Research Article

PERCEPTION OF INVESTORS TOWARDS INITIAL PUBLIC OFFERING (IPO) IN NEPAL: WITH REFERENCE TO KATHMANDU DISTRICT

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ABSTRACT

The main purpose of the study is to examine perception of investor towards IPO, to analyze the relationship between different factors (Quality management, Company Goodwill, Company performance, Company sector and Market information) and investment decision and to examine the impact of such factors on investment decision in IPO. The research is primarily based on primary data. Data was collected from 290 respondents who were connected at five different brokerage firms at Kathmandu district. The inferential analysis was preferred in SPSS by using statistical tools such as correlation and regression analysis were used to analyze the relationship between variables and impact of different factors on investment decision (dependent variable). The study revealed that Quality management, Company goodwill, Company performance, Company sector and Market information are the highly considerable factors before making investment decision in IPO.

Keywords: Investors, Initial Public Offering, Perceptions, Financial Market.

INTRODUCTION

An initial public offering is the sales of company's stock to the public for the first time. The primary impetus for an IPO is generally either to raise capital or to offer an exit strategy. In fact the firm in most incipient stage of development generally relies entirely on personal loans, saving, family and friends for their initial financing. The financial market provides a platform to the buyers and sellers, to meet, for trading assets at a price determined by the demand and supply forces. Financial market is broadly classified in to two types on the basis of maturity- money market and capital market. It is divided in to two types- primary market and secondary market. Primary market is a financial market where company listed on an exchange, for the first time, issues new security or already listed company brings the fresh issues (financialjargon.com). Initial public offering (IPO) is the process by which a private company can go public by sale of its stocks to general public. It could be a new, young company or an old company which decides to be listed the stock exchange and hence goes public. All the traded stocks are listed in NEPSE in Nepal. Company raising money through IPO is called as 'company going public'. When a company offers stocks to the public, then each stock represents a piece of ownership. And each investor who holds stocks of the company will be considered as a part of the owners of the company. When a company does perform well, its investors get rewarded in the form of increased value of their stock. The risk comes when a company is not doing well, and its stock value is on the fall. Investment decision in any avenue is an outcome of some analyses. It may be both fundamental analysis and technical Analysis. IPO issues provide an opportunity to maximize returns as they penetrate into equity investments. (www.invetopedia.com). Khatri. (2017) explains the reason for IPO issues are - Funding Needs and Non-funding Needs. Funding Capital Requirements for Organic Growth, Expansion through Projects, Diversification, Funding Global Requirements, Funding Joint Venture and Collaborations needs, Funding Infrastructure Requirements, Marketing Initiatives and Distribution Channels, Financing Working Capital Requirements,

Funding General Corporate Purposes, Investing in businesses through other companies, Repaying debt to strengthen the Balance Sheet and Meeting Issue. The IPO application process in Nepal is now digital and so everything is done online. No more visiting the banks. Apply for the IPOs of Nepal through laptop or even a smartphone or tablet. The sale goes usually for 4 working days and it is within those 4 days one must go to the meroshare website, access and fill up the ASBA (Application Supported by Blocked Amount) with all the details and submit it. Make sure that bank account has the necessary rupees amount that is to be blocked for ASBA. Then within a week for the allotment to be concluded. After that, depending upon the number of shares issued, the number of total applications received and amount of investment, investors are allotted a certain number of shares. Since Shrawan 2074, every accurate application/applicant gets at least 10 units of IPO shares. However, depending on the number of applications, investor might receive additional shares if there are more to be allotted or no shares if there aren't enough for everyone. After allocation, the financial organization will release the blocked amount while debiting the allotted share amount from investor's bank account. After some time, the share quantity that investor were allotted will show up in their DEMAT account statement (unicodnepali.com).

Objectives of the study

The objective of this research is to analyze the relationship and effects between different factors (Quality management, Company goodwill, Company performance, Company sector and Market information) and investment decision of investors.

