246
00145
BBA

12

IPO

THE INITIAL RETURN AND LONG TERM PERFORMANCE FOR INITIAL PUBLIC OFFERINGS (IPOs) IN BANGLADESH: AN EMPIRICAL ANALYSIS

ACKNOWLEDGEMENT

This report is an integral part of academic course curriculum. The intention of this project report is to provide a practical essence of the financial market, which ultimately helps to diversity knowledge. Without support from a group of persons it was quit impossible for me to prepare this paper. I cordially like to thank them.

My cordial thanks and gratitude to Mr. Sayeed Alam, Senior Lecturer, Department of Business Administration, East West University, for giving me the chance to conduct my project paper under his supervision and guidance. My next upstanding thanks to Mohammad Musa, Ph.D. East West University. His valuable guidelines and information were of utmost assistance for the successful completion of this report.

I would like to thank all the officials of Dhaka Stock Exchange Ltd. for their kind assistance and for providing required information to complete the proposal.

Wayes Ahmed

Wayes Ahmed
Id: 2003-2-10-020

April 17, 2007

Mr. Sayeed Alam
Senior Lecturer
Department of Business Administration
East West University

Subject: **Submission of Report on "The Initial Return and Long Term Performance for Initial Public Offering (IPOs) In Bangladesh: An Empirical Analysis"**

Dear Sir,

Here is the report on **"The Initial Return and Long Term Performance for Initial Public Offering (IPOs) In Bangladesh: An Empirical Analysis"** .as an integral part of East West University course curriculum. It is my great pleasure and gratitude that I got the opportunity to prepare the report under your kind supervision and guidance.

This report highlights some performance factors of IPO based on some publicly available information. While preparing this report, based on previous recommendation I have tried to analyze available literatures concept of stock price variability in details and also some recommendations and limitations for the betterment of existing research proposal. To prepare this report, I have given my level best effort despite some limitations.

Preparation of the report was a valuable experience for me and it helped me a lot to enrich my knowledge. I believe such a remarkable proposal will augment my research career.

Thank you

Sincerely yours

Wayes Ahmed

Wayes Ahmed
Id: 2003-2-10-020

Executive Summary

"**IPO**" stands for an "**initial public offering**" of securities. The term is usually used when a business has decided to "**go public**" to raise substantial amounts of capital by offering ownership interests in the company to the public at large. Companies registered under the Company Act of 1913 (revised in 1994) as a public limited company or set up under a statute with a minimum paid-up capital of Tk. 10 million are eligible to apply for listing in the stock markets. Companies wanting to go public applied for approval from the Controller of Capital Issue (under Ministry of Finance), up until the middle of 1993. Later on the Securities Exchange Commission (SEC), upon its establishment on June 8, 1993, started to administer the process. The present study provides an empirical analysis of the market for new issues in Bangladesh for the sample period 2000 through 2005. A total of 43 new issues are included in the sample.The initial return and subsequent returns of IPOs is estimated and analyzed from a variety of perspectives. An analysis of the cost of going public is also done in the present study. Furthermore the sequence of events leading to the rise and fall of the IPO market in Bangladesh are also described in details for the period 1991 through 1997. Despite the spectacular growth during the early to mid 1990s the market for new issues in Bangladesh is currently stagnant.

THE INITIAL RETURN AND LONG TERM PERFORMANCE FOR INITIAL PUBLIC OFFERINGS (IPOs) IN BANGLADESH:AN EMPIRICAL ANALYSIS

AN EMPIRICAL ANALYSIS

Table of contents:

THE INITIAL RETURN AND LONG TERM PERFORMANCE FOR INITIAL PUBLIC OFFERINGS (IPOs) IN BANGLADESH:AN EMPIRICAL ANALYSIS

ABSTRACT

The present study provides a comprehensive analysis of the initial return and long-term performance for initial public offerings in Bangladesh. Forty-three new issues, over the sample period 2000 through 2005, are included in the sample for empirical analysis. The institutional settings of the market and investors consideration of investing for new issues in Bangladesh are discussed in details. Evidence of short-run underpricing of the new issues as well as the magnitude of underpricing is documented from a variety of perspectives. The cost of going public in Bangladesh is shown and analyzed from the perspectives of both small and large firms. Furthermore, the sequence of events leading to the spectacular growth of the new issues market in Bangladesh in the early to mid 1990s and then, its subsequent sudden death are discussed.

