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Investors' Perception towards IPO in Khairahani Municipality, Chitwan

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Abstract

The most important aspect of a company is its Initial Public Offering (IPO). The company's performance, the sector's performance, promoters' background, pricing mechanism, allotment procedures, the legal policy of SEBON, and market information are factors affecting IPO investment. In this context, this study attempted to explore the investors' perception towards allocating 10 units of IPO and Book Building System as well as to examine the factors that affect the investors' perception of IPO investment. The researcher employed the descriptive exploratory research design to reach the ontology of the issue. The study included 110 samples from Khairahani Municipality, Chitwan, who were selected purposively through a convenience sampling procedure. Face-to-face interviews and a self-administrative questionnaire were used to collect information from the respondents who had been applying for at least 10 units of IPO. The findings revealed that the company's performance and the sector's performance were the major factors that influenced investors' perception. The majority of investors selected the microfinance industry because it provided a satisfactory return to them. A majority of the investors would like to hold stocks allotted in the IPO for a longer period of more than one year. Investors had a positive perception towards allocating 10 units of the IPO. However, they remained neutral in the case of their interest in the Book Building System. The Securities Board of Nepal (SEBON)'s awareness program before introducing the Book Building Pricing Method can be effective to develop people's interest in Book Building System.

Keywords: investor, perception, IPO, Book Building System, SEBON, Chitwan

Introduction

Investment is the purchase of an asset with the expectation of a positive return in the future. Amling (1978) defines investment as 'the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period'. There are mainly two types of investment: real investment and financial investment. Real investment refers to the

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purchase of real (tangible) assets such as land, buildings, machinery, plants, etc. with the expectation of future return. Investment in financial assets such as shares, debenture, preferred stock, derivatives securities and so on by an investor is a financial investment (Sharma & Thapa, 2019).

An investor is any natural or legal person (such as a company or mutual fund) who invests capital with the expectation of receiving financial returns. Investors rely on a variety of financial instruments to generate a return and meet key financial goals, such as building retirement savings, funding a college education, or simply building additional wealth over time. There are a variety of investment vehicles to achieve goals, including stocks, bonds, commodities, mutual funds, exchange-traded funds, currencies, gold, silver, bonds, and real estate. Investors can analyze opportunities from different perspectives and generally prefer to minimize risk while maximizing return (www.investopedia.com).

Robbins (2005) states, "Perception is a process by which individuals organize and interpret their sensory impressions to give meaning to their environment." Perception can be defined as the process of getting information from external stimuli through sense organs, thereby trying to organize it systematically and interpret collected information to make it meaningful. Perception plays an important role as it helps us interpret something that we see or hear in our mind and use it later to judge and give a verdict on a situation, person, group, etc. Perception is important in understanding human behavior because every person perceives problems in the world and life differently. If people behave based on their perception, we can predict their behavior in the changed circumstances by understanding their perception of the environment (Poudel & Pradhan, 2020). Thus, an investor's perception is essential and plays an important role in an Initial Public Offering (IPO). The perception of individuals also depends on different factors such as interests, expectations, and attitudes. Positive perception and interest are essential as they help investors to motivate and actively participate in an Initial Public Offering (IPO). Investors anticipate a healthy return on their investment. If investors receive what they expected, they have a positive attitude toward the IPO, and can influence others to do the same.

A company selling its stocks to the public for the first time is called an IPO. It refers to the selling of securities to the general mass of investing public in the primary market. The main purposes of an IPO are to raise capital and to offer an exit strategy. For businesses started with a relatively small number of shareholders including the founder, their families, and friends, as well as professional investors such as venture capitalists or angel investors, an IPO is a big step for raising a lot of money. This gives the company

a greater ability to grow and expand. Brealy and Myers (2003) define initial public offering "as the original sale of a company's securities to the wider public for the first time in the primary market." An IPO is a special case of public issue. It is the first stock offering by a company to the public at large. The stocks are then listed on the stock exchange to facilitate trading.

IPO Pricing Mechanism

- i. Fixed pricing method where a company fixes a price at which the stocks will be offered to the public.
- ii. Book Building Method where the company stipulates a floor price or a price band and leaves it to market forces to determine the final price (Singh, 2012).