Dependent and Independent variables

In this paper there are five independent variable: Quality management, Company goodwill, Company performance, Company sector and Market information. And it has one dependent variable research investment decision on IPO. This conceptual framework has been developed based on the study made by Craig (2000), Leila B & Farshid (2014), Singh (2012), Kunwar (2016), Adhikari (2017) and Srinivas& Rao (2017).

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Conceptual framework
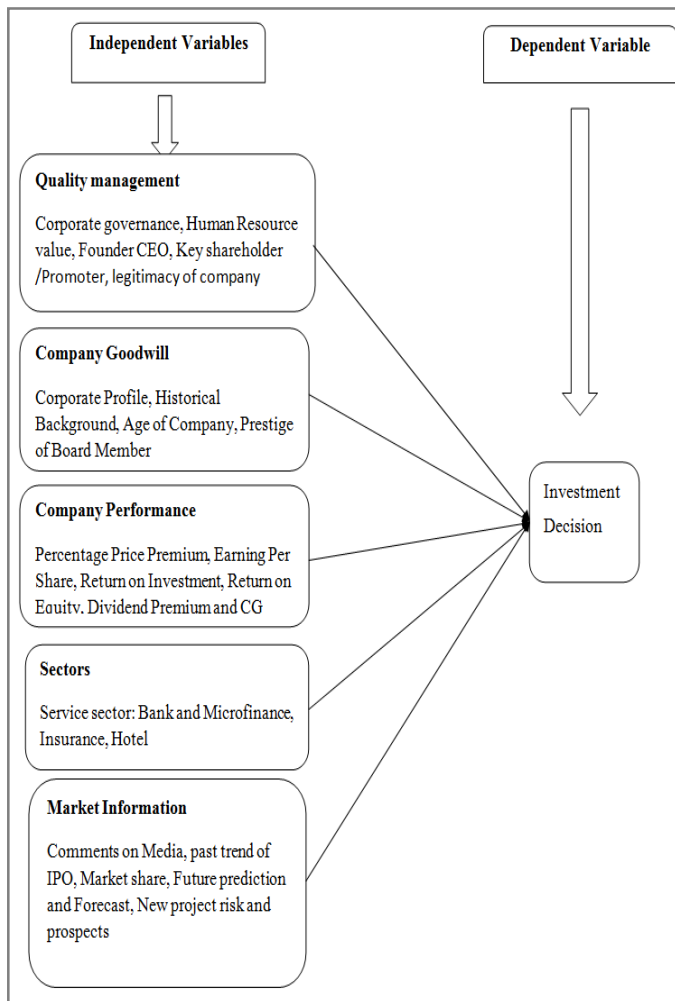
Research hypothesis

Following hypothesis was formulated for the study "perception of investors towards Initial Public Offering (IPO) in Nepal."

Hypothesis 1: There is positive relationship between quality management and investment decision.

Hypothesis 2: There is positive relationship between company goodwill and investment decision.

Hypothesis 3: There is positive relationship between company performance and investment decision.

Hypothesis 4: There is positive relationship between company sector and investment decision.

Hypothesis 5: There is positive relationship between market information and investment decision.

Review of literature

Craig (2000) – "Factors affecting investment bank initial public offering market share". The researcher examines the effects of several factors on the market share of investment banks that act as book managers in initial public offerings between 1984 and 1995. The researcher concluded that for established banks, IPO first day returns, one year abnormal performance, abnormal compensation, industry specialization, analyst reputation and association with withdrawn offer have a significant impact on changes in market share. Bennet, *et al.* (2011) studied the Investors' Attitude on Stock Selection Decision to analyze the investors' perception of the various factors that influence the Equity Stock Selection Decision. The study was depended heavily on primary data. The required data were collected from the retail investors living in Tamil Nadu during the period between May and September 2010 through a Structured Questionnaire. The study was descriptive in nature. The sample size covered 400 retail investors who were spread through ten different Investment Centers. The analysis of this study reveals the fact that the average value of the five factors, namely, Return on Equity, Quality of Management, Return on Investment, Price to Earnings Ratio and various ratios of the company influenced the decision makers. Further, other five factors, namely, Recommendation by Analyst, Broker and Research Report, Recommended by Friend, Family and Peer, Geographical Location of the Company and Social Responsibility were given the lowest priority. Leila B & Farshid A. (2014) – "Study of Factors Affecting the Initial Public Offering (IPO) Price of the Shares on the Tehran Stock Exchange." The main objective of the researcher was to examine whether pricing the initial offering exchange in Tehran Stock Exchange is less than actual and to study the factors that affect pricing of initial share on stock exchange. The researcher for the purpose of the study included 115 stock exchange companies from 2006 to 2012. The researcher concluded that P/E variable has significant relation with price changes on initial offerings and had highest impact on price of initial offerings.

