are converted into 360

degree as the angle of a circle is 360 degree and all components of the data are presented in terms of angles that total 360 degree for one set of data.

3.6.3 Percentage

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

3.6.4 Correlation Analysis

Correlation coefficient may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. It is denoted by small r. The value of 'r' lies between -1 to +1 and is expressed as,

$$\text{Correlation of coefficient } r = \frac{n \sum XY - \sum X \times \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \cdot \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

r = coefficient of correlation

XY = Sum of product of two series.

X² = Sum of squared in X series

Y² = Sum of squared in Y series

The value of this coefficient can never be more than + 1 or less than -1. Thus, + 1 and -1 are the limit of this coefficient. The r = + 1 implies that correlation between variables is positive and vice-versa. And zero denoted no correlation.

Correlations between annual growth rate and annual amount are calculated in the primary growth.

Methods of Presentation

The techniques of presentation used herein are most of descriptive and analytical nature and the data have been presented basically in tabular form thereafter some of important tabulated information of the data has been graphically represented.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter includes the presentation and analysis of data. Analysis is based on both primary and secondary data. Various types of data available in the market are used to analyze the primary market its problem and prospects in Nepalese capital market.

The chapter basically focused upon the analysis of collected data from different secondary sources. In this chapter the relevant and the available data/information regarding the primary market have been presented and analyzed.

4.1.1 Public Issue approved from SEBON

As per the provision of the Securities Exchange Act, 1983 (now 2006) and regulation and guidelines made there under, the issuing company should register the securities in SEBO/N and get issue approval before going to public. After getting approval from SEBON 432 companies issued securities from fiscal year 2050/051 to 2067/068. Most of the Commercial bank and finance sector are issued different types of securities to the public. Other remaining sectors are issued securities to the public lowest percentage in comparison to the commercial bank and finance sector. Number of primary issue is increasing day by day. It seems that companies are interested to issue different types of securities for the public. The detail situation of number of issued in different year is presented in Table 4.1.

Table 4.1
Year wise public issue approved from SEBO

Fiscal Year	Number of issue	% Number of issue
2050/051	16	3.71
2051/052	10	2.31
2052/053	12	2.77
2053/054	5	1.15
2054/055	12	2.77
2055/056	5	1.15
2056/057	6	1.38
2057/058	9	2.08
2058/059	12	2.77
2059/060	18	4.16
2060/061	14	3.24
2061/062	14	3.24
2062/063	29	6.71
2063/064	34	7.87
2064/065	64	14.81
2065/066	64	14.81
2066/067	61	14.13
2067/068	47	10.87
Total	432	100

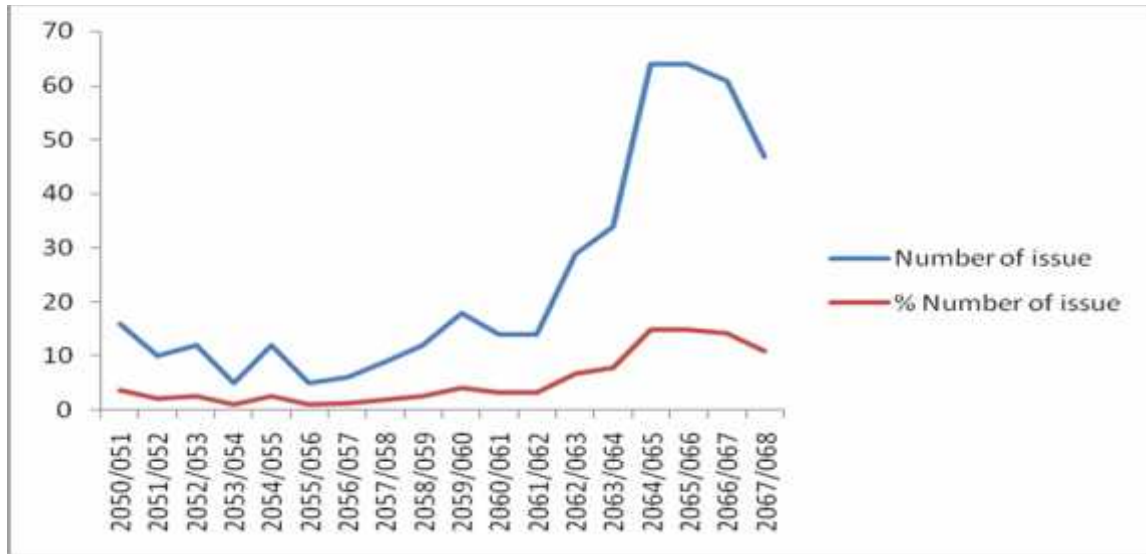
(Source: Issue Manager)

Table 4.1 shows varied number of issue approved by SEBO during the period. Highest numbers of issues were approved in the fiscal year 2064/065 and FY 2065/066 which is 64 i.e. 14.81%. Lowest issue approved percentage 1.15 percent and equal in the fiscal year 2053/054 and 2055/056. Over the 18 year of issue approval the number of issue is fluctuating every year. The total number of issue varies at various time periods.

The number of issue was 16 in initial fiscal year 2050/051. But at the end of fiscal year 2067/068 the total number of issue approved was reached to the point of 432 issues. The highest number of issued was 64 (14.81%) in fiscal year 2064/065 and FY 2065/066. The second highest issue was 61 issues (14.13%) in fiscal year 2066/067. Likewise, number of issue was 47 (10.87%) and it was the third highest issue. In fiscal year 2060/061 and 2061/062 numbered of issue was 14 (3.24%) respectively. Similarly, the least three issued during the period were 5 issues (1.15%), in the fiscal year 2053/054 and 2055/056, 6 issues (1.38%) in

the fiscal year 2056/057 and 9 issue (2.08%) in the fiscal year 2057/058 and 12 issues (2.77%) in fiscal year 2052/053, 2054/055 and 2058/059 respectively.

Figure 4.1
Yearly no of Issue



4.2 Types of securities issued

Primary market is the place where company issues different types of securities to collect the needed fund. During the fiscal year 2050/051 to 2067/068 total amount issued on the basis of different types securities are presented in table 4.2.

Table 4.2
Securities wise Public Issue Amount

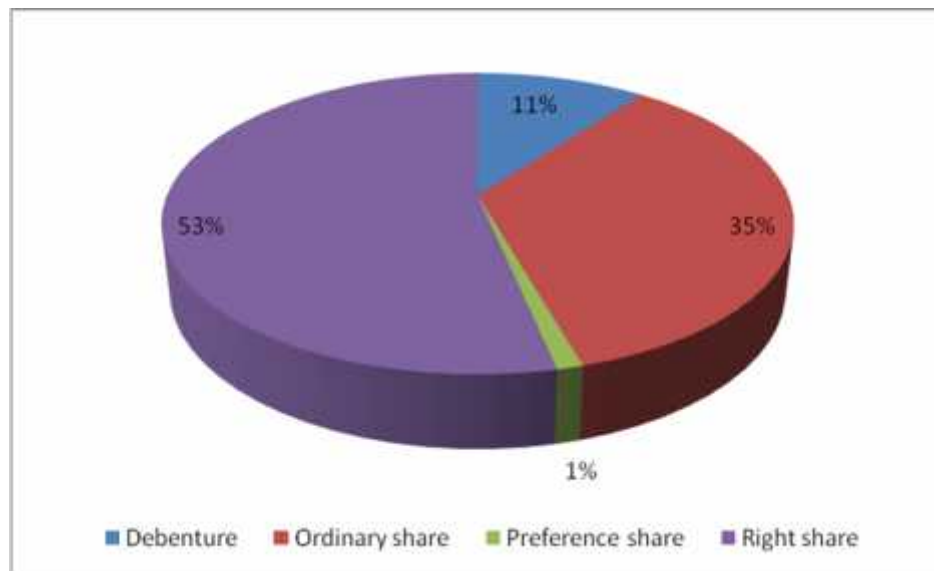
(Rs In Millions)

Types of securities	Total amount	% of Total
Debenture	5903.00	10.36
Ordinary share	20032.47	35.16
Preference share	636.50	1.12
Right share	30394.15	53.36
Total	56966.12	100

(Source: Issue Manager)

Above table 4.2 shows securities wise public issue amount by SEBON from FY 2050/051 to FY 2067/068. During the fiscal year 2050/051 to 2067/068 total public issued amount is Rs. 56966.12 million. Ordinary share, right share, debenture and preference share are issued Rs. 20,032.47, Rs.30394.15, Rs.5903.00 and Rs. 636.5 respectively. Out of among types of securities highest amount issue was right shares which are approximate 53.36% of the total amount issued. Ordinary share issue is around 35.16% which is the second highest. Debenture and preference share are issued approximately 10.36% and 1.12% of total issued amount. Previously shows that most popular security issued in Nepalese primary market is ordinary share but now it is replaced by the right share which is clearly shown in table 4.2 i.e. around 53.36% .

Figure 4.2
Securities wise issue approved



4.3 Year wise issued amount

During the fiscal year 2050/051 to 2067/068 total amount issued is Rs. 56966.12 million. Amount issued in different year are presented in table 4.3.

Table 4.3
Year wise issued amount

(Rs. in million)

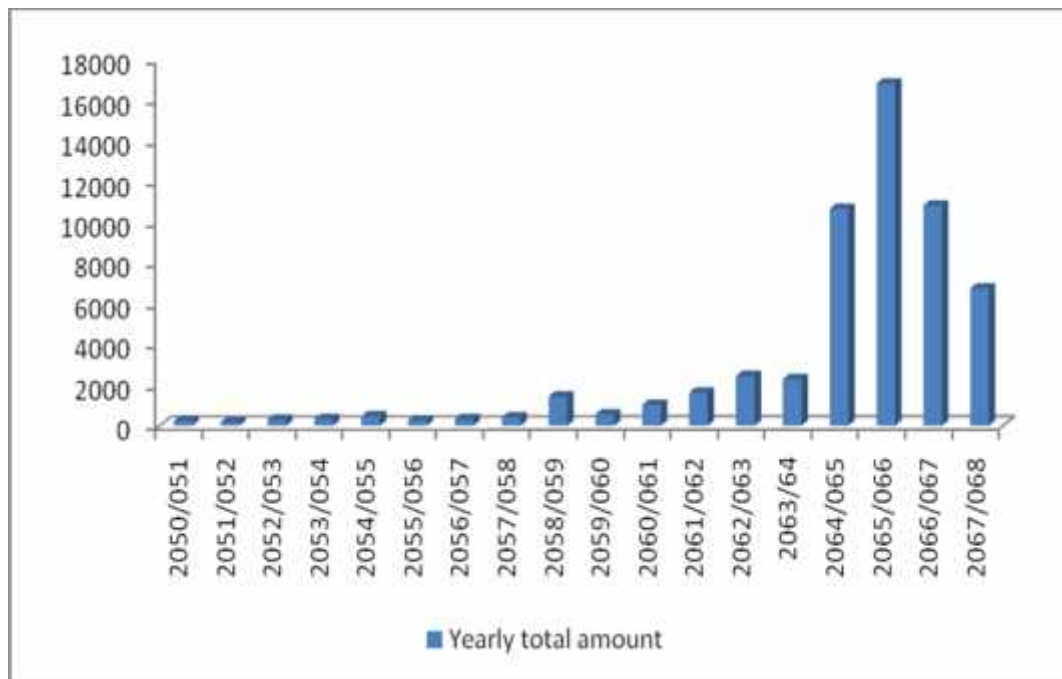
Fiscal Year	Yearly total amount	% of Total
2050/051	244.4	0.42
2051/052	173.96	0.30
2052/053	293.74	0.56
2053/054	332.2	0.58
2054/055	462.36	0.81
2055/056	258.00	0.45
2056/057	326.86	0.57
2057/058	410.49	0.72
2058/059	1441.33	2.53
2059/060	556.54	0.98
2060/061	1027.5	1.80
2061/062	1626.82	2.86
2062/063	2443.28	4.28
2063/64	2295.5	4.02
2064/065	10668.2	18.72
2065/066	16828.5	29.54
2066/067	10822.41	18.99
2067/068	6754.03	11.85
Total	56966.12	100

(Source: Issue Manager)

Table 4.3 shows that the highest amount issue was Rs. 16,828.5 million in fiscal year 2065/066. It is the 29.54 % of the total issued amount. In fiscal year 2066/067 total amount issued is Rs. 10822.41 million which is 18.99% of the total issued amount i.e. second highest issue. Third and fourth highest public issue is Rs.10668.2 million and Rs. 6754.03 million in fiscal year 2064/065 and 2067/068 which is 18.72% and 11.85% respectively of the total amount issued. Least amount issue is Rs.173.96 million in the fiscal year 2051/52 which is only 0.30%. Second and third lowest issue is Rs.244.40 and Rs.258.00 million respectively in

the fiscal year 2050/051 and 2055/056 which are 0.42% and 0.45% respectively. Similarly total amount issue is Rs.293.74, Rs. 326.86, Rs.332.20 Rs.410.49 Rs.462.36, Rs.556.54, 1626.82, 2443.28 and 2295.5 million in fiscal year 2052/053, 2056/057, 2053/054, 2057/058, 2054/055, 2059/060, 2061/062, 2062/063, and 2063/064 respectively which represents 0.56%, 0.57%, 0.58%, 0.72%, 0.81%, 0.98 ,4.28% and 4.02% of the total amount issued respectively. Year wise issue amount is presented in following figure 4.3 which help to more clear.