The process of IPO initially involves issuing stocks in the primary market through the help of investment banks. The process involves legal filing, marketing, and computation of the price and final allocation. In due time, they began trading on the stock exchange in the secondary market. Khatri (2017) explains the reasons for IPO issues are funding needs and non-funding needs. Funding capital requirements for organizing growth, expansion through projects, diversification, funding global requirements, funding joint ventures and collaborations, funding infrastructures requirements, marketing initiatives and distribution channels, financing working capital requirements, funding general corporate purposes, investing in businesses through other companies, repaying a debt to strengthen the balance sheet and meet issue expenses are the notable reasons for issuing stocks via IPO.

In the present context of Nepal, as there is a rapid increment in the number of applicants for IPOs, the chance of getting IPOs depends on the luck of the applicants. The increasing craze of people also makes the Securities Board of Nepal (SEBON) think about changing the present system of allocating 10 units of IPO as well as implementing Book Building Method. SEBON has issued Book Building Directives 2077 to implement the Book Building System. SEBON has approved qualified institutional investors to apply for IPO under the Book Building Method. Some experts opine that allocating 10 units of IPO has brought distortion in the Nepalese share market. So, it should be stopped immediately. As newly introduced investors are unknown to the Book Building System, they are not interested in this method. Hence, it is necessary to understand investors' perception towards allocating a minimum of 10 units of IPO as well as the Book-Building System. Similarly, many factors affect the investors' perception of an Initial Public Offering. However, it is necessary to identify the major factors affecting investors' perception of IPO as it is a relevant issue at present. Hence, this study aims to determine the factors that influence the investors' perception of the IPO.

Objectives of the Study

The main objective of this study was to identify the investors' perception of IPO in Khairahani Municipality, Chitwan District. To be more specific, this study had the following objectives:

- i. To identify the factors that influence the investors' perception of the IPO
- ii. To examine the perception of investors towards the allotment of 10 units of IPO.
- iii. To identify the interest of people towards the Book Building Method of the IPO issue

Review of Literature

Thapa (2021) studied investors' perception of initial public offerings based on both secondary and primary data analysis through a descriptive research design. The main purpose of this study was to evaluate investors' perceptions of the initial public offering. The study also focused on allocating 10 units of IPO as well as the book-building IPO system (which is about to be introduced). The study found that the size of allotment should be increased and the book-building method should be introduced as soon as possible since investors were highly interested in the book-building pricing method of IPO. A company's performance is an essential factor that affects investors' perception.

Gyawali (2020) studied the perception of investors toward initial public offering (IPO) in Kathmandu district, Nepal. The main objective of this study was to examine the perception of investors toward IPO. Using descriptive and explanatory methods, the study revealed that company's goodwill and performance as well as market information were major factors influencing IPO investment decision. Besides, sectoral performance and quality management were also highly considered.

Gurung's (2020) study on the IPO investment from the general investors' perspective revealed that the government's policy announcement followed by the size of the firm that issues IPOs, is the major factor that affects the IPO investment. Banking and finance, followed by hydropower are the most preferred sectors in the primary market with the expectation of long-term returns and increasing pay of capital for business expansion by the companies.

Srinivas and Rao (2017) attempted to find out the factors influencing investment decisions in IPO among retail individual investors. The study revealed that capital appreciation and safety in investment are the driving forces of investment. Most of the respondents are investing their funds for a very short period (i.e., less than 3 months).

Adhikari (2017) attempted to identify the factors influencing individual investors' behavior during an initial public offering in Nepal. In his study, an exploratory descriptive research design had been used. Convenience sampling was used to collect the primary data from 100 respondents' through a questionnaire. The study claimed that capital appreciation, investors' demographic trends, preferred source of information, and industry specialization are the most important factors before marking an investment decision in IPO.