Singh (2012) carried a study intended to determine the perception of investors towards IPO. The study explains that investing in IPOs, investors consider five main factors i.e. the corporate image, size, performance of previous IPOs, price and present market conditions. Males generally have a tendency to invest in smaller amounts whereas females are likely to be more speculative. Further, he found that the investors investing the highest amount of money usually base their decisions on the growth and profits, while those in lowest investment bracket base their decisions on growth and do not give major emphasis on the number of years, the company has been in business with, while it beings a major parameter for middle investment bracket. Leila & Farshid (2014) studied the Factors Affecting the Initial Public Offering (IPO) Price of the Shares on the Tehran Stock Exchange. The main objective of the researcher was to examine whether pricing the initial offering exchange in Tehran Stock Exchange is less than actual and to study the factors that affect pricing of initial share on stock exchange. The researcher for the purpose of the study included 115 stock exchange companies from 2006 to 2012.The researcher concluded that P/E variable has significant relation with price changes on initial offerings and had highest impact on price of initial offerings. Kunwar (2016) studied about the awareness, perception and investment decision of individual investors towards initial public offering (IPO) to identify the investor's perception and level of awareness about IPO in Nepal and to investigate the factors that affects investment decision on IPO.

The study used descriptive and inferential analysis. Convenient sampling was used to collect the primary data from 116 respondents. The study found that there was positive perception of investor towards IPO in Nepal. The study also revealed that awareness level of investor was well above the needed level and the perception of investor towards IPO and awareness level of investor is indifferent based on their gender, age, occupation and monthly income. Adhikari (2017) in his study made an attempt to identify the factor influencing individual investor's behavior during initial public offering (IPO) in Nepal. The basic purpose of the study is to analyze and examine the investor's perception and factors that influence individual investor behavior during IPOs in Nepal. In this study exploratory and descriptive research design has been used. Convenience sampling was used to collect the primary data from 100 respondents through questionnaire. The Study found out that capital appreciation, investors demographics trends, preferred source of information, and industry specialization are the most important factor before making

investment decision in IPO. Adoption of interest, social media, mobile marketing and awareness program will enhance the public knowledge on IPO and investment at the stock exchange. Srinivas & Rao (2017) tried to find out the factors influencing investment decision in IPO among retail individual investors. The study shows that capital appreciation and safety in investment are the driving forces of the investment. Higher annual returns are also motivating investors towards investment in IPO. Most of the respondents are investing their funds for very short period of time i.e. less than 3 months. They are subscribing shares in primary market through IPO and are selling in secondary market for higher return. Long term investment reduces risk and increase return so investors should invest for long time.

METHODS

The research study attempts to analyze the attitude of investors towards IPO in Nepal. To conduct the study two types of approach were adopted – descriptive and explanatory research design. The target population for this study includes all the investors who invested in Initial Public Offering (IPO) in Kathmandu District. As a result, researcher selected 320 investors to represent the population. Although questionnaires were distributed to total of 320 sample respondents, only 290 of them responded. The response rate was 90.63%. Kunwar (2016) in his study on the awareness, perception and investment decision of individual investor towards initial public offering (IPO) selected a sample of 232 investors to represent all the individual investors in the country.