1. Introduction

1. (A) Background of the Report:

As a part of my project outline, I was required to prepare a project report. This report is about "IPOs in Bangladesh". My instructor Sayeed Alom assigned me to prepare this report in Spring 2007. This was a lucrative topic to learn about real life implementation of new issues of stock in Bangladesh. I was very eager to take this report because of the attractiveness of this topic.

1. (B) Objectives of the Report:

The main focus of the report will be analyzing the returns getting from the IPOs. The aim of the report is to give a general situation of IPOs in Bangladesh for the sample period 2000 through 2005.

My objective is to provide a formal report on the IPOs in Bangladesh to implement the theoretical knowledge learned in the class on real life perspective.

My distinct objectives are:

- To find out the initial return of IPOs
- To analyse the long-term performance of IPOs
- To provide the procedures of Going Public in Bangladesh
- To find the background of IPOs

1. (C) Scope of the Report:

This report provides an overall situation of IPOs in Bangladesh from the sample period of 2000 through 2005. It finds out the reason behind why the initial return of IPOs is higher rather than the succeeding returns.

1. (D) Limitation of the Report:

When I was preparing my project paper on "IPOs in Bangladesh", I have faced many difficulties. Data collection was the major task for me. This was not readily available. I have gathered data from the DSE and SEC library by visiting so many times. This was an exciting topic to prepare a standard project paper. I had not clear idea about this topic. There were not enough studies on this topic. But, I have tried my best to prepare this paper. My effort will be successful when this paper will approach your desired level.

2. Background of Stock Market in Bangladesh

Bangladesh witnessed a spectacular growth of its capital markets starting in the early 1990s that, however, subsequently crashed in late 1996. Although a history of the organized exchange can be traced back to 1954 the capital market in Bangladesh 're-emerged' only in late 1980s. There were only 9 companies listed in Dhaka Stock Exchange (DSE) in 1976, the first year of operation since independence of the country in 1971. The interest and related activity in the stock market started to grow very gradually during the period 1976 through 1982. At the end of 1982, the number of listed companies was 29. However, the number of listed companies started to grow at a significant rate since 1983. Investors' interest and activity in the local stock market peaked during the period of 1991-1996 primarily due to the liberalized economic policies initiated by the government during the 1990s. A second stock exchange, Chittagong Stock Exchange, was incorporated on April 1, 1995 and became operational on October 10, 1995. All these new developments helped the capital markets in Bangladesh receive substantial attention from investors around the world despite its small size. The stock markets in Bangladesh were among the top performers in the world in 1996. By September 1996, the capital market of Bangladesh was recognized as one of the fourteen *frontier* markets of the world by then International Finance Corporation. The market capitalization in Bangladesh increased by 244% (compared to the previous year) and stood at $ 4.6 billion at the end of 1996. Foreign investment in Bangladesh capital market reached about $1.5 billion by the end of 1996, which gradually declined thereafter and virtually non-existent now since the market crash in late 1996.Two components of the cost of going public are estimated and analyzed:

(1) Direct cash costs such as accounting costs, underwriters' commission, commission to the bankers to the issue, Issue Manager's fee, etc., and

(2) The costs resulting from the underpricing of the IPOs. This analysis is valuable for companies wanting to go public in Bangladesh.

The remainder of the paper describes the institutional settings of the IPO market in Bangladesh. This paper contains concluding remarks and policy recommendations.