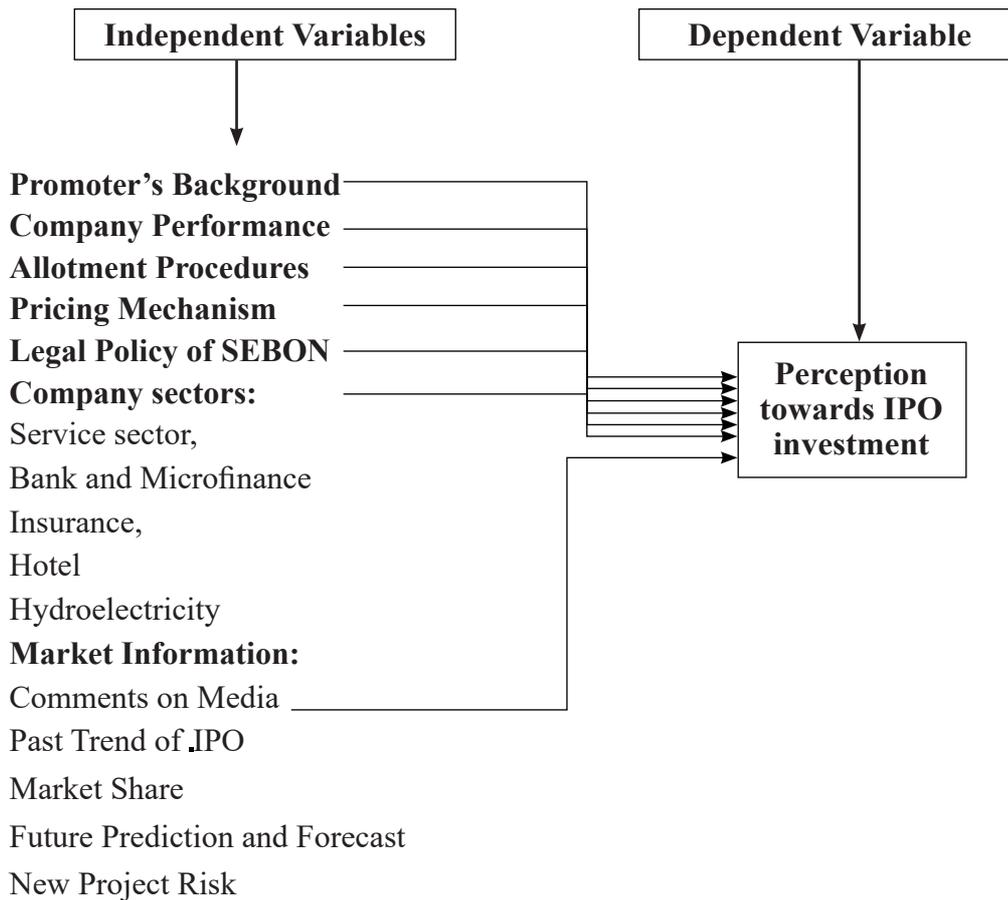
Nagtilak and Kulkarni (2015) conducted a study on investors' perception of Initial Public Offering in Mumbai and concluded that IPO is a risk-free form of investment where careful research and study are needed. This study proved that numerous investors show confidence in IPO and prefer to invest in IPO, which is one of the best options for investment.

Singh (2012) carried out a study intended to determine the perception of investors towards IPO. The study explained that investors consider five main factors while investing in IPOs, i.e., the corporate image, size, performance of previous IPOs, price, and present market conditions. Males generally tend to invest in smaller amounts ,whereas females are likely to be more speculative.

The review of existing empirical literature showed that a plethora of studies has dealt with public responses to the IPO in Nepal. However, they have not explored the investors' perception towards allocating 10 units of IPO and the interest of investors in the Book Building System in the context of Khairahani, Chitwan which is a clear research gap for this study.

Conceptual Framework

In this study, the researcher has used seven independent variables, namely, promoters' background, company performance, company sector, legal policy, price mechanism, allotment procedures, and market information, and one dependent variable namely perception of Initial Public Offering. This conceptual framework has been developed based on the studies of Thapa (2021), Gurung (2020), Gyawali (2020), Srinvas and Rao (2017), Khatri (2017), Adhikari (2017), Nagtilak and Kulkarni (2015) and Singh (2012).



Research Methodology

This study employed a descriptive exploratory research design to explore the issue of the investors' perception towards allocating 10 units of IPO and Book Building System and examine the factors that affect the investors' perception of IPO investment. The researcher selected 110 samples purposively from Khairahani Municipality, Chitwan. Face-to-face interviews and a self-administrative questionnaire were used to collect the information from the respondents who had been applying for at least 10 units of IPO through a convenience sampling method. The researcher distributed a questionnaire to 120 respondents, among whom 110 respondents responded to the questionnaire. Thus, the response rate in the data collection was 91.67 percent. The respondents were students and lecturers of Bhuwanishankar Multiple College, Khairahani, Chitwan; bankers, and individual investors of Khairahani Municipality, Chitwan. Before going to the field the structured questionnaire was modified, edited, and finalized according to the feedback of the expert to maintain its reliability and validity through external

auditing. The expert-verified instruments were administered to collect data from the respondents. The collected data were organized, analyzed, and interpreted using descriptive statistical tools of frequency table, percentage, and pie chart to present the findings and implications of this study.