Figure 4.3
Year wise issue amount



4.4 Year Wise Number of issue

Year wise analysis number of securities issued during the period of 2050/051 to 2067/068 varies differently which is presented in below at table 4.4

Table 4.4
Year wise types of security issue

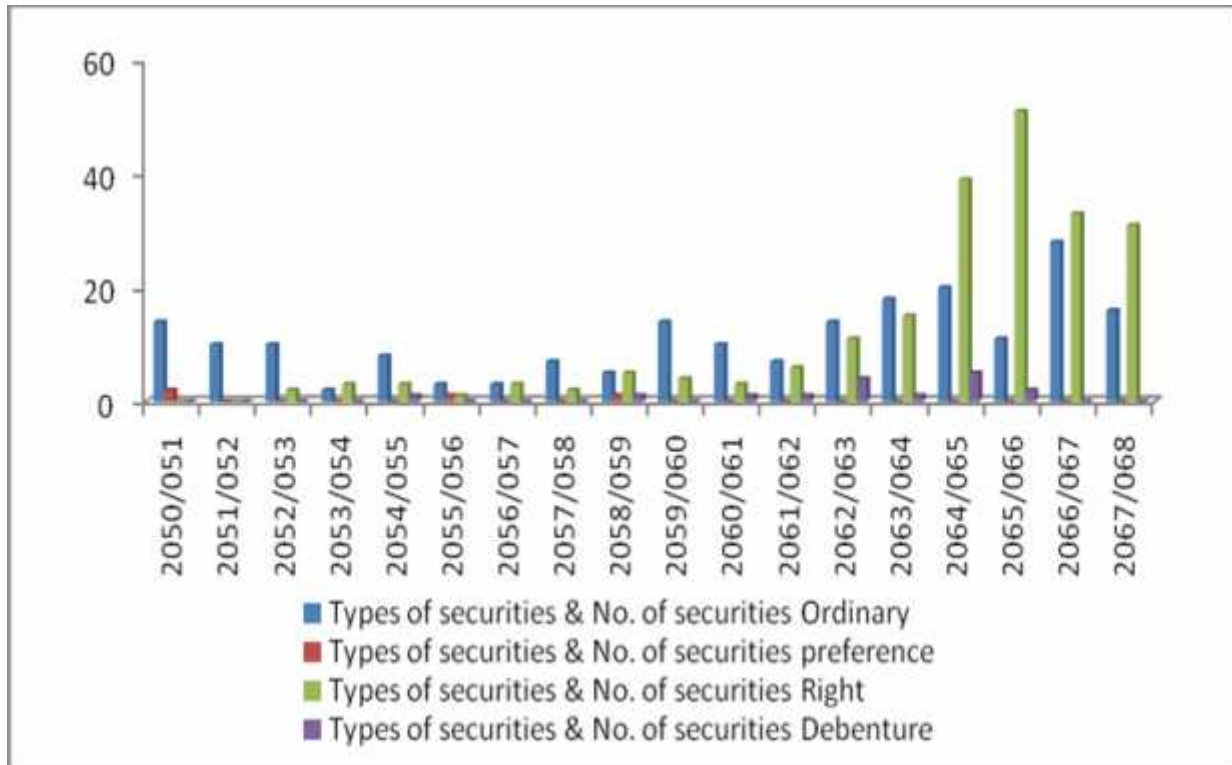
Fiscal Year	Types of securities & No. of securities			
	Ordinary	preference	Right	Debenture
2050/051	14	2	0	0
2051/052	10	0	0	0
2052/053	10	0	2	0
2053/054	2	0	3	0
2054/055	8	0	3	1
2055/056	3	1	1	0
2056/057	3	0	3	0
2057/058	7	0	2	0
2058/059	5	1	5	1
2059/060	14	0	4	0
2060/061	10	0	3	1
2061/062	7	0	6	1
2062/063	14	0	11	4
2063/064	18	0	15	1
2064/065	20	0	39	5
2065/066	11	0	51	2
2066/067	28	0	33	0
2067/068	16	0	31	0
Total	200	4	212	16

(Source: Issue Manager)

Table 4.4 shows that the year wise number and types of securities issued in the Nepalese capital market. The number of issue was 432 in total. Among this, the highest issued security is right share which is 212 out of total 432 issues. Second highest is ordinary issue which is 200 number of issues. Preference share is the least issues i.e. only 4. During the period 16

debenture issues among the total number issued and which is the second lowest issued number. The following Figure 4.4 also help more clear.

Figure 4.4
Number of issue securities year wise



4.5 Over and Under Subscription

When the demand of securities is higher than issued securities, the situation is called the case of oversubscription but if the demand of securities is lower than issued securities that situation is called under subscription.

Over subscription of the share are the great problems in the primary market. At present most of the primary issue being oversubscribed. Almost public issue is done by finance sector and commercial banks sector and this public issue is being over subscription. Over subscription and under subscription of share issued by different companies are presented in the table 4.5

Table 4.5
Over and Under Subscription of Securities

Year	No. of share issued Co.	Over subscribed Co.		Under Subscribed Co.		Constant	
		No.	%	No.	%	No.	%
2050/051	16	16	100 %	0	0	0	0
2051/052	10	7	70 %	1	10%	2	20 %
2052/053	12	10	83.33 %	2	16.67 %	0	0
2053/054	5	5	100 %	0	0	0	0
2054/055	12	8	66.67%	2	16.67%	2	16.67 %
2055/056	5	3	66.00%	2	40.00%	0	0
2056/057	6	3	50 %	3	50%	0	0
2057/058	9	7	77.73%	2	22.23%	0	0
2058/059	12	10	83.33 %	2	16.67 %	0	0
2059/060	18	14	77.73%	3	16.67%	1	7.14%
2060/061	14	14	100 %	0	0	0	0
2061/062	14	12	85.71 %	2	14.29%	0	0
2062/063	29	29	100%	0	0	0	0
2063/064	34	34	100%	0	0	0	0
2064/065	64	64	100%	0	0	0	0
2065/066	64	64	100%	0	0	0	0
2066/067	61	61	100%	0	0	0	0
2067/068	47	47	100%	0	0	0	0
Total	432	408	94.44%	19	4.40%	5	1.16%

Source: Issue managers

Table 4.5 shows that during the period of fiscal year 2050/051 to 2067/068 total companies 432 companies issued their common stock for public subscription and among them common stock issue of 408 companies (94.44 %) have been oversubscribed. common stock issue of 19 companies (4.40 %) have been undersubscribed and remaining 5 companies (1.16 %) issue have been fully subscribed. Furthermore, all those companies who issued their common stock

in fiscal year 2050/051, 2053/054, 2056/057, 2057/058, 2059/060, 2060/061 and 2062/63 have been fully oversubscribed. Similarly, during the period 14 companies issued their shares for public subscription in year 2050/051, 2059/060 and 2062/063 in high range. And it is followed by 10 companies in year 2051/052, 2052/053, 2060/061 separately while in lowest range only 2 companies issue their common stock for public in year 2053/054 and it is followed by 3 companies in year 2055/056 and 2056/057 respectively.

After the second *Janaandolan* 2062/063, CPN Maoist party also came in peace process which is positive signal effect in share market. By this political factor, NEPSE trend i.e. overall share market is up i.e. bullish trend. New company was established and business environment is uplifted. By this positive signal affect moved to upliftment of increasing number of issue companies. Hence, after the FY 2061/062 to FY 2067/068 all the number of share issue companies is fully oversubscribed.

4.6 Sector wise issue amount

NEPSE has categorized total companies into 9 sectors. The detail of sector wise issue during the period of 2050/051 to 2067/068 situations of the issue of such sectors have been presented in Table-4.6.

Table 4.6
Sector wise issued amount

Types of sectors	Total amount (in millions)	% of Total
Commercial bank	24585.2	43.16
Development bank	9478.1	16.63
Finance companies	16484.97	28.94
Hotel	796.45	1.40
Insurance	1970.11	3.46
Manufacturing	878.38	1.55
Others	577.97	1.01
Hydropower	2194.94	3.85
Total	56966.12	100.00

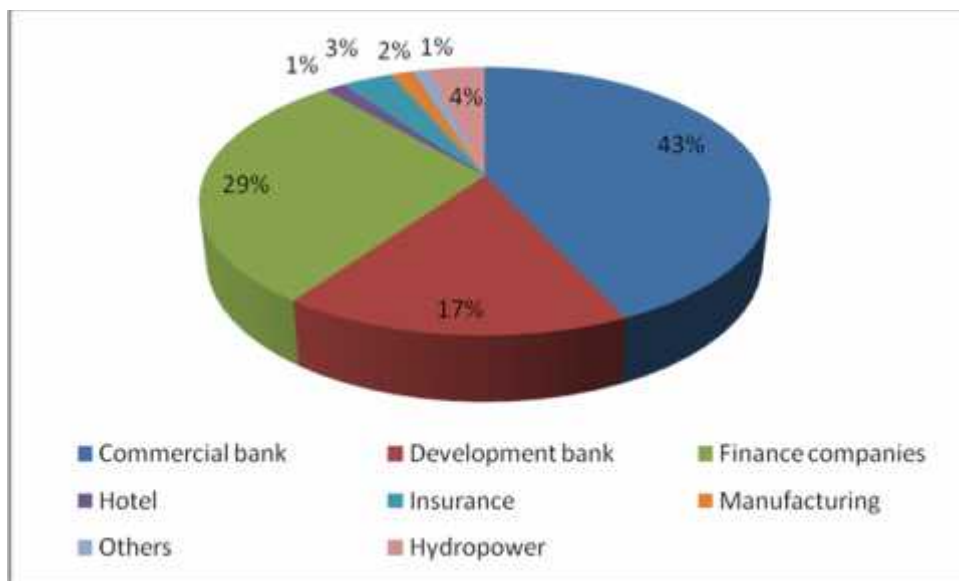
Source: Issue managers

From the above table 4.6 depicted the sector wise issued amount of 18 years from FY 2050/051 to FY 2067/068. During the study period 432 companies have issued different types of securities to the public. The total amount of the issue is Rs. 56,966.12 million. Among the issues Commercial bank sector has issued highest portion to the general public. The total issue amount of the Commercial bank is Rs. 24585.2 million which represent 43.16% of the total issue approved. Second highest amount of public issue is finance companies which is Rs. 16484.97 million. Finance companies represent 28.94% of the total issued amount. Approximately 72% of the secondary market is covered by commercial bank and finance sector.

Similarly, Development bank issued Rs.9478.1million which is 16.63% of the total issued amount. Likewise, Manufacturing sector and other sector issued Rs. 878.38 and Rs. 577.97million respectively. These covers 1.55% and 1.01% respectively of the total amount issued.