2.1. THE INSTITUTIONAL SETTING OF THE MARKET FOR NEW ISSUES

Companies registered under the Company Act of 1913 (revised in 1994) as a public limited company or set up under a statute with a minimum paid-up capital of Tk. 10 million are eligible to apply for listing in the stock markets. Companies wanting to go public applied for approval from the Controller of Capital Issue (under Ministry of Finance), up until the middle of 1993. Later on the Securities Exchange Commission (SEC), upon its establishment on June 8, 1993, started to administer the process. The institutional detail related to the IPO process during the pre SEC era is neither clear nor available. A formal process in this regard was laid out by the SEC upon its establishment and formalized subsequently (Securities and Exchange Commission Public Issue Rules, 1998). A typical public issue is underwritten by a consortium of financial institutions, insurance companies, brokerage houses and members of the stock exchange in some 'pre-determined' ratio. The issuing company contracts underwriters on a 'firm commitment' basis to ensure a successful public offering and in case the underwriters take up shares not subscribed by the public additional commission is added to the base commission of the underwriters. An independent third party or, often, a member of the underwriting consortium is designated as the 'Manager to the Issue'. The Manager to the Issue typically serves as the go between the issuing company and the SEC and helps the management of the company with the process of going public for a stated percentage of the public offer as fee. The issuing company also designates a number of financial institutions, mostly commercial banks, as 'Banker to the Issue'. The Banker to the Issue handles share applications and collects money from investors. On average, 50% of the total issued capital is retained by the insiders (directors/sponsors) of the company intending to go public and the remaining portion is distributed to three parties - institutional investors [generally, the ICB], employees of the company going public and the general investors

2.1. Allotment Procedure

An interesting feature of the allocation of IPOs in Bangladesh is that the issuers favor small over large investors. Allotment for general public during the sample period of the present study, after preferential allocation for the ICB and company employees, typically followed a schedule mentioned below:

1. 50% to 55% of the shares are offered to the applicants for 50 shares.
2. 10% of the shares are offered to applicants for exceeding 50 but up to 500 shares.
3. 10% of the shares are offered to applicants for exceeding 500 but up to 1000 shares.
4. 10% of the shares are offered to applicants for exceeding 1000 but up to 5000 shares.
5. 15% to 20% of the shares are offered to applicants for over 5000 shares for local institutional investors only.

In case of over-subscription allotment is made by each of the above five categories.

2.2. Determining the Offer Price

Officially, the issuing company in consultation with the Manager to the Issue determines the offer price and the number of securities to be offered. But in reality, the SEC has to agree with this process before the offering is announced and often, imposes restrictions. The guideline from the SEC dictates that the company and the Manager to the Issue determine the value of the company using a method known as the 'Project Cost' basis. Project cost is determined by summing the total fixed assets and initial net working capital. Total fixed assets includes historical cost of all fixed assets like land and land development, building and other construction, machinery and equipment, contingencies, security deposit, preliminary or pre-operating expenses etc. Once the project cost is estimated the next step is to determine the sources of financing. The Issue Manager and the company decides how much of this cost will be financed by debt and how much through issuance of equity. The part of the project cost to be financed by issuing equity is then divided by the pre-determined number of common stocks the company intends to issue to estimate the 'par' value of the IPOs.

2.3. Offering at 'Par' vs. 'Premium'

If an issuing company intends set the offer price above the par, calculated as per the description in the preceding paragraph, the company is said to be offering stocks at 'premium'. The management of the company and the Issue Manager has to convince the SEC (such as BATA has convinced the SEC to be kept highest premium, which is Tk.100 and Face Value is Tk.10.) that the stock they are about to float deserves to be priced at 'premium'. Looking at the policies that determine whether a company deserves to price its IPO at 'premium' it seems that only companies offering seasoned IPOs can entertain this option. Officially, the issuing company is suppose to take the average market price per share or net asset value per share or earning based value per share to the SEC to negotiate (or approval of) the 'premium' on the new issue. The average market price per share is calculated by taking the average of past three month's price of stocks outstanding in the secondary market prior to the new issue. The net asset value per share is calculated by dividing the difference between total assets and total liabilities of the company by the total number of common stocks outstanding prior to the new issue plus the proposed new offering of common stocks. The earning based value per share, on the other hand, is calculated by dividing the estimated net income after taxes in the first year following the earlier issue of common stocks by the total number of shares outstanding including the proposed public offering.