Results and Analysis

This section is related to the analysis of the data collection and the presentation of the results obtained from the analysis. The researcher used descriptive statistical tools, frequency table, percentage, and pie charts to examine and evaluate the primary data collected through a questionnaire from 110 respondents. The collected data were analyzed concerning the objectives of the study.

Table 1: Demographic Profile of the Respondents

| Profile | | Frequency | Percentage (%) |
|------------------|------------------|------------|----------------|
| Gender: | Male | 63 | 57.27 |
| | Female | 47 | 42.73 |
| Total | | 110 | 100 |
| Age: | 19 – 25 | 51 | 6.36 |
| | 26 – 35 | 24 | 21.82 |
| | 36 – 50 | 25 | 22.73 |
| | Above 50 | 10 | 9.09 |
| Total | | 110 | 100% |
| Occupation: | Teacher | 21 | 19.09 |
| | Business | 15 | 13.64 |
| | Other services | 29 | 26.36 |
| | Housewife | 5 | 4.54 |
| | Student | 40 | 36.36 |
| Total | | 110 | 100 |
| Education level: | Up to +2 level | 18 | 16.36 |
| | Bachelor | 47 | 42.73 |
| | Master and above | 45 | 40.90 |
| Total | | 110 | 100 |

Source: Author's Calculation Based on Survey, 2022

It is observed from the table that out of 110 respondents, 57.27 percent are male and 42.73 percent are female. It is seen that the majority of males have been investing in IPO. The reason may be because of our male-dominated society. Besides, women lack the inspiration and financial support to invest in any sector from family, or they may not know the primary market due to the deficiency of financial literacy. The table reveals

that most of the investors in the IPO are of the age group 19 to 25 years with 46.36 percent, followed by the age group 36 to 50 years with 22.73 percent. However, it is observed that 68.18 percent of the investors are of below 35 years. As they are familiar with digital tools and technology to apply for IPO, their involvement seems to be higher than that of other age groups. The least percent of investors is of the age above 50 with only 9.09 percent. As they are unfamiliar with digital tools and devices, and they are not financially literate, their involvement seems to be the least. The table shows that 36.36 percent are students, 26.36 percent are other service holders (like doctors, engineers, and bankers), 19.09 percent are teachers, 13.6 percent are businesspersons and the rest of 4.54 percent are homemakers. It is noted that the majority of investors in IPO are students as they can invest their minimal savings (only rupees 1000) and get a sufficient return within a few months. Besides, they are inspired by teachers to invest in IPO. The least percent of investors are homemakers, which may be due to the fact that they are unfamiliar with digital tools and devices and a lack of financial literacy as well as inspiration. Out of total respondents, 42.73 percent had passed bachelor's degree, 40.90 percent had passed master's or above, and the rest 16.36 possessed SLC to +2 level of qualification.

Source of information for investors

The study revealed that the online news portal was the main source of information on new IPO which covered 90 percent of the sample followed by 5 percent of investors getting information about new IPO through newspapers, 4 percent of investors getting information through television and only 1 percent investors getting information through brokers. It indicates that investors of Khairahani Municipality are active on online media, and they are familiar with digital devices.

