

## Assessing Initial Stock Returns in Nepal

JAS BAHADUR GURUNG\*

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### Abstract

The paper aims to examine the level of initial stock returns among Nepalese initial public offerings (IPOs). Further, it attempts to measure the impact of IPO specific factors on the level of initial stock returns. The data composed of 63 IPOs for the period of 2009/10 to 2018/19. The study revealed that the abnormal or market-adjusted initial stock return is 276.87 per cent which indicates the higher underpricing of Nepalese IPOs. It also suggests that issuing firms leave a considerable amount of money on the table when they go public. Of the five IPO specific factors examined, subscription times of IPOs only better explain the level of initial stock returns at one per cent level. Firm size, age of the firm, issue size of IPOs and performance of Nepal stock market show the weaker influence on initial stock returns. It implies that Nepalese primary market is largely inefficient. There is a need for an alternative pricing mechanism of IPOs. This will help to reduce the level of underpricing and tune the environment for investments in a broader perspective.

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### I. Introduction

ECONOMIC ACTIVITY AND growth of an economy rely largely on the existence of a financial system. A developed financial market fosters savings and mobilizes them to their most efficient use (Machiraju, 1998) under financial system. Primary market manages the new issue of securities such as shares and debentures in the form of a new flotation to raise capital for the investment in productive sectors. The funds mobilized through the primary market constitute real investment which in turn, helps capital formation in the economy.

Initial public offering (IPO) is considered as the new sale of firm's securities to the public for the first time in the primary market at large (Brealey & Myers, 2003) to raise fresh capital. Firms provide the job of issuing IPOs to the underwriter, a merchant banking firm, in the primary market. Such market also provides a platform for the sale of new securities called seasoned new issues, also referred to follow on public offering, that has already been

\* Assistant Professor, Tribhuvan University, The Department of Finance, Faculty of Management, Prithvi Narayan Campus, Pokhara Metropolitan City-1, Bagar, NEPAL.

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