Similarly, insurance companies are also offered shares to the public. The total amount issued by insurance company is 1970.11million, which covers 3.46% of total amount issued. Hotel and Hydro power sectors issued Rs. 796.45and Rs. 2194.94 million for the public respectively 1.40% and 3.85% of the total amount issued. From the above sector wise issued amount to general public around 88.73% market is covered by banking and financial (Commercial banks, Development banks and Finance companies) sectors. Likewise rest weighted percentage are encouraged in hydropower sector, insurance manufacturing, hotels and others sectors respectively. It is more clear from the following figure 4.6

Figure 4.5
Sector wise issued amount



4.7 Sector wise number of over and under subscription

The public response to the sectoral issue during the period of fiscal year 2050/051 to 2067/068, are presented in the table 4.7.

Table 4.7
Sector wise over and under subscribed

Sector	No. of share issued Companies	Over sub-scribed Co.		Under Sub-scribed Co.		Constant	
		No.	%	No.	%	No.	%
Commercial Banks	24	24	100%	0	0	0	0
Finance Companies	70	65	92.86%	4	5.71%	1	1.43%
Insurance Companies	21	20	95.23%	0	0	1	4.77%
Manufacturing & Processing	18	12	66.67%	4	22.22%	2	11.11%
Hotel	4	4	100%	0	0	0	0
Development Banks	57	57	100%	0	0	0	0
Hydropower	4	4	100%	0	0	0	0
Other	2	1	50%	0	0	1	50%
Total	200	187	93.5%	8	4.00%	5	2.5%

Source: Issue managers

Table 4.7 shows that out of 200 companies issued the different types of securities for the public. Among them the highest share issued companies are finance sector (70 companies) up to the end of fiscal years 2067/068. However, up to the end of fiscal year 2062/063, there are only 50 finance companies, 14 commercial banks, 11 insurance companies, 4 hotels, 17 manufacturing company, 3 trading company and 4 other companies out of total 162 numbers of public issued companies (*Adhikari; 2007:75*). After *Janaandolan 2* and comprehensive peace agreement between Maoist and Nepal Government, mainly banking and financial sectors are rapidly grown. After the Constitution Assembly election may also impress the investors to invest their investment. But as the political change, major parties are not responsible to make the business environment i.e. *Nepal banda* and strikes and mainly trade union problem also affect it.

Table 4.7 concretes during the study period of fiscal year 2050/051 to 2067/068 all share issued companies of commercial banking sector, hotel sector, development banking sectors and hydropower sector were fully over- subscribed. Similarly, 92.86 % of finance sector companies shares were over-subscribed, 5.71 % companies shares were under- subscribed and rest 1.43% companies share were constant while in case of manufacturing and processing sector 66.67 % companies share were over- subscribed, 22.22% companies share were under-subscribed and 11.11% companies were constant as issued. Likewise, 50 % of other sector companies shares were over-subscribed and remaining 50% were constant as issued.

4.8 Number of issue managed by different issue managers

Number of the total issue in different securities manage by different issue manager are presented in table 4.8.

Table 4.8
Number of issue manage by different issue managers

Issue Manager	Types of securities				Total
	Debenture	Ordinary share	Preference share	Right share	
ACE	6	20	0	42	68
CIT	2	24	2	22	50
CIT & NCML	0	4	0	0	4
CIT & RBB	0	1	0	0	1
NCML	3	56	1	56	116
NCML& NMB	0	6	1	0	7
NCML&NSML	0	1	0	2	3
NEFINSCO	0	10	0	7	17
NFCL	0	4	0	10	14
NMB	5	44	0	41	90
NMB & CIT	0	2	0	0	2
NMB&NCML	0	2	0	0	2
NSMB	0	0	0	2	2
NSML	0	9	0	8	17
NSML& NSMB	0	1	0	0	1
RBB	0	2	0	0	2
Elite Capital	0	2	0	0	2
NEFINSCO and NCML	0	2	0	0	2
Growmore	0	5	0	7	12
Civil Capital	0	4	0	10	14
DCBL	0	1	0	1	2
Nabil Investment	0	0	0	4	4
Total	16	200	4	212	432

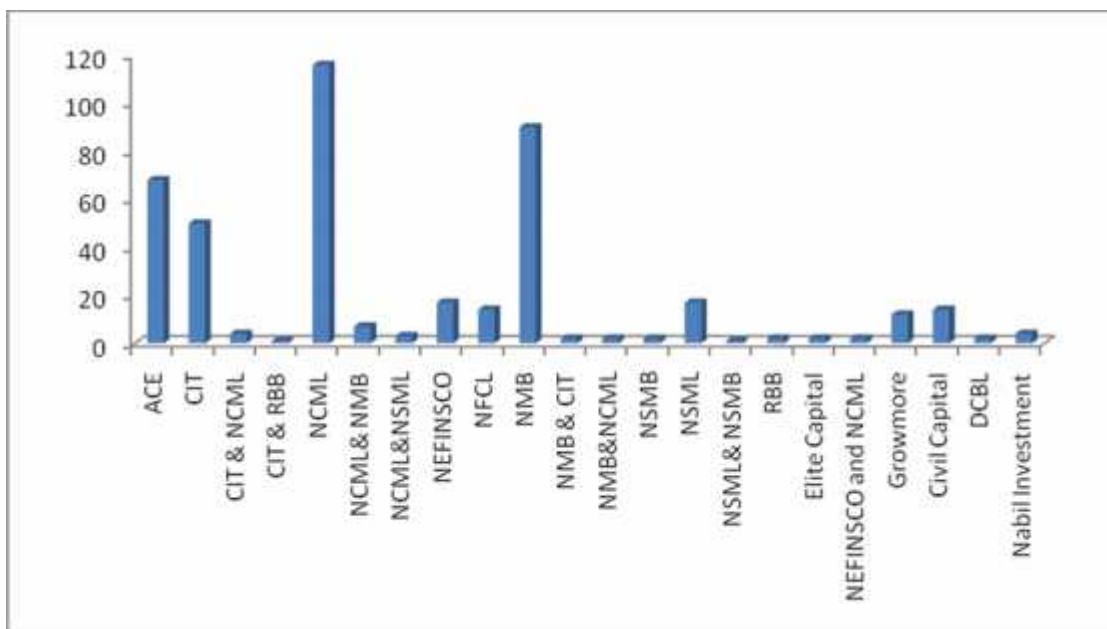
Source: Issue managers

Table 4.8 shows the number of issues securities and their issue manager. Among the 432 issues highest issues are managed by NCML. The company was managed 116 issues and other issues are jointly managed with NMB and CIT. Second highest issues are managed by NMB. It has managed 90 issues alone and other are jointly managed with CIT and NCML. Third highest issued securities managed by ACE. It has managed 68. Fourth highest issued securities managed by CIT. It has managed 50 alone and other are jointly managed with NCML, NMB and RBB. Likewise, NSML and NEFINSCO managed equal i.e. 17 securities out of the total 432 securities which is fifth highest issue managed. Both them also managed

two other securities jointly with NCML and NSMB. The least issue was managed by RBB and NSMB and DCBL. All of them managed two issues and one issue managed jointly with other issue manager. NFCL has managed 14 issues. Likewise, Growmore, Civil Capital market and Nabil Investment Company have managed 12, 14 and 4 issues respectively. At present out of them only six Issue Manager are doing issue manage activities. They are AFC, NMB, CIT, NFCL, NCML and NEFINSCO, Growmore, Civil Capital, Nabil Investment and Elite capital.

Figure 4.6

No of issues manage by each issue manager



4.9 Growth of Primary issue in different years

During the study period numbers of primary issues are increasing in every year. Primary market trend of the past 18 years shows the progress steady and public response is positive toward this sector. Growth of the primary market is directly related with the lack of opportunities for the investment in other sectors. The liquidity position of our country is also high which would have also led to high public response to the public issue of the different companies. Most of the companies attract the investor by issuing the different types of securities. Companies are also interested to go to the public. Investors are more attracted for the investment of the primary issue because of the higher return and low risk in comparison to the other investment. So, primary issues are increased in every year in all sectors. Growth of

primary issue is almost positive in past history of Nepalese capital market. Growths of primary issues in different year are shown in table 4.9.

Table 4.9
Growth of Primary issue in different years

Fiscal Year	Yearly total amount(million)	% yearly growth
2050/051	244.4	0
2051/052	173.96	28.82
2052/053	293.74	68.85
2053/054	332.2	13.09
2054/055	462.36	39.18
2055/056	258	-44.19
2056/057	326.86	26.69
2057/058	410.49	25.58
2058/059	1441.33	251.12
2059/060	556.54	-61.39
2060/061	1027.5	84.62
2061/062	1626.82	58.32
2062/063	2443.28	50.19
2063/64	2295.5	-6.04
2064/065	10668.2	364.74
2065/066	16828.5	57.74
2066/067	10822.41	-35.69
2067/068	6754.03	-37.59
Total	56966.12	884.04
Average	3164.78	49.11

Above table 4.9 shows that the growth of primary issue of 18 years from 2050/051 to 2067/068. The highest percentage growth of primary issue securities was 364.74 percentages in the fiscal year 2058/059. Second highest growth of primary issue securities was 251.12 percentage in the fiscal year 2058/059. Third, fourth and fifth, six and seventh highest percentage growth of primary issue was 84.62%, 68.85%, 58.32%, 57.74% and 50.19% in the fiscal year 2060/061, 2052/053, 2061/062 2065/066 and 2062/063 respectively. But primary growth rate is decreasing by 61.39%, 44.19%, 37.59%, 35.69% and 6.04% in FY 2059/060, 2055/056, 2067/068, 2066/067 and 2063/064 respectively. Average percentage growth of primary issue was 49.11 percentages during the 18 years with average yearly amount is 3164.78 million.

Figure 4.9
Yearly growth in percentage

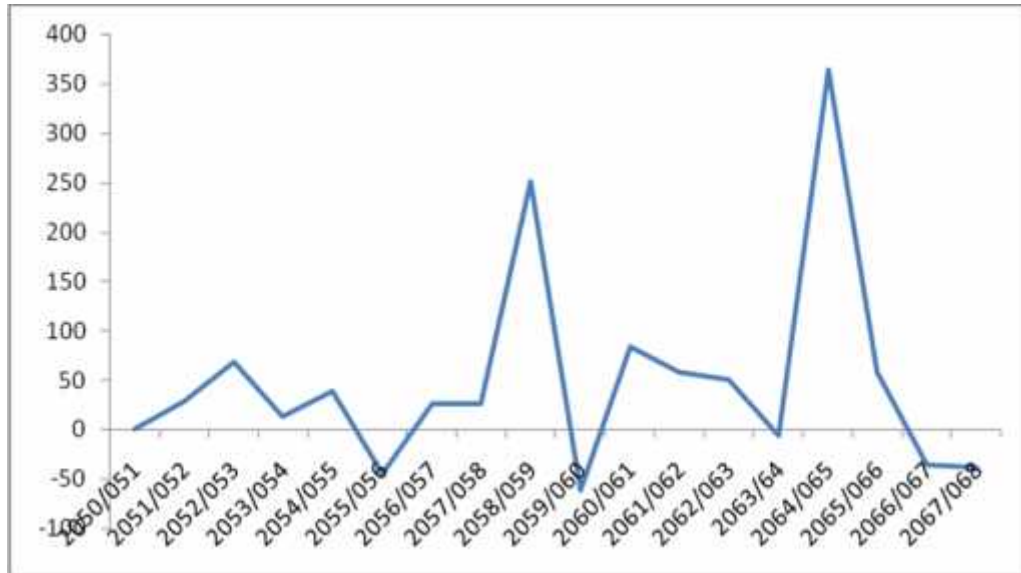


Table No 4.10
Correlation between total amount and yearly growth

Fiscal Year	Yearly total amount(million)	% yearly growth
2050/051	244.4	0
2051/052	173.96	28.82
2052/053	293.74	68.85
2053/054	332.2	13.09
2054/055	462.36	39.18
2055/056	258	-44.19
2056/057	326.86	26.69
2057/058	410.49	25.58
2058/059	1441.33	251.12
2059/060	556.54	-61.39
2060/061	1027.5	84.62
2061/062	1626.82	58.32
2062/063	2443.28	50.19
2063/64	2295.5	-6.04
2064/065	10668.2	364.74
2065/066	16828.5	57.74
2066/067	10822.41	-35.69
2067/068	6754.03	-37.59

Source: calculation Appendix I

Correlation between total amount and yearly growth is 0.2439 which is very low. By this statistical tools also yearly total amount and yearly growth is low correlative but in positive vibration.