Factors influencing the investors' perception of Initial Public Offering

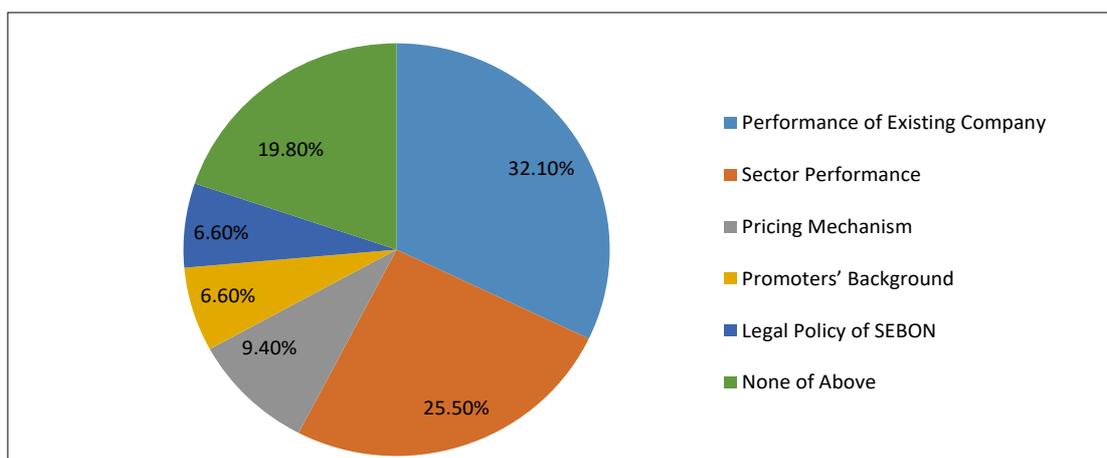


Figure 1: Factors Influencing Investors' Perception

Figure 1 shows the various factors influencing the investors' perception of IPO. Out of the total respondents, 32.1 percent of investors consider the performance of the existing company before investing in IPO followed by 25.5 percent of investors who believe the sector performance should be considered as compared to other factors, and 19.8 percent of investors don't look at anything while investing in IPO. Only 9.4 percent of investors search the pricing mechanism of IPO either it is in face value (RS 100) or premium before investing in IPO, 6.6 percent of investors go through the promoter's background while investing in IPO, and the rest 6.6 percent of investors look at the legal policy of securities board of Nepal (SEBON). It is found that the performance of the existing company and sector performance is the most important factor that influences investor perception.

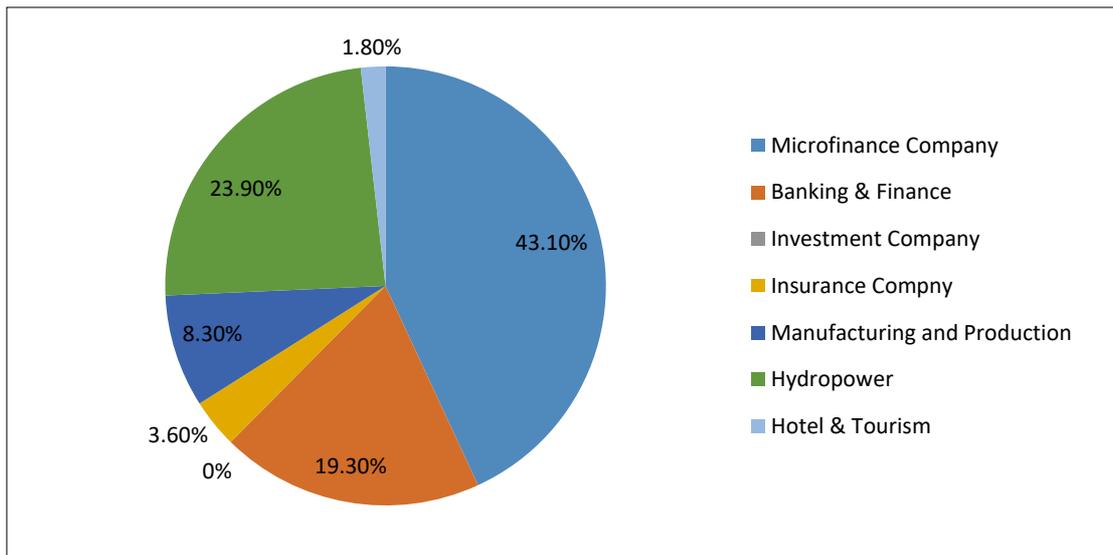


Figure 2: Preference over Investment Sectors

As shown in Figure 2, 43.1 percent of investors believe that the microfinance sector has more opportunity to invest in IPO, 23.9 percent of investors think that the hydropower sector has more opportunity, 19.3 percent of investors believe that banking and finance have more opportunity, 8.3 percent investors prefer manufacturing and production, 3.6 percent of investors are interested in an insurance company and rest only 1.8 percent of investors believe that hotel and tourism have more opportunity to invest in IPO but no one interested towards investment company. It indicates that most investors prefer investing in the microfinance sector as microfinance stocks is perceived as golden eggs in the Nepalese share market because investors are highly satisfied with the return of microfinance stocks.