This study adopted convenience sampling to collect data from the respondents. It is because the researcher has convenient accessibility of data and proximity where 5 major brokerage firms located in Kathmandu were visited to find the respondents which would represent the investor of the country. Furthermore, convenience sampling is ideal to deal with too large population. The data for research was collected with the help of a questionnaire based on a 5-point rating scale ranging from 1-very high consider to 5-very low consider. 32 opinion statements were set to measure 6 different variables among which 5 are independent variables, 1 is dependent variable. 28 different opinion statements were used to describe independent variables namely "Quality management", "Company Goodwill", "Company Performance", "Company Sector" and "Market Information". 4 different opinion statements described dependent variable which is "Investment decision".

The study used primary data since it provides relevant and current data in the subject of study. Questionnaires for this study were handed out to investors of 5 brokerage form inside Kathmandu valley. The data collection phase was estimated to be spanned over a total of 3 days. Responses on the questionnaire were received within a period of 5 days in the month of January 2020. The data collected from the questionnaire were analyzed using statistical tools and the results are presented. The analysis starts with the analysis of primary data through SPSS. Data collected from the respondents were coded and tabulated into SPSS worksheet. Cronbach's alpha coefficient was used to for scaled items to test the realiability. Regression, correlation and hypothesis have been used for inferential analysis. Cronbach's Alpha coefficient less than 0.6 is considered as 'poor'; greater than 0.6 but less than 0.8 is considered 'acceptable' and greater than 0.8 is considered 'good' Sekaran (2000). Here, Cronbach's Alpha of all variable is between 0.6 to 0.8 & above. So, they are acceptable. Therefore, the instruments used in this research are considered to be reliable.

Presentation and analysis of Data: This chapter describes the analysis results generated from the process of data collection. It deals

with the analysis and interpretation of the primary data collected through questionnaire from 290 respondents. Data were analyzed with reference to the objectives of this research as mentioned in the earlier section. The primary purpose of this chapter is to analyze and interpret the collected data and present the results derived from the analysis of the data.

Demographic profile

Respondents profile has been shown in the following table;

Table 1. Distribution of respondents profile

Profile		Frequency	Percent
	Below 25	40	13.8
	25-40	158	54.5
Age	41-55	82	28.3
	Above 55	10	3.4
	Total	290	100
	Male	160	55.2
Gender	Female	130	44.8
	Total	290	100
	SLC	18	6.2
	Intermediate	42	14.5
Educational Level	Bachelor	128	44.1
	Master level or above	102	35.2
	Total	290	100
	Business	8	2.8
	Investor	136	46.9
	Farmer	8	2.8
Occupation	Service	64	22.1
	Student	74	25.4
	Total	290	100
	1-10 thousand	170	58.62
	10-50 thousand	70	24.14
Investment amount in IPO	50-100 thousand	38	13.10
	1 lakh and above	12	4.14
	Total	290	100

Sources: Field Survey, 2020

According to Table 1, 13.8% of the respondents were of the age group of below 25 years, while those between 25-40 years were 54.5% of the respondents. Similarly, out of the total respondents, 28.3% and 3.4% of the respondents were aged between 41-55 years and above 55 years respectively. This shows that most of the retail investor respondents were in their prime ages between 25-40 years old which falls in the category of the youth. More than one-third (46.9%) of the respondents had stock investment as their main occupation, 25.5% respondents were student and 22.1% respondents had service. Among the total respondents 2.8% had business as their main occupation and also 2.8% were farmers. Majority (58.62%) of the respondents had amount 1-10 thousand invested in IPOs. Among the respondents, those who have invested amount Rs. 10-50 thousand and 50-100 thousand are 24.14% and13.10% respectively whereas, only 4.14% had investment amount Rs. 1lakh and above in IPO.

Inferential Statistics

Inferential statistics are procedures used that allow researchers to infer or generalize observations made with samples to the larger population from which they were selected. It produces new information by making predictions and generalizations based on samples.