4.10 Number of issues according to types of securities

There are many securities available in the stock market for the investment. In Nepalese capital market limited types of securities are issue for the public or securities available for the investment are limited. Types of securities issued and their number by different companies in primary market are shown in table 4.10.

Table 4.11
Types of securities and their number of issue

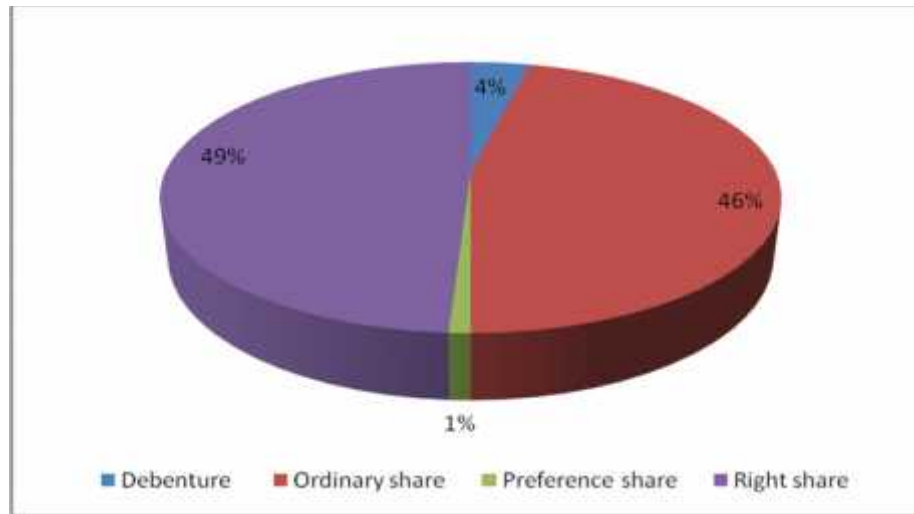
Type of securities	No of securities
Debenture	16
Ordinary share	200
Preference share	4
Right share	212

(Source: Issue Manager)

Table 4.10 shows different types of securities issued in Nepalese capital market. Most of the companies are seen to issue ordinary share. 200 companies issued ordinary share to the public in Nepalese capital market. Right share is another popular security for the companies to collect additional fund. 212 companies issued right share until the fiscal year 2067/068. Debentures and preference shares are seen very less attractive securities in the Nepalese capital market. Only 16 companies have issued debentures and 4 preference shares. The past experience shows that investors are not very interested to invest in the debenture and preference share. Probably it is because of less return as comprised to common stock and lack of awareness.

Figure 4.10

Number of issues according to type of securities



4.11 Problem of Primary Market In Nepalese Capital Market:

Nepalese stock market has no long-history. It has only more than one and half decade. The numbers of listed companies in the Nepal Stock Exchange are increasing every year. But most of the companies are confined to the bank and finance companies sectors. There is a tremendous growth in the financial institutions over the period of time. Nepal Rastra Bank (NRB) has also made compulsion to issue at least 30 percent of shares to the public. Investors becomes miserable emerged from tactless advice of brokers through market disorders, price manipulation and fraudulent activities taken together have resulted the present bearish market in the country. The Securities Exchange Act amendment changed this government monopoly by introducing private intermediaries such as brokers, merchant banks and market makers. A separate regulatory body, the Securities Exchange Board, was created. However, the ownership of the Stock Exchange remained with the government. As a result of this change, there are now 48 brokers get a license from SEBON. Out of this 23 brokers are old and newly 25 brokers are added till the date (August 2012). Likewise, 14 merchant bankers are issue managers. Nepal stock exchange listed 210 companies till the end of FY 2010/11. Out of them the sector wise listed companies are 24 commercial banks, 61 development banks, 71 finance companies, 21 insurance companies, 18 manufacturing companies, 4 hotels, 4 hydropower, 4 trading, and 3 others. Similarly, at the end of FY 2010/11, the total market capitalization is Rs.323484.34459 million. Out of these, the sector wise market capitalization are commercial bank; 165775.682489 million, development bank; 25738.891205 million,

finance companies; 27476.976706 million, insurance companies; 9034.668202 million, manufacturing companies; 10495.125437 million, hotels ; 5448.350507 million, hydropower ;15258.747865 million, trading; 1387.478992 million and others; 62868.423188 million (Source: *Annual Trading Report FY 2010/11*). While no foreign investors are present, a recent policy announcement was made by the Securities Exchange Board to allow foreign institutional investors into the secondary market. Aside from brokerage functions, most of the other functions are being carried out by finance companies. Unlike, many other countries, these companies are also allowed to mobilize public deposits. Market trends, as a result of the interplay of the above three factors, the capital market performance in Nepal has witnessed a lot of changes. The major problems of primary market in Nepalese capital market are highlighted as below:

(i) Losing Faith

The growing pessimism of the investors over the performance of share market is to be looked from broader company-industry economy framework. The frequent change in government has created political uncertainty regarding the coherent economic development strategy to the extent that entrepreneurs are no sure of what type of business policies to pursue. In the absence of the appropriate relationship between business and government regarding privatization policies and economic liberalization thrust, public limited companies are in state of confusion since every change in government took different political ideological stand in the development of enterprises in the country, attraction to direct foreign investment became a great setback as government cannot give clear-cut development agenda to further national development parameters. Again, development recovery program through revival of privatization has brought some favorable impact on the performance of capital market. But, investors viewpoint it should have been made clear earlier so that an investor can take investment decision. The most reputed companies managed by a handful of professional is not managing and behaving well to regard the protection of investors by providing timely and adequate return on their investment. Lack of actual investment return strategy in the management on most companies have made investors to believe that investing money in share of companies would be nothing more than inviting self exploitation by one's own act of wrong investment decision.

ii) Unfair Practice

The downfall of share market is mainly due to the unfair share market practices that went undetected for a long period in Nepal's share market. There has been a growing tendency to sell worthless and fraudulent securities since regarding their moral standing and honest integrity of professionalism. The unfair share market practices cover wash sales, concerning of the share market, churning, formation of pools and cartels, misuse of insider information and so on. In wash sales, there is simply record of a sale but there is no sale of shares at all. The market makers have taken shares in name of their family, relatives and other employees who's were under their control but, as they raise prices artificially to the peak which is called forcefully created market boom by their own dishonest acts, they sold and later on put innocent investors to be the victims as they are made to buy at higher prices. Some market maker have undertaken market pool activities by an institutional device through various unhealthy practices like acquiring the securities quietly and discreetly in order to keep them from driving up the share price while they were buying. During the stock market boom, the pool's tactic was successful in manipulating naïve investors into bidding up the price of pool's securities and they could reap the advantage to a considerable extent. By such market pools, a group of market maker could make fortunes by unfair share market practice in the absence of any control and investigation on their sharp activities.

iii) Insufficient knowledge of Investors about the Stock Market

When corporate bodies started offering public issues after the liberal economic policy adopted by government of Nepal, retail investors thought that it is the most suitable means of investment for higher return. Investors are investing their fund into stocks without studying the prospectus of the company or even without knowing about the company's area of business and its future business opportunities. This led to oversubscribing of the shares. Gurkha Development Bank, Himchuli Bikash Bank, Sanima Bikash Bank etc. are example of oversubscribed of the share at the time of public issues. But the companies failed to provide dividend as expected by the investors. Except companies in the banking and finance sectors, other failed to comply with disclosure requirement and even failed to call AGM. This has a negative impact on the investors about performance of the companies in other sectors. The regulator role to educate general investors about securities market is also not sufficient. Most of the retail investors do not know when and how to sell their shares. They do not know how

the stock market functioning, what should be their return, whether their company is functioning satisfactorily or not etc. the investors are also unaware of the complaint procedure in the company fails to take care of the investor's interest.

iv) Lack of investor's Confidence

Investors need sufficient information about the company before investing in the initial public offering of the company. However, there is a general feeling among the investors that the information disclosed through the public announcement and prospectus do not truly reflect the true picture of the future prospects of the company. It's found to be true in some extent, because some company's performances after the public issue were found to be very poor despite they showed very optimistic financial forecasts in the prospectus.

v) Shortcoming on Existing Securities Law and Regulations

Existing securities law and regulation do not clearly define the regulatory, supervisory and enforcement function of the Stock Exchange and Securities Board. The Securities Exchange Act and Companies Act are not clear on the division of authorities between the Registrar of companies and the Securities Board regarding the filing of prospectuses and the periodic disclosure requirements by public companies. The prospectus (Company Act), registration (Securities Exchange Act) and listing (Securities Exchange Regulation and NEPSE bye-law) provision involve a multiplicity and absence of one window policy creates unnecessary hurdles, expense, confusion, complications and delay act as a disincentive to companies thinking of coming to the market by way of public issue. The existing laws and regulation do not give and anticipatory powers of intervention by the Securities Board for the protection of investors. The Board does not have the investigatory powers for any company that does not comply with the existing laws and regulations.

vi) Lack of Coordination between Securities Board and NRB

There is no effective coordination between Securities Board and NRB to determine their respective supervisory responsibility over commercial banks and finance companies which are involved in securities businesses such as issue management, underwriting etc. as the banking and finance companies operate under banking and finance companies act and their activities are controlled by monitored by NRB. For the public issuance of securities under the provisions

of securities regulations, SEBON has been regularly monitoring whether the report about the number of application form and collected amount have been submitted within the stipulated time or not, whether there is deviation on the report received from the collection centre and report submitted by Issue manager to SEBON, whether the report relating to the draft has been submitted in Board or not within the 15 days of issue closed date, whether the collected amount has been deposited or not in Nepal Rastra Bank after issue closed date, whether the allocation modules has been submitted to Board or not before three days of the allocation, whether the allocation and refunding the amount has been initiated within the stipulated time or not, whether the report on collected amount deposited in banker to issue is submitted in Board or not. Likewise, SEBON has been regularly monitoring whether the companies has given application for the listing of shares within the stipulated time or not. Regarding the transactions on secondary market, if it requires securities Board involvement also to monitor their activities. there is abnormal price fluctuation on price of securities during the trading hour, the report on the timing of transaction, number, quantity, stockbroker and investor involved in such transaction, and matching transaction is prepared along with noting the timing of abnormal transactions by comparing real time transactions on the web with the trading system and by comparing securities under trading suspension, stockbroker and trading suspension with price sensitive information.

While monitoring secondary transaction if required the necessary details of transaction is asked from the related stockbrokers, listed companies and Nepal Stock Exchange Ltd. Likewise, if the price of daily transaction is fluctuated abnormally, the detail of such transaction such as number of transaction, price and amount traded, and stockbroker and investors involved are prepared. These measures of market supervision have shown some positive impacts in the information disclosures and price stability of the securities as compared to earlier years. Recently, in the most of securities markets including India and Sri Lanka of the South Asian Association for Regional Cooperation (SAARC) have adopted integrated automated market surveillance system (IAMSS) and accordingly market supervision is conducted which have positive impact in market supervision. In view of positive impact of IAMSS in market supervision around the globe, IAMSS is highly desired for Nepalese securities markets.