From the study, it was found that most of the investors (59.6 percent) of Khairahani, Chitwan would like to invest in IPO for the long-term gain and the rest 40.4 percent of investors invested in IPO for short-term gain. This implies that the majority of investors would like to hold IPO for a longer period due to the fact that they are still unaware of short-term capital gain.

Perception of investors towards allotment of 10 units of IPO

The study revealed that the majority of the investors (71.6 percent) preferred the fixed allotment method (allocating 10 units of IPO) for the allotment of stocks, as all the investors have an equal chance of getting a minimum unit of share. Similarly, 16.5 percent of investors favored for lucky draw method and the rest 11.9 percent of investors preferred the pro-rata basis for allotment of stocks as they could be allotted based on the percentage of applied units.

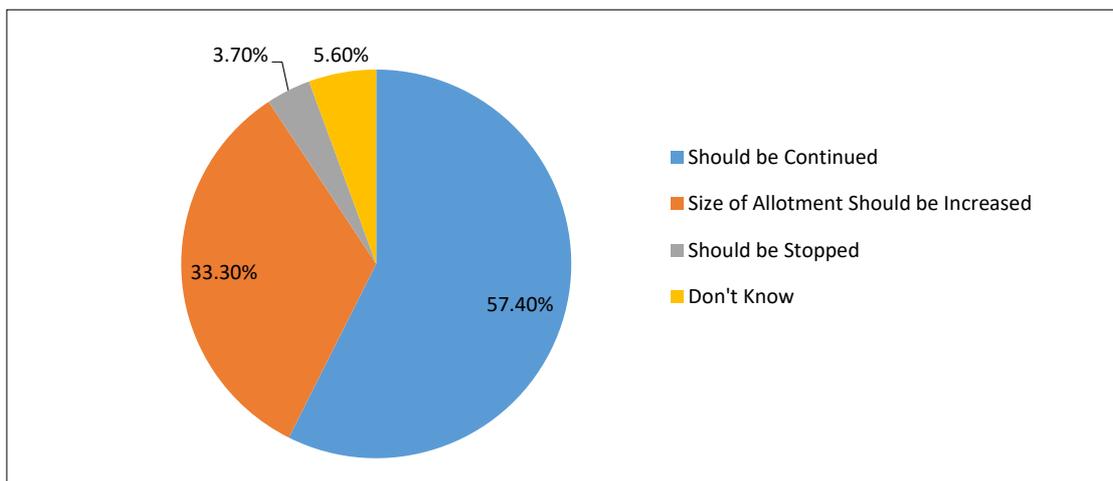


Figure 3: Allocating 10 Units of IPOs

Figure 3 mainly reflects respondents' suggestions on allocating 10 units of IPOs. Out of the sample taken, 57.4 percent of investors suggested that allocating 10 units of IPO should be continued, and 33.3 percent of investors advised that the size of allotment should be increased. Only 3.7 percent of investors did not prefer its continuation and the rest 5.6 percent of investors did not know what would happen with continuation or discontinuation. This indicates that most of the investors prefer to continue the present allotment procedure of allocating 10 units of IPO because it has brought an opportunity to invest with a minimum saving to the public. Besides, it ensures maximum participation of investors in the share market and increases the chance of getting IPO stocks thereby helping in developing the overall share market.

During the survey, the respondents were asked whether they were satisfied with allocating 10 units of IPO or not. In this regard, 23.9 percent of investors were neutral about allocating 10 units of IPO, whereas 22 percent of investors were slightly satisfied, 18.3 percent of investors were satisfied, 18.3 percent of investors were not satisfied and the rest 17.4 percent of investors were very satisfied. It means that majority of investors are satisfied with allocating 10 units of IPO. They perceive that 10 units of IPOs are a good option as investors from the low economic class can also apply for IPO. It helps in bringing under-utilized and scattered money to the mainstream economy and creates an additional channel for companies to raise capital. Similarly, the public can be benefitted from company growth which develops positive perceptions in the public towards the share market.