Correlation analysis

Correlation between Independent and Dependent variables is shown in Table 2:

Table 2. Correlation analysis

Variables		Investment decision
Quality management:	Pearson Correlation	.466**
	Sig. (2-tailed)	.000
	N	290
Company goodwill:	Pearson Correlation	.719**
	Sig. (2-tailed)	.000
	N	290
Company performance:	Pearson Correlation	.573**
	Sig. (2-tailed)	.000
	N	290
Company sector:	Pearson Correlation	.751**
	Sig. (2-tailed)	.000
	N	290
Market information:	Pearson correlation	.441**
	Sig.(2-tailed)	.000
	N	290
Investment Decision:	Pearson Correlation	1
	Sig. (2-tailed)	
	N	290

**Correlation is significant at the 0.01 level (2-tailed)
Sources: Field Survey, 2020

The above table shows that the Pearson Correlation coefficient between the independent variable Quality Management, Company goodwill, Company performance, Company sector, Market information and dependent variable Investment Decision is 0.466,0.719 , 0.573,0.751,and 0.441 respectively which implies that the five variables are positively correlated and there is correlation between Quality Management, Company goodwill, Company performance, Company sector, Market information and perception in investment decision. They are significant at 1% significant level.

Regression analysis

In this case, regression analysis provides more information about the slope of the relationship. It is used to describe the nature of a relationship and to make predictions. Multiple regressions were used to explore the impact of independent variables (Quality management, Company goodwill, Company performance, Company sector, Market information) on dependent variable perception in investment decision. Statistically regression equation can be written as:

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i.$$

Where,

$\hat{Y}$	=	Investment decision (dependent variable)
X_1	=	Quality Management
X_2	=	Company Goodwill
X_3	=	Company performance
X_4	=	Company Sector
X_5	=	Market Information
α	=	Constant
$\beta_1, \beta_2 \dots \beta_5$	=	Regression coefficients of Factor 1 to Factor 5 respectively
e_i	=	Error term

Table 3. Model summary

Model	R	R Square	Adjusted R	Std. Error of the Estimate
1	.836a	.698	.687	.48407

Predictors: (Constant), Market Information, Company Sector, Company Performance, Quality Management, Company Goodwill.

Model summary indicates that the R- square also known as coefficient of determination which can help in explaining variance. The R^2 value of 0.698 in table 3 indicates that the model explains that 69.8% of independent variables are responsible for investment decision in IPO. However, the remaining 30.2 % is still unexplained in this research. Model summary also indicates the standard error of the estimate of 0.48407 which shows the variability of the observed value of investment decision from regression line is 0.48407 units.

Table 4. ANOVA test
ANOVA a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	75.402	5	15.080	64.357	.000b
	Residual	32.571	139	.234		
	Total	107.972	144			

a. Dependent variable: Investment decision
b. Predictor: (constant), market information, company sector, company performance, quality management, company goodwill.

The ANOVA test shows that the calculated p-value, 0.001, which is lesser than alpha value 0.01. Therefore, the model is a good predictor of the relationship between the dependent and independent variables. As a result, the independent variables (quality management, company goodwill, company performance, and company sector and market information) are significant in explaining the variance in investment decision in IPO.

On the basis of above findings, the following model has been developed.

$$\hat{Y} = -0.671 + 0.148X_1 + 0.337X_2 + 0.205X_3 + 0.487X_4 + 0.126 X_5$$

In the regression analysis, the beta coefficients are used to explain the relative importance of the independent variables in contribution to the variance in dependent variable. The results presented in Table 5, shows that company sector (β_4=0.487, p=0.000) carries the heaviest weight for investment decision, followed by Quality management (β_1=0.148, p=0.013), Company goodwill (β_2=0.337, p=0.000), Company performance (β_3=0.205, p=0.017), Market information (β_5=0.126, p=0.044). The results showed that a one-unit increase in company performance would lead to a 0.205 unit increase in investment decision keeping other variables constant. Similarly, one unit increase in Quality management factor would lead to a 0.148 unit increase in investment decision, one unit increase in Company goodwill factor lead to a 0.337 unit increase in investment decision and so on. In conclusion, quality management, company goodwill, company performance, company sector and market information dimensions are significant. Thus, the result of multiple regression analysis accepts alternative hypotheses that there is positive relationship between independent variables and dependent variable in investment decision.