Vii) Legal Enforcement

Records of Price Sensitive Information, Resolution of Cases against the Board, settlement of grievances, subsidiary companies to be opened for new merchant banking are the major legal problems. In the fiscal year 2009/10, a total of 27 grievances relating to the request for suspending the transaction, company merger, irregularities in allotment, employee share, closure of shareholders register, shares not being listed, submission of different financial statements, distribution of bonus share and dividend less than declared, orders not being executed, fine against share certificate, share application being cancelled and not refunding the amount on cancelled transaction were received by the Board and for addressing such grievances inquiries were made with the concerned body corporate. Board has received grievance against National Finance Company Ltd. for not making sale of its rights shares within the stipulated time and the company also failed to sell its shares as per the directives of the Board. The Board has instructed the company to make the sale at the minimum price and the company sold its shares as per the instructions of the Board. Likewise, SEBON recommended to the Ministry of Finance for publishing notification in Nepal Gazette requiring the banks and financial institutions to conduct their merchant banking business through their subsidiary companies in the fiscal year 2009/10 (*Source: SEBON Annual Report FY 2010/11*).

viii) Restriction to Foreign Investors

After the policy of economic liberalization adopted by Government of Nepal, one of the prime objectives of the government is to attract foreign investment in various sectors such as hydropower, telecommunications, manufacturing and processing industries. Foreign investors are given attractive incentive through various act and policies. However, foreign investors are not allowed to invest in Nepalese capital market. This has caused restriction not only in the foreign investment but also the managerial expertise that can come through foreign investment.

ix) High Cost of Public Issues

With the objective of estimating cost and providing policy recommendation to reduce the cost of public issue, SEBON had conducted a research study recently. The cost associated with the public issue was classified into underwriting cost, advertising, printing, and other expenses, amount collection and refund charges and issue commission. The study covers the financial sectors (bank, finance companies and insurance companies). The finding of the study shows

that the cost of public issue of the new companies in Nepal is relatively very high in comparison to that of the neighboring country India. However, in contrast to this fact, cost on rights issue in Nepal is relatively very low.

x) Shortcoming in Accounting and Audit Practice of Non-financial Companies.

Shortcoming in accounting and audit practice of non-financial companies has led to the incomplete disclosure to investors and the Securities Board does not have powers to force these companies for making true and complete disclosure.

xi) Lack of Transparency and Integrity in Tax Collection

Tax Officers have wide discretionary powers and this leads to reluctance on part of companies to publish objectively audited accounts which in turn deprives the investors the essential basis for judging such company. In the absence of true information, investors are reluctant to invest in the shares of these companies.

xii) Lack of Corporate Culture and Corporatization

Development of corporate culture and corporatization of the companies is one of the important steps toward the development of primary market. The development of corporate culture encourages the private companies to go into public, which can bring professional expertise as well as the required fund from the public. Nepalese private companies are mostly run as a family business and they prefer to go to commercial bank rather than to public for meeting capital requirement. As the healthy and good performing companies are reluctant to go to public, which can be attributed to lack of corporate culture, it has negatively affected the development of primary market.

xiii) Lack of Professionalism in Issue Management and Underwriting

The issue manager has to study and analyze the issuing company's nature of business, managerial and financial aspects, track record, and other relevant aspects minutely. After evaluating the prospectus and other aspects, the issue manager has to submit the Due Diligence Certificate to the Securities Board. The poor performance of the companies after raising capital through public issue has raised questions about the validity of the analysis. Similarly, the underwriter is responsible for not only to purchase the share of the initial issue in case of under

subscription, but also to evaluate thoroughly all the aspects of the company, including its financial aspects. As the majority of the companies after public issue are performing very poorly, it suggests the lack of proper analysis in the part of underwriters too. A few companies have been going to the public from the insurance and hydropower sectors. Very large and profitable joint venture companies like Dabur Nepal, Surya Nepal, Barun Beverage are still to go in the public. Now, what are the problems in primary issues because of which these companies are not going in the public? The number applicants in the public issue of the financial institutions are increasing day by day. The probability of receiving shares in the allotment is being very less. Is the present allotment model suggested by the NEPSE is appropriate? Similarly, the issuing companies must list its share in the NEPSE within 45 days of allotment of shares but companies are not doing this. For example, Shikhar insurance Company listed its share long after the specified time period. Nepal Government is encouraging investors to initiate hydropower project. Some of the hydropower companies like Arun Valley Hydropower Company, Chilime Hydropower is also issued shares in the public. Similarly, trading company like Salt Trading Corporation is planning to issue debenture amounting to Rs 500 million to build shopping complex to expand its business in the real sectors. In this situation, what is the future prospect of Nepalese primary market?

From the above fact, the current state of primary stock market in Nepal is not satisfactory. It gives the wrong impression when we look at the overwhelming response of the investors for majority of the public issues. However, if we analyze the present state of primary market, there exist a number of problems, which has hindered the long-term development of primary market in Nepal.

4.12 Prospects of Nepalese Primary Market

At present, individual Nepalese savers have extremely limited opportunities for investing their long-term savings. To secure maximum returns, these investors should have opportunities to invest into long-term corporate equities rather than depositing on the bank. However, because of the present state of the stock market, both individuals and institutions are putting far more of their saving into bank deposits and fixed interests government securities that they would if the market were working properly. Thus, long-term savings that should be invested in the stock market are going into short-term instruments. In terms of creating market depth, more

profitable state- owned –enterprises should be listed. The supply of securities can be increased if the SEBON are allowed to operate through Nepal stock exchange. Floatation of NEPSE scripts is expected to expand the market by couple of time.

After the adoption of liberal economic policy by Nepal Government, a large number of companies established in the past 18 years. These companies cover a broad range of industries including airlines, hydropower, water supply, gas, pharmaceuticals, paper, food and beverages, cement, iron and steel, textiles, banking, insurance, finance services, hotels and resorts. Though, still there is enough liquidity in the market. At present, investors are willing to invest in the common stocks of public companies but the corporate bodies are not coming ahead to collect fund from the primary market through public issues. They are obtains loan from banking and financial institutions for their long-term capital requirement.

The retail investors are in search for long-term instrument with higher return for their savings. The number of insurance companies is growing and government is planning to establish a pension fund for its employees. Provident fund, pension fund as well as insurance companies would prefer to invest in the equity of profitable companies through IPO rather than depositing on the bank. Entrepreneurs, who are establishing new business in response to liberalizations, will be constrained in realizing their capital gains if they cannot sell part of their original equity in successful company after some years of growth. Thus, there exists opportunities for the investors to invest in the stock of corporate bodies and the corporate bodies have the opportunities of collecting required capital through the issue of stock through primary market. However, there are a lot of things to be done to transform the present state of primary market in to a healthy and efficient one where corporate bodies can easily raise funds according to their requirements and investors can invest their savings into a long-term instrument with higher return.

4.13 Impediment and Future Prospects.

Primary markets create long term instruments through which corporate entities borrow from capital market. Capital markets may be classified as primary market and secondary market. In primary markets, new stock or bond issues are sold to investors via a mechanism known as underwriting whereas in the secondary markets include existing securities. Stock is a security

issued in the form of shares that represent ownership interests in a company. There is a both common stock (often simply called "stock", "shares" or "equity") and preferred stock. Common stockholders elect the company's board of directors and actively participate in the company's success (or failure) through a rising (or falling) stock price. Common stockholders may also receive dividends, provided the company is profitable, obligations to commercial creditors and bondholders have been met, and the board sees fit to declare them.

Hence, the capital market needs laws that make the procedures for public issue simple, transparent and unambiguous and defines clear roles and responsibilities of regulatory bodies. Lack of such laws is the main hindrance to the development of capital market. Lack of investor education, lack of professionalism in the part of the companies involved in securities business and inadequate attention to enhance the institutional capabilities are some of the factors that are also contributing to the impediments to primary stock market development.

During the fiscal year 2010/11, SEBON prioritized the establishment of basic infrastructure and development of related regulations regarding Central Depository System, Mutual Fund and Credit Rating Company. In this regard, SEBON has opened doors for Central Depository System and Mutual Fund by introducing Central Depository Service Regulation, 2010 and Mutual Fund Regulation, 2010. Also, SEBON has already initiated drafting necessary regulations and directives for the regular and proper functioning of securities market and securities businesspersons.

During the fiscal year 2010/11, introduction of new securities brokers in the securities market materialized which had been obstructed for a long time. A competitive environment has been created in the market for the benefit of investors after the approval of fifteen new securities brokers. Also, legal amendments have been completed to bring merchant bankers within the framework of SEBON's regulations. With the enforcement of Credit Rating Regulation, 2008 SEBON has targeted to approve interested companies to introduce Credit Rating Business in the market. SEBON has also targeted to improve its corporate capabilities after responsibilities are handed to regulate the commodities market for which necessary legalities are ongoing. With the help of World Bank, SEBON has drafted its Five Year Master Plan for effective regulatory structure, stable securities market and timely development of the securities market.

This plan will be implemented stepwise from the coming fiscal year. SEBON will also initiate necessary procedures for its institutional strengthening and empowerment as advised in the report submitted by Securities and Exchange Board of India (SEBI) after the study by an expert group (assistance from the Indian Government); and the Program declared by Government of Nepal in the current fiscal year budget Program to improve market investigation and surveillance. For the development of securities market along with related organizations; the contribution, help and cooperation of individuals from these organizations is equally important.

National Stock Exchange and Kathmandu Stock Exchange had applied at SEBON a couple of years ago, expressing interest to run a stock exchange. However, both the firms agreed in principle to undergo merger after SEBON hinted that would give license to only one stock exchange. But there is need to establish a new stock exchange in the country to improve service delivery in the new secondary market by increasing competition among stock exchanges.

The major financial resources of SEBON are registration fees of corporate bodies, processing fees of prospectus, offer document and rights share issues, transaction fees from the stock exchange. Other financial sources include fees from licensing and renewal of stock exchange, securities business fees, application fees, interest income in investment, mutual fund and income from approval and renewal of Central Securities Depository Company. The accounting system of Board has been fully computerized to make it smoother. During the fiscal year 2010/11, SEBON has enforced Investment policy, 2010 and Depreciation policy for investment of saving account remained in different funds more effective, systematic and transparent with reformed of the depreciation related provisions into prevailing provisions. Likewise, relating the saving amount allotted to different funds, SEBON has enforced Securities Board Saving Allotment Policy, 2010. SEBON had requested the government of Nepal for the tax exemption as it is regulating body of securities market; government of Nepal in its Finance Ordinance 2010, section (10) has incorporated Tax Exempt provision to Securities Board of Nepal. SEBON has made also International Relation. SEBON has become the member of Asia Forum for Investor Education (AFIE) established to exchange knowledge and information between capital market to the investors. Also, it has become the member of

Association of National Numbering Agencies (ANNA) for the operation of Central Depository System. Likewise, SEBON has also become the member of South Asian Securities Regulators' Forum established to exchange knowledge, skill and information within the regulatory body of South Asian Countries. SEBON has initiated its steps to be the membership of International Organization (IOSCO) a regulatory body related to capital market. Similarly, SEBON staffs have been participating in the seminar Program related to capital market organized by World Bank, Asian Development Bank and APEC.

Although there are many hurdles, the availability of enough liquidity in the market and the government's liberal economic policy, which is encouraging foreign as well as domestic investors to invest in various sectors such as hydropower, telecommunication, and infrastructure projects is certainly going to have high prospects for primary market in Nepal.