The study revealed that 51.4 percent of investors did not accept that allocating 10 units of IPO brings distortion in the Nepalese share market, while 25.7 percent of investors accepted that it brings distortion and the rest 22.9 percent of investors did not know what the impact would be. Overall, it shows that allocating 10 units of IPO has facilitated the development of the overall aspects of the Nepalese share market despite bringing distortion.

The interest of people in Book Building Method of IPO issue

The respondents were asked about the pricing method of IPO at the time of issue. Regarding the IPO issue, the majority of the investors (63.2 %) preferred IPO at face value, whereas 13.2 percent of investors wanted to have an IPO issue at a premium price and the rest 23.6 percent of investors were unknown about IPO being issued at a premium or face value.

The Book-Building Method is the new method under which IPOs are going to be issued very soon. SEBON has issued Book Building Directives 2077 for this. Out of total, 57.4 percent of investors expressed their ignorance about this system, 21.3 percent of investors knew little about it, and the remaining 21.3 percent of the investors were well aware of it.

The respondents were asked whether they were interested in the book-building method of IPO issue or not. In this regard, 42.2% of investors were neutral about it, 22 percent of investors were somewhat interested, 20.2 percent of investors were not interested, and only 15.6 percent of investors were very interested in it. It indicates that most of the investors of Khairahani Municipality do not have any idea about the Book Building System as it is a new pricing method for Nepalese investors. It has not been implemented to date, but SEBON is going to introduce this pricing method very soon.

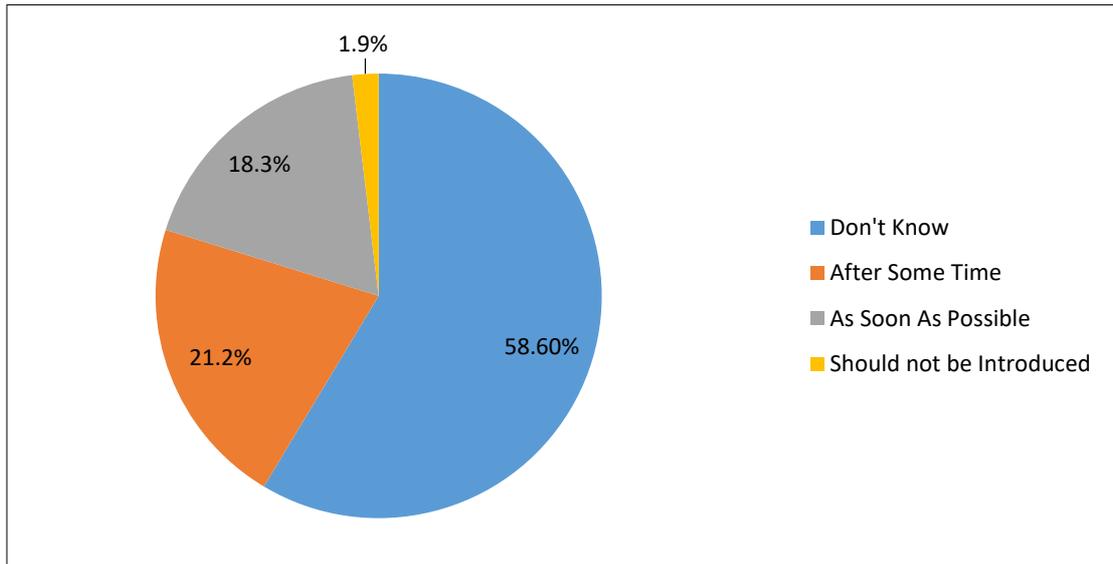


Figure 4: Introducing of Book Building System

Figure 4 mainly reflects the respondents' responses to the book building System by SEBON. According to the figure, most investors are unfamiliar with book-building systems. 58.6% of investors do not know what should be done about the book-building system. 21.2% of investors prefer it to be introduced after some time, whereas 18.3% of investors suggest SEBON introduce it as soon as possible and the rest 1.9% of investors expect that SEBON should introduce Book Building System. It indicates that investors don't have adequate knowledge about book-building pricing methods. Hence, SEBON should conduct an awareness program before introducing the book-building pricing method.

The study further revealed the interest of the respondents in participation in the Book Building System. The data showed that 55.6 percent of investors did not have any idea about such participation; 35.2 percent of investors had the idea that a limited number of people would take part in the Book Building System and there remaining 9.2 percent of investors believed that a limited number of people would not take part in the book building system.