Hypothesis Results

The results of each of these hypotheses are presented below.

Below table 6 shows that there exist relationship between each independent variable with dependent variable (Investment decision). The correlation is significant at 1% significant level, as each p-value is less than alpha i.e. 0.000<0.01. Hence, all hypothesis are accepted.

Major findings and Discussion

The objective of this research is to examine the perception of investor towards initial public offering (IPO) in Nepal. Five research hypotheses were formulated and tested to test the impact of five dimensions (quality management, company goodwill, company performance, and company sector and market information) considering investment decision.

Table 5. Regression Coefficient analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-0.571	.155		-3.675	.000
Quality Management	.148	.059	.135	2.530	.013
Company Goodwill	.337	.085	.274	3.957	.000
Company Performance	.205	.084	.142	2.427	.017
Company Sector	.487	.078	.411	6.238	.000
Market Information	.126	.062	.109	2.031	.044

Dependent variable: Investment Decision

Table 6. Hypothesis testing

S. N	Alternative hypothesis	Result/ Finding
H1	There is relationship between Quality management and investment decision.	0.000<0.01, H1 is accepted.
H2	There is relation between Company goodwill and investment decision.	0.000<0.01, H2 is accepted.
H3	There is relationship between Company performance and investment decision.	0.000<0.01, H3 is accepted.
H4	There is relationship between Company sector and investment decision	0.000<0.01, H4 is accepted
H5	There is relationship between Market information and investment decision.	0.000<0.01, H5 is accepted.

Sources: Field Survey, 2020

The significance of the hypothesis between the variable are also analyzed from the significant value drawn from the sample. All five alternatives are accepted. The correlation results were used to answer the five research hypotheses. The Pearson Correlation coefficient between all five independent variables and dependent variable (investment decision) was done, which implies that five variables (quality management, company goodwill, company performance, company sector and market information) are positively correlated at 1% significant level. The value of R-square value is 0.698 which means 69.8 % variation in investment decision is explained by the independent variables. However, the remaining 30.2 % is still unexplained in this research. In IPO, there have been many researches entitled around the world. Many researches were contributed in different dimensions of IPO. Srinivas & Rao (2017) studied the investors attitude towards investment decision in equity market showed that stock market have different attitude towards risk and return, where some investors are risk bearer and some are risk avoider. The risk bearer attitude will be based on personal, economical, environment and situational factors such as income, family size expenditure pattern and age. Similarly, Nagtilak & Kulkarni (2015) conducted the study on investor's perception towards initial public offering in Mumbai revealed that IPO is risk free form of investment where careful research and study needed. Likewise, vakil (2018) study of investor's perception about IPO and IPOs performance in stock market found that there exists risk return relationship on the behalf of investing in IPO. Investors invest in IPO due to expected higher return, company profile i.e. history of company, future expected growth in the form of dividend, earning per share and price.So above studies have same level of contribution and findings as like the study "perception of general investor towards IPO in Nepal. This research clearly indicates that company goodwill, company performance and market information are major factors which largely affect in perception in investment decision in IPO. Company sector and quality management also are the highly considered factors. This study contributes 69.8% on the perception in investment decision on IPO. This research is completely consistent with the above studies

Recommendations for Future Researchers

This research only focused on the five factors. However, future research regarding the relationship may provide insight about other variables that may have an effect on investment decision apart from the variables mentioned in this study. This study is purely an academic research, so sample size is small.

For the professional research purpose, in order to reduce the error and to make the result more pervasive sample size should be increased. This research was confined within Kathmandu district. Research can be conducted in overall country to make the research more effective and genuine. The concerned authority should conduct various research studies and disseminate the information relating the shares trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of the shares of a company before making investment decision. A recommendation for future researchers is to use a larger sample of participants comprised of the entire stock market as a whole so exact scenario of stock market in Nepal can be identified.

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