4.14 Analysis of Primary Data

To make the study more realistic primary data has been taken for analysis. For this purpose questionnaire was designed (Appendix) Questionnaire was distributed to 60 respondents (bankers, brokers, business person, regulators and students). The primary analysis detail is as follows:

4.14.1 Sources of information about primary issue in Nepalese capital market:

out of 60 respondents most of the 45% gets information through media, 35% respondents through friends and relatives, 15% respondents through broker and 5% respondents others. It is clearer from following table 4.12 and the figure 4.11

Table No 4.12

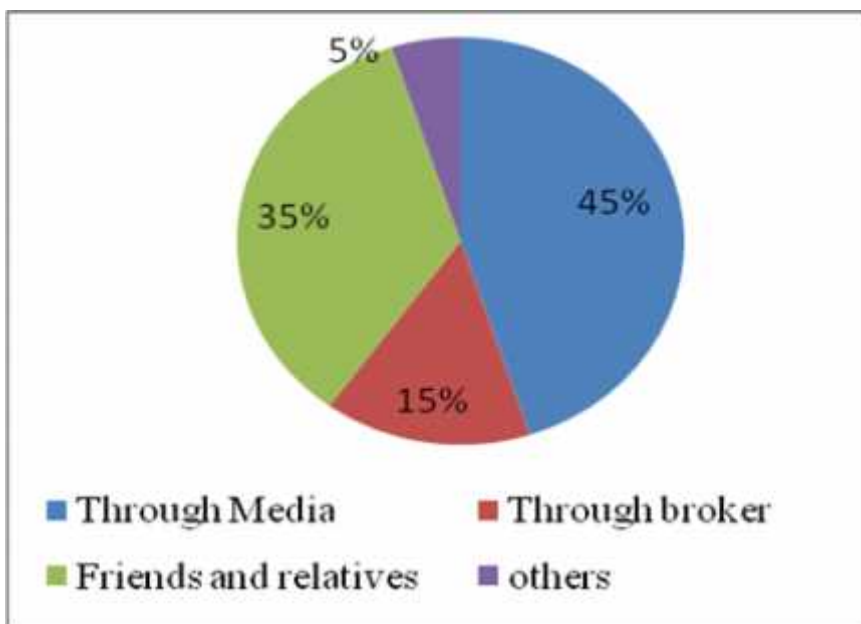
Primary issue in Nepalese capital market

S.N.	Sources of information	No. of respondents	% (percent)
1	Through Media	27	45
2	Through broker	9	15
3	Friends and relatives	21	35
4	others	3	5
Total		60	100

(Source: Field survey 2012)

Figure 4.11

Primary issue in Nepalese capital market



4.14.2 Types of securities offered in the Nepalese Capital Market:

Out 60 respondents, most of the 60% offered common stock/equity, 20% offered preference share/stock, 17% offered bond/debenture and 3% offered warrant. It is more clear from following table 4. 13and the figure 4.12

Table 4.13

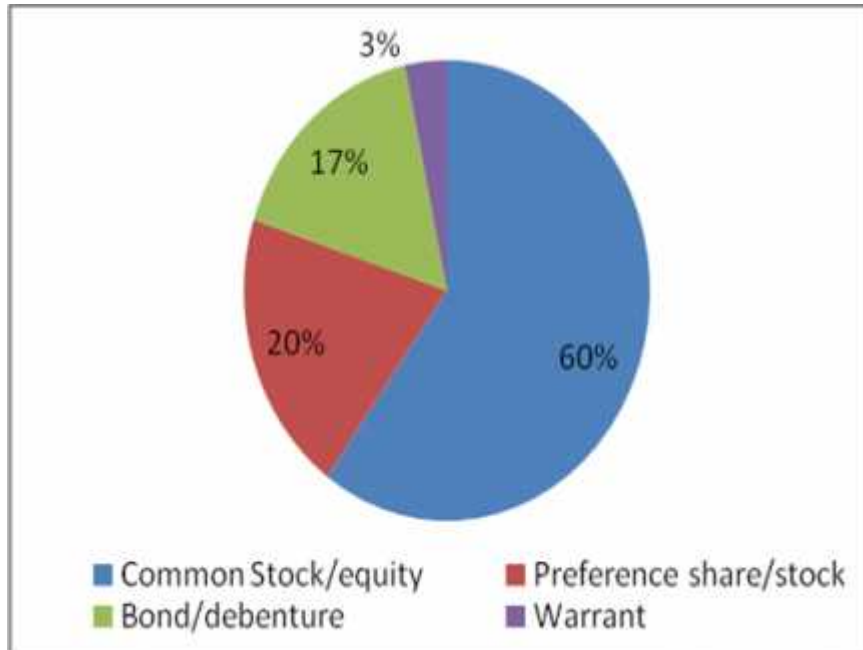
Securities offered in the Nepalese Capital Market

S. N	Alternative	No. of Respondents	% (percent)
1	Common Stock/equity	36	60
2	Preference share/stock	12	20
3	Bond/debenture	10	16.67
4	Warrant	2	3.33
Total		60	100

(Source: Field survey 2012)

Figure 4.12

Securities offered in the Nepalese Capital Market



4.14.3 Types of issuing company Raising fund from IPO:

Out of 60 Respondents, 30% Issuing company raising fund from IPO by industrial intuition, 50% by financial intuition and 20% by others. It is more clear from following table 4.14 and the figure 4.13

Table 4.14

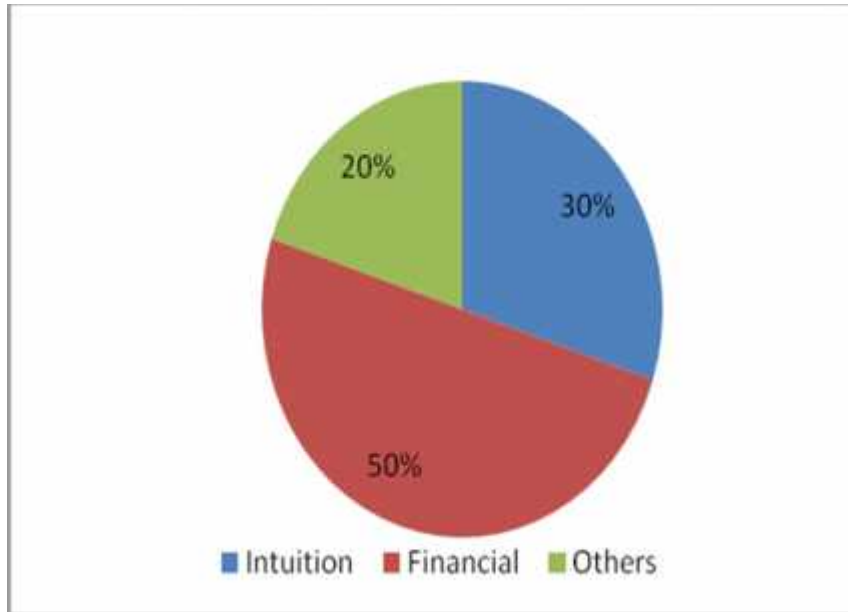
Types of issuing company Raising fund from IPO

S. N	Alternative	No. of Respondents	% (percent)
1	Intuition	18	30
2	Financial	30	50
3	Others	12	20
Total		60	100

(Source: Field survey 2012)

Figure 4.13

Types of issuing company Raising fund from IPO



4.14.4 Role of merchant bankers in the capital market:

Out of 60 respondents, the role of merchant bankers in the capital market as 30% intermediary role, 35% fund mobilization, 25% investment portfolio management services and 10% advisor role respectively. It is more clear from following table 4. 15 and the figure 4.14

Table 4.15

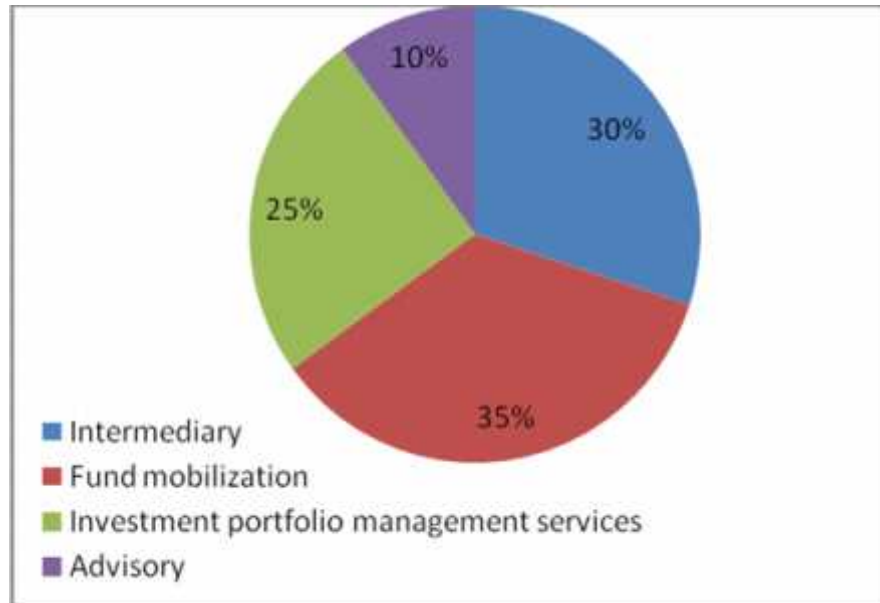
Role of merchant bankers in the capital market

S. N.	Role of M.B.	No. of respondent	%
1	Intermediary	18	30
2	Fund mobilization	21	35
3	Investment portfolio management services	15	25
4	Advisory	6	10
Total		60	100

(Source: Field survey 2012)

Figure 4.14

Role of merchant bankers in the capital market



4.14.5 Role of securities Board in issue of securities.

Out of 60 respondents, the role of securities board in issue of securities highlighted as 20% protection of right and interest of investor, 30% making public issue, 20% encouraging securities, 25% governing traded securities and 5% others. It is more clear from following table 4.16 and the figure 4.15

Table 4.16

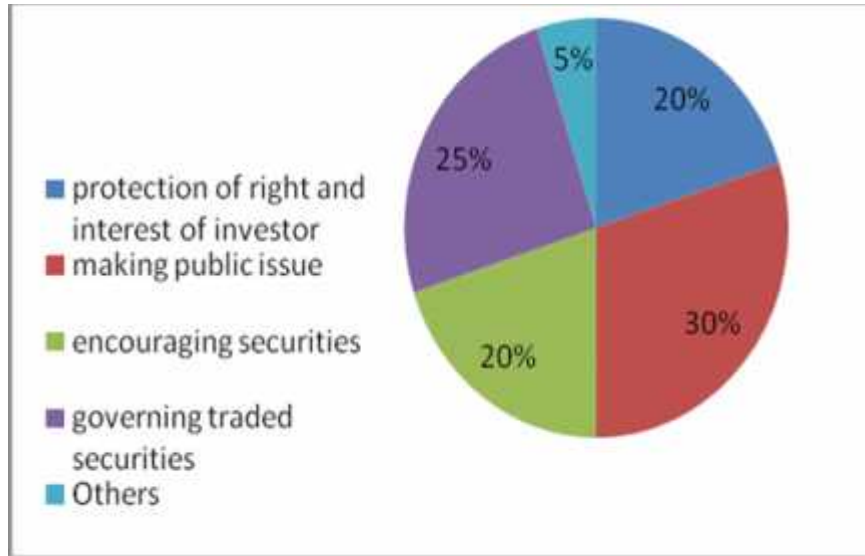
Role of securities Board in issue of securities

S. N.	Role of SEBON	No. of respondents	%
1	protection of right and interest of investor	12	20
2	making public issue	18	30
3	encouraging securities	12	20
4	governing traded securities	15	25
5	Others	3	5
Total		60	100

(Source: Field survey 2012)

Figure 4.15

Role of securities Board in issue of securities



4.14.6 Environmental factor affected in Nepalese capital market

Out of 60 respondents, the environmental factor affected in Nepalese capital market as 60% political, 15% economic and social, 5% industrial pattern, 20% government policies. It is more clear from following table 4. 17 and the figure 4.16

Table 4.17

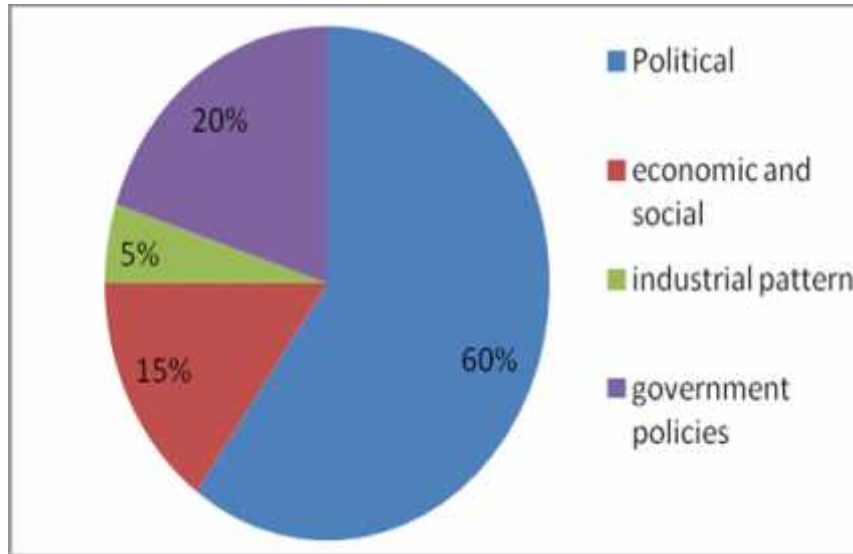
Environmental factor affected in Nepalese capital market