Participation of investors is essential for the subscription of stocks. Due to various reasons, investors don't participate in IPOs of the Book Building System. The respondents were asked the reasons behind a limited number of investors participating in IPO under the Book Building Pricing Method. Data revealed that most people (52.3 %) would not invest in Book Building Systems due to a lack of knowledge. 21.1 percent of investors

would not invest in it due to a lack of information. Similarly, 18.3 percent of investors would not invest in it due to lack of money and the rest 8.3 percent of investors would not participate in it due to misperception about the fair value of stocks.

Discussion

The analysis of data revealed that the majority of investors get information about new IPO through online news portals, which contradicts with the findings of Nagtilak and Kulkarni (2015) which revealed that the main source of information regarding an IPO comes mainly from brokers and newspapers, rather than other media. Company performance and sector performance are the major factors that influence investors' perception but still, some investors don't look at anything before investing in an IPO. Similar findings can be seen in the studies of Thapa (2021) and Gyawali (2020). However, they are inconsistent with the findings of Gurung (2020), which revealed that the government's policy announcement and the size of the firm that issues IPOs are major determinants for investment in IPOs.

This study revealed that the majority of investors preferred the microfinance sector, followed by hydropower, and the banking, and the finance sector with the expectation of long-term gain. This finding is consistent with the finding of Thapa (2021), but inconsistent with the previous findings of Gurung (2020) who claimed that most investors preferred banking and finance, followed by the hydropower sector, with the expectation of long-term gain. The majority of Nepalese investors would like to hold the IPO for a longer period. This implies that Nepalese investors are still unaware of short-term capital gains. Most of them have a positive perception of allocating 10 units of IPO. They expect the allocation of 10 units of IPO to be continued as they perceive that it has brought an opportunity to invest in the minimal savings of the public. Maximum investors can participate in the stock market increasing the likelihood of an IPO. It brings under-utilized and dispersed money to the mainstream of the economy, thereby creating an additional channel for companies to raise capital. As the company's growth is beneficial to the general public, it helps in developing positive perceptions in the general public towards the share market as well.

In the case of the Book Building System, the data revealed that the majority of investors did not have any idea about the Book Building System. Most of the investors were neutral towards the book building system because they did not have adequate knowledge about the system. This implies that most of the investors don't know what should be done about book building system, whether it should be introduced as soon as possible or after some time. Most investors believe that a limited number of people will participate in the Book Building System of an IPO due to a lack of knowledge and

money. This finding is contrary to the finding of Thapa (2020), who reported that the size of allotment should be increased and the Book Building Pricing Method should be introduced as soon as possible as investors were very interested in it.

Conclusion, Recommendations, and Further Research

The study concludes that the allotment procedure should be continued by SEBON as the majority of investors have positive perceptions towards allocating 10 units of IPO. As it is a completely new pricing method to be introduced by SEBON, most of the investors are neutral regarding the Book Building System. It is due to their lack of knowledge about its plus sides. So, the SEBON should conduct an awareness program before introducing the Book-Building Pricing Method. Moreover, investors will have a clear concept of their investment in IPO from this study, and they will be able to make the right choice. It will help the stakeholders in the formulation of policy and get practical knowledge of existing rules and regulations. It is equally useful for SEBON to recognize investors' perceptions towards allocating 10 units of IPOs and the Book Building System.

The present study was confined only to Khairahani Municipality. Further research can be conducted by considering greater geographical coverage to make the research generalizable to the wider territory by increasing the sample size and triangulating designs, tools, and data. Many factors affect the investor's perception of an IPO investment, but only seven variables were considered in this study. Further studies can incorporate those variables too. Similarly, an exploratory descriptive research design and tools have been used for this study. So, further research can be carried out on a similar issue by using different statistical tools and inferential analysis.

Limitation of the Study

This study was limited to investors' perception of the IPO in Khairahani Municipality, Chitwan. The response rate was only 91.67 percent as 8.33 percent of investors, who were administered the questionnaire, but did not show interest in it. The research site was confined to Khairahani Municipality of Chitwan district, and the sample size was limited to 110 investors from this local level. Similarly, this survey was administered only among the investors who had taken part in the IPO. Regarding the variables, only seven independent variables were considered in this study out of several factors that affect the investors' perception of IPO investment.

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