S. N.	Factor	No. of respondents	%
1	Political	36	60
2	economic and social	9	15
3	industrial pattern	3	5
4	government policies	12	20
Total		60	100

(Source: Field survey 2012)

Figure 4.16

Environmental factor affected in Nepalese capital market



4.14.7 Cost of public issue companies in Nepal.

Nepalese public issue companies are costly in contrast to India. Nepalese public issue companies are costly service charge, underwriting commission, brokerage commission etc. Out of 60 respondents, 60% agree Nepalese public issue companies high cost, 35% moderate and 5% low. It is more clear from following table 4. 18 and the figure 4.17

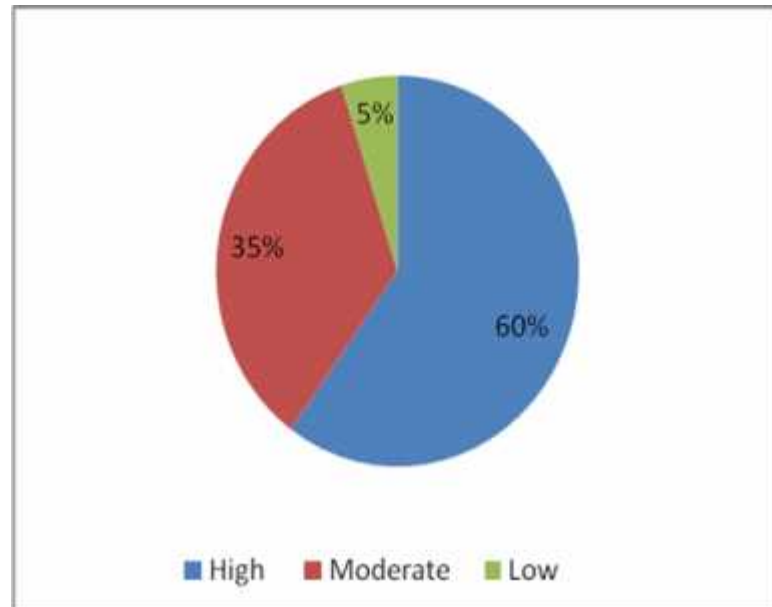
Table 4.18

Cost of public issue companies

S. N.	Cost of public issue companies	No. of respondents	%
1	High	36	60
2	Moderate	21	35
3	Low	3	5
Total		60	100

(Source: Field survey 2012)

Figure 4.17
Cost of public issue companies



4.15 Major findings of the study

The major findings of the study are described as follows:

-) The total number of issue of the Nepalese capital market is increasing day by day. The number of issues was 16 in the fiscal year 2050/51 but at the end of the fiscal year 2067/68 it has reached 432 issues.
-) The highest number of issued was 64 (14.81%) in fiscal year 2064/065 and FY 2065/066. The second highest issue was 61 issues (14.13%) in fiscal year 2066/067. Likewise, number of issue was 47 (10.87%) and it was the third highest issue. In fiscal year 2060/061 and 2061/062 numbered of issue was 14 (3.24%) respectively. Similarly, the least three issued during the period were 5 issues (1.15%), in the fiscal year 2053/054 and 2055/056, 6 issues (1.38%) in the fiscal year 2056/057 and 9 issue (2.08%) in the fiscal year 2057/058 and 12 issues (2.77%) in fiscal year 2052/053 , 2054/055 and 2058/059 respectively.
-) During the fiscal year 2050/051 to 2067/068 total public issued amount is Rs. 56966.12 million. Ordinary share, right share, debenture and preference share are issued Rs. 20,032.47, Rs.30394.15, Rs.5903.00 and Rs. 636.5 respectively.

-) Out of among types of securities highest amount issue was right shares which are approximate 53.36% of the total amount issued. Ordinary share issue is around 35.16% which is the second highest. Debenture and preference share are issued approximately 10.36% and 1.12% of total issued amount. Previously shows that most popular security issued in Nepalese primary market is ordinary share but now it is replaced by the right share.
-) The highest amount issue was Rs. 16,828.5 million in fiscal year 2065/066. It is the 29.54 % of the total issued amount. In fiscal year 2066/067 total amount issued is Rs. 10822.41 million which is 18.99% of the total issued amount i.e. second highest issue. Third and fourth highest public issue is Rs.10668.2 million and Rs. 6754.03 million in fiscal year 2064/065 and 2067/068 which is 18.72% and 11.85% respectively of the total amount issued. Least amount issue is Rs.173.96 million in the fiscal year 2051/52 which is only 0.30%. Second and third lowest issue is Rs.244.40 and Rs.258.00 million respectively in the fiscal year 2050/051 and 2055/056 which are 0.42% and 0.45% respectively.
-) Under the year wise number and types of securities issued in the Nepalese capital market, the total number of issue was 432 during FY 2050/051 to 2067/068. Among this, the highest issued security is right share which is 212, Second highest is ordinary issue which is 200. Preference share is the least issues i.e. only 4 during the period. Likewise, 16 debenture issues among the total number issued and which is the second lowest issued number.
-) During the period of FY 2050/051 to 2067/068 total companies 432 companies issued their common stock for public subscription and among them common stock issue of 408 companies (94.44 %) have been oversubscribed. common stock issue of 19 companies (4.40 %) have been undersubscribed and remaining 5 companies (1.16 %) issue have been fully subscribed. Furthermore, all those companies who issued their common stock in FYs 2050/051, 2053/054, 2056/057, 2057/058, 2059/060, 2060/061 and 2062/63 have been fully oversubscribed.
-) 14 companies issued their shares for public subscription in year 2050/051, 2059/060 and 2062/063 in high range. And it is followed by 10 companies in year 2051/052, 2052/053, 2060/061 separately while in lowest range only 2 companies issue their common stock for public in year 2053/054 and it is followed by 3 companies in year 2055/056 and

2056/057 respectively. After the FY 2061/062 to FY 2067/068 all the number of share issue companies is fully oversubscribed.

- J The total amount of the issue is Rs. 56,966.12 million. The highest total amount of public issue is Commercial bank Rs. 24585.2 million (43.16%), Second highest is finance companies Rs. 16484.97 million (28.94%), third highest is Development bank Rs.9478.1million (16.63%), Approximately 72% of the secondary market is covered by commercial bank and finance sector. Likewise, Manufacturing sector and other sector issued Rs. 878.38 million (1.15%) and Rs. 577.97million (1.01%) respectively. The total amount issued by insurance company is 1970.11million (3.46%), Hotel and Hydro power sectors issued Rs. 796.45 million (1.40%) and Rs. 2194.94 million (3.85%) respectively of the total amount issued.
- J Under the Sector wise issued amount to general public around 88.73% market is covered by banking and financial (Commercial banks, Development banks and Finance companies) and rest weighted percentage are encouraged in hydropower , insurance manufacturing, hotels and others sectors respectively.
- J Among the 432 issues, the highest issues are managed by NCML i.e. 116 alone and other issues are jointly managed with NMB and CIT. Second highest issues are managed by NMB which is 90 issues alone and other are jointly managed with CIT and NCML. Third highest issued securities managed by ACE i.e.68. Fourth highest issued securities managed by CIT i.e. 50 alone and other are jointly managed with NCML, NMB and RBB. Likewise, NSML and NEFINSCO managed equal i.e. 17 securities out of the total 432 securities which is fifth highest issue managed. Both of them also managed two other securities jointly with NCML and NSMB.
- J The least issue was managed by RBB and NSMB and DCBL i.e. 2 issues alone and 1 issue managed jointly with other issue manager. NFCL, Grow more, Civil Capital market, and Nabil Investment Company are managed 14,12, 14 and 4 issues respectively. At present out of them only six Issue Managers AFC, NMB, CIT, NFCL, NCML and NEFINSCO, Growmore, Civil Capital, Nabil Investment and Elite capital are doing issue manager activities.
- J The highest percentage growth of primary issue securities was 364.74% in FY 2058/059, Second highest is 251.12% in the FY 2058/059. Third, fourth and fifth, six and seventh highest growth of primary issue was 84.62%, 68.85%, 58.32%, 57.74% and 50.19% in

the FYs 2060/061, 2052/053, 2061/062 2065/066 and 2062/063 respectively. But primary growth rate is decreasing by 61.39%, 44.19%, 37.59%, 35.69% and 6.04% in FYs 2059/060, 2055/056, 2067/068, 2066/067 and 2063/064 respectively. Average growth of primary issue was 49.11% during the 18 years with average yearly amount of Rs.3164.78 million.

- J Correlation between total amount and yearly growth is 0.2439 which is very low. By this statistical tools also yearly total amount and yearly growth is low correlative but in positive vibration.
- J After the adoption of liberal economic policy by Nepal Government, a large number of companies established in the past 18 years. Primary market in to a healthy and efficient one where corporate bodies can easily raise funds according to their requirements and investors can invest their savings into a long-term instrument with higher return.
- J National Stock Exchange and Kathmandu Stock Exchange had applied at SEBON a couple of years ago, expressing interest to run a stock exchange. However, both the firms agreed in principle to undergo merger after SEBON hinted that would give license to only one stock exchange. But there is need to establish a new stock exchange in the country to improve service delivery in the new secondary market by increasing competition among stock exchanges.

Major findings of the primary Analysis study:

- J Sources of information about primary issue in Nepalese capital market is mostly based on 45% through media, 35% respondents through friends and relatives, 15% respondents through broker and 5% respondents others out of total 60 respondents.
- J Types of securities offered in the Nepalese Capital Market, most of the 60% offered common stock/equity, 20% offered preference share/stock, 17% offered bond/debenture and 3% offered warrant out of total 60 respondents.
- J 30% Issuing Company raising fund from IPO by industrial intuition, 50% by financial intuition and 20% by others out of 60 respondents.
- J Out of 60 respondents, the role of merchant bankers in the capital market as 30% intermediary role, 35% fund mobilization, 25% investment portfolio management services and 10% advisor role respectively.

-) The role of securities board in issue of securities as 20% protection of right and interest of investor, 30% making public issue, 20% encouraging securities, 25% governing traded securities and 5% others out of 60 respondents.
-) The environmental factor affected in Nepalese capital market is mostly political i.e. 60%, 15% economic and social, 5% industrial pattern, 20% government policies.
-) Nepalese public issue companies are costly in contrast to India Nepalese public issue companies are costly service charge, underwriting commission, brokerage commission etc. Out of 60 respondents, 60% agree Nepalese public issue companies cost is high.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Primary market is one of the important components of capital market. Capital market facilitates the exchange of financial assets by bringing together buyers and sellers of securities. Capital markets provide an effective way of raising money for commercial enterprises and in the meantime provide an investment opportunity for individuals and institutions. Thus, primary markets have both theoretical and practical perspectives. This study mainly aims to examine the '*Primary Market's Problem and Prospectus in Nepalese Capital Market*'. The specific objectives of this study are:

-) To state the current situation of primary market in Nepalese capital market
-) To explore the problems faced in the primary market.
-) To study and analyze the present position held by primary market in Nepalese capital market.
-) To examine and recommend the future prospects of the primary market.

Although, some studies regarding the different issues of primary market are already conducted in Nepal, the study based on the primary market it's problem and prospectus in Nepalese capital market is probably the first in Nepal. This study is based on the secondary data with large sample of primary issue companies from different sectors. This study covers almost all sectors/companies (i.e. banking sector, finance sector, development bank sector, manufacturing and processing sector, hotel sector, insurance sector, hydropower sector and other sector) issuing securities to the public. For the purpose of this study, the necessary secondary data has been collected since 2050/051 to 2067/068 with respect to annual reports, other bulletin of NEPSE and its website: <http://www.nepalstock.com>, the annual reports of SEBO/N and its website: <http://www.sebonp.com> and the annual reports of specific companies. This study is based on time series data analysis of 432 observations of the sample companies. The time series data are used to trace out the current situation of primary market's

problem in Nepal. This study used different tools to accomplish its objectives. The multiple bar diagram, pie-chart were used to analyze the picture of primary market condition in Nepal.

5.2 Conclusion

Based on the major findings of the study, it is concluded that companies have issued basically four types of securities in Nepalese capital market.(that are ordinary shares, preference shares, mutual fund's shares; debentures and right shares). The total number of issue of the Nepalese capital market is increasing day by day. The number of issues were 16 in the fiscal year 2050/51 but at the end of the fiscal year 2066/67 total number of issued is reached to 432 issues. The highest number of issued was 64 (14.81%) in the fiscal years 2064/065 and 2065/066. The second highest issue was 61 issues (14.13%) in fiscal year 2066/067. Likewise, number of issue was 47 (10.87%) and it was the third highest issue. In the fiscal years 2060/061 and 2061/062 numbered of issue was 14 (3.24%) respectively. Similarly, the least three issued during the period were 5 issues (1.15%), in the fiscal years 2053/054 and 2055/056, 6 issues (1.38%) in the fiscal year 2056/057 and 9 issue (2.08%) in the fiscal year 2057/058 and 12 issues (2.77%) in fiscal years 2052/053 , 2054/055 and 2058/059 respectively. During the fiscal years 2050/051 to 2067/068 total public issued amount is Rs. 56966.12 million. Ordinary share, right share, debenture and preference share are issued Rs. 20,032.47, Rs.30394.15, Rs.5903.00 and Rs. 636.5 respectively.

Out of among types of securities highest amount issue was right shares which are approximate 53.36% of the total amount issued. Ordinary share issue is around 35.16% which is the second highest. Debenture and preference share are issued approximately 10.36% and 1.12% of total issued amount. Previously shows that most popular security issued in Nepalese primary market is ordinary share but now it is replaced by the right share.

The highest issues are managed by NCML i.e.116 alone and other issues are jointly managed with NMB and CIT. Second highest issues are managed by NMB which is 90 issues alone and other are jointly managed with CIT and NCML. Third highest issued securities managed by ACE i.e.68. Fourth highest issued securities managed by CIT i.e. 50 alone and other are jointly managed with NCML, NMB and RBB. Likewise, NSML and NEFINSCO managed equal i.e. 17 securities out of the total 432 securities which is fifth highest issue managed. Both

of them also managed two other securities jointly with NCML and NSMB. Likewise, the least issue was managed by RBB and NSMB and DCBL i.e. 2 issues alone and 1 issue managed jointly with other issue manager. NFCL, Growmore, Civil Capital market, and Nabil Investment Company are managed 14, 12, 14 and 4 issues respectively. At present out of them only six Issue Managers AFC, NMB, CIT, NFCL, NCML and NEFINSCO, Growmore, Civil Capital, Nabil Investment and Elite capital are doing issue manager activities.

The highest total amount of public issue is Commercial bank Rs. 24585.2 million (43.16%), Second highest is finance companies Rs. 16484.97 million (28.94%), third highest is Development bank Rs.9478.1million (16.63%), Approximately 72% of the secondary market is covered by commercial bank and finance sector. Likewise, Manufacturing sector and other sector issued Rs. 878.38 million (1.15%) and Rs. 577.97million (1.01%) respectively. The total amount issued by insurance company is 1970.11million (3.46%), Hotel and Hydro power sectors issued Rs. 796.45 million (1.40%) and Rs. 2194.94 million (3.85%) respectively of the total amount issued. The total amount of the issue is Rs. 56,966.12 million up to the end of fiscal year 2067/068. Under the Sector wise issued amount to general public around 88.73% market is covered by banking and financial (Commercial banks, Development banks and Finance companies) and rest weighted percentage are encouraged in hydropower , insurance manufacturing, hotels and others sectors respectively.

During the period of FY 2050/051 to 2067/068 total companies 432 companies issued their common stock for public subscription and among them common stock issue of 408 companies (94.44 %) have been oversubscribed. common stock issue of 19 companies (4.40 %) have been undersubscribed and remaining 5 companies (1.16 %) issue have been fully subscribed.

The highest percentage growth of primary issue securities was 364.74% in FY 2058/059, Second highest is 251.12% in the FY 2058/059. Third, fourth and fifth, six and seventh highest growth of primary issue was 84.62%, 68.85%, 58.32%, 57.74% and 50.19% in the FYs 2060/061, 2052/053, 2061/062 2065/066 and 2062/063 respectively. But primary growth rate is decreasing by 61.39%, 44.19%, 37.59%, 35.69% and 6.04% in FYs 2059/060, 2055/056, 2067/068, 2066/067 and 2063/064 respectively. Average growth of primary issue

was 49.11% during the 18 years with average yearly amount of Rs.3164.78 million during the study period.

5.3 Recommendations

To develop and expand the Nepalese primary market more effective and efficient the following recommendations have been recommended on the basis of major finding and conclusion:

-) The Securities Board of Nepal and other concerned authorities should conduct public awareness and investors education programs to increase the level of investors' awareness.
-) The market intermediaries should be educated, trained and professionalized.
-) The information and financial statements of the companies should be disseminated properly and timely
-) The government should make clear and specific plans and policies to expand the capital market and should implement these.
-) The government should allow foreign investors to invest in Nepalese Capital Market.
-) Large and ineffective government corporations should be privatized in order to develop the Nepalese stock market through the wide spread distribution of shares to public investors.
-) Independent rating agencies should be encouraged to establish so that the potential investors will have a confident picture of the financial strength and future prospects of organizations/Instruments.
-) Encourage active participation of other sectors of the economy besides banking and financial sectors through the enforcement of good corporate governance. Investment in corporate sectors i.e. hydropower, insurance and manufacturing sectors should be encouraged.
-) Most of the companies are issued common stock for the public. Hence, in order to grow the primary market, Companies and government policy should be encouraged in the issue of debenture, preference share and other instruments to the public.
-) A professional independent analysis in the Nepalese capital market should be encouraged. Likewise, Economic journalism should be encouraged to come forward to

fulfill their responsibility to the society and the expectation of the investor which help to take investment decision.

) There is need to establish a new stock exchange in the country to improve service delivery in the new secondary market by increasing competition among stock exchanges. For this the government and SEBON thoroughly should make new license stock exchange policy so that NEPSE competitors are introduced which leads to encourage investors outside valley also.

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Appendix-I

Fiscal Year	Yearly total amount (X)	$X - \bar{X}$	$(X - \bar{X})^2$
2050/051	244.4	-2920.38	8528619.344
2051/052	173.96	-2990.82	8945004.272
2052/053	293.74	-2871.04	8242870.682
2053/054	332.2	-2832.58	8023509.456
2054/055	462.36	-2702.42	7303073.856
2055/056	258	-2906.78	8449369.968
2056/057	326.86	-2837.92	8053789.926
2057/058	410.49	-2754.29	7586113.404
2058/059	1441.33	-1723.45	2970279.903
2059/060	556.54	-2608.24	6802915.898
2060/061	1027.5	-2137.28	4567965.798
2061/062	1626.82	-1537.96	2365320.962
2062/063	2443.28	-721.5	520562.25
2063/064	2295.5	-869.28	755647.7184
2064/065	10668.2	7503.42	56301311.7
2065/066	16828.5	13663.72	186697244.2
2066/067	10822.41	7657.63	58639297.22
2067/068	6754.03	3589.25	12882715.56

Total	$\sum X = 56966.12$	$\sum X - \bar{X} = 0.0$	$\sum (X - \bar{X})^2 = 397635612.2$
Average	$\bar{X} = 3164.78$		

$$\bar{X} = \frac{\sum X}{n} = \frac{56966.12}{18} = 3164.78$$

Fiscal Year	% yearly growth (Y)	Y-Y	(Y-Y)²
2050/051	0	-49.11	2411.7921
2051/052	28.82	-20.29	411.6841
2052/053	68.85	19.74	389.6676
2053/054	13.09	-36.02	1297.4404
2054/055	39.18	-9.93	98.6049
2055/056	-44.19	-93.3	8704.89
2056/057	26.69	-22.42	502.6564
2057/058	25.58	-23.53	553.6609
2058/059	251.12	202.01	40808.0401
2059/060	-61.39	-110.5	12210.25
2060/061	84.62	35.51	1260.9601
2061/062	58.32	9.21	84.8241
2062/063	50.19	1.08	1.1664
2063/64	-6.04	-55.15	3041.5225
2064/065	364.74	315.63	99622.2969
2065/066	57.74	8.63	74.4769
2066/067	-35.69	-84.8	7191.04
2067/068	-37.59	-86.7	7516.89
Total	$\Sigma Y = 884.04$	0.0	$\Sigma(Y - \bar{Y})^2 = 186181.8634$
Average	$\bar{Y} = 49.11$		

$$\bar{Y} = \frac{\Sigma Y}{n} = \frac{884.04}{18} = 49.11$$

Correlation between total amount and yearly growth

Fiscal Year	Yearly total amount (X)	% yearly growth (Y)	XY	X ²	y ²
2050/051	244.4	0	0	59731.36	0
2051/052	173.96	28.82	5013.5272	30262.0816	830.5924
2052/053	293.74	68.85	20223.999	86283.1876	4740.3225
2053/054	332.2	13.09	4348.498	110356.84	171.3481
2054/055	462.36	39.18	18115.2648	213776.7696	1535.0724
2055/056	258	-44.19	-11401.02	66564	1952.7561
2056/057	326.86	26.69	8723.8934	106837.4596	712.3561
2057/058	410.49	25.58	10500.3342	168502.0401	654.3364
2058/059	1441.33	251.12	361946.7896	2077432.169	63061.2544
2059/060	556.54	-61.39	-34165.9906	309736.7716	3768.7321
2060/061	1027.5	84.62	86947.05	1055756.25	7160.5444
2061/062	1626.82	58.32	94876.1424	2646543.312	3401.2224
2062/063	2443.28	50.19	122628.2232	5969617.158	2519.0361
2063/064	2295.5	-6.04	-13864.82	5269320.25	36.4816
2064/065	10668.2	364.74	3891119.268	113810491.2	133035.268
2065/066	16828.5	57.74	971677.59	283198412.3	3333.9076
2066/067	10822.41	-35.69	-386251.8129	117124558.2	1273.7761
2067/068	6754.03	-37.59	-253883.9877	45616921.24	1413.0081
Total	ΣX =56966.12	ΣY =884.04	ΣXY =489655 2.949	ΣX² =5779211 02.6	ΣY² =2296 00.014

$$r = \frac{n \sum XY - \sum X \times \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \cdot \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{18 \times 4896552.949 - 56966.12 \times 884.04}{\sqrt{18 \times 577921102.6 - (56966.12)^2} \sqrt{18 \times 229600.014 - (884.04)^2}}$$

$$= 0.2439$$

Questionnaire

Dear Respondent,

This questionnaire is a part of my research work in entitled "**Primary Market's Problem and Prospects in Nepalese Capital Market**". I request you all to fill this questionnaire with sincerity. Your response will have direct impact on research outcome, so I request you to be honest.

(1) what are the sources of information about primary issue in Nepalese capital market?

- a. Through Media
- b. Through broker
- c. Friends and relatives
- d. others

(2) What types of securities offered in the primary market?

- a. Common Stock/equity
- b. Preference share/stock
- c. Bond/debenture
- d. Warrant

(3) Which types of issuing company is raising funds from the IPO?

- a. Intuition
- b. Financial
- c. Others

(4) What types of the role in the capital market by merchant bankers?

- a. Intermediary
- b. Fund mobilization
- c. Investment portfolio management services
- d. Advisory

(5) What is the role of securities board of Nepal in securities issue?

- a. protection of right and interest of investor
- b. making public issue
- c. encouraging securities
- d. governing traded securities
- e. Others

(6) Which environmental factor affect mostly in the movement of Nepalese capital market?

- a. Political
- b. economic and social
- c. industrial pattern
- d. government policies

(7) Is the cost of public issue companies in Nepal is high?

- a. High
- b. Moderate
- c. Low