2.4. Rules Set by SEC for Public Issues

In exercise of the powers conferred by section 33 of the Securities and Exchange Ordinance, 1969 (Ordinance XVII of 1969), and in super session of all guidelines and orders made in this behalf, the Securities and Exchange Commission makes the following rules, namely: -

1. Short title. – These rules may be called the Public Issue Rules, 1998.

2. Definitions. – In these rules, unless there is anything repugnant in the subject or context,

(a) "Banker to the issue" means any bank so named in the prospectus to collect monies from share subscription;

(b) "Commission" means any money paid to any party in connection with an initial public offering;

(c) "Merchant banker" means any person who is engaged in the business of issue management, either by making arrangements regarding selling, buying, underwriting or subscribing to securities as underwriter, manager, consultant or adviser,

(d) "Prospectus" means any document prepared for the purpose of communicating to the general public a company's plan to offer for sale its securities;

(e) "Subscription" means applying by the general public for any securities offered by any issuer;

3. General requirements for filing application for consent to an issue of capital.

For obtaining consent to an issue of capital, an issuer shall apply to the Securities and Exchange Commission submitting the documents such as three copies of the prospectus, duly completed, together with all annexure thereto, signed by the issuer's principal executive officer, principal financial officer, comptroller or principal accounting officer, the chairman, the managing director and all other directors, shall be filed with the Securities and Exchange Commission along with the said application and the Securities and Exchange Commission shall issue a receipt confirming the filing.

4. Publication of prospectus and opening of subscription list.

Upon receiving the consent of the Securities and Exchange Commission to the issue of capital, the prospectus shall be published by the issuer in two national daily newspapers, within ten days of such receipt. The subscription list shall be opened and the sale of securities commenced after ten days of the publication of the prospectus and shall remain so open for a period not exceeding fifteen days thereafter.

5. Prospectus delivery requirements.

The prospectus shall be widely disseminated and sufficient copies shall be made available.
A prospectus shall be presumed to have been widely disseminated.

When inquiries are made to them as to the offering, inform interested persons that copies of the prospectus may be obtained from all intermediaries participating in the public issue of the securities. A notice shall be placed on the front of the subscription agreement distributed in connection with the offering informing interested persons.

6. Limitation on the use of the prospectus.

(1) A prospectus may be used to offer the securities until any of the following events occur:

(a) The offering price has been changed from that shown in the prospectus;

(b) There are material changes in any of the information included in the prospectus;

(c) Any transaction or event that is material to be reported to the SEC

(2) If any of the above events occurs, the offering shall be terminated.

(3) The occurrence of any of the events mentioned in sub-rule (1) shall be notified to the general public by a declaration in at least two national daily newspapers –

(a) Either prior to the date of the opening of the subscription, or

(b) During the period of the subscription.

7. Format and contents of the prospectus.

A. Material Information:

(1) The prospectus shall contain all material information necessary to enable investors and their investment advisers

(2) The Securities and Exchange Commission may require disclosure of additional information in the prospectus.

B. Information to be included in the prospectus

(1) Cover Page of Prospectus:

On the front cover page of the prospectus the following information and statements shall be given, namely: -

(a) Name of the company;

(b) The amount and type of securities being issued;

(c) The offering price of the securities on a per unit and aggregate basis;

(d) The amount of commissions being paid on a per unit and aggregate basis;

(e) The amount of proceeds to the company on a per unit and aggregate basis;

(f) The names and addresses of the underwriters;

(g) The date of the prospectus;

(2) Risk Factors: Immediately following the cover page of the prospectus, all risk factors are to be clearly stated which might include, among others: –

(a) No recent receipt of revenues;

(b) Poor financial conditions;

(c) Industry risks;

(d) Currency risks;

(e) Market and technology-related risks;

(f) Potential or existing government regulations;

(g) Potential changes in global or national policies;

(h) No operating history.

(3) Description of Business:

(a) The date on which the company was organized and the date on which it commenced operations and the nature of the business.

(b) The prospectus shall contain the following information in respect of its business operation, namely: -

(1) The principal products or services of the company and the markets for such products or services;

(2) If the company has more than one product or service, the relative contribution to sales and income of each product or service

(3) The lines of business of the associate/related concerns.

(4) How the products or services are distributed;

(5) Competitive conditions in the business;

(6) Sources and availability of raw materials and the names of the principal suppliers;

(7) Sources of, and requirement for, power, gas and water;

(8) Names of any customers who purchase 10% or more of the company's products;

(9) Description of any contract that the company has with its principal suppliers or customers.

(10) Description of any material patents, trademarks, licenses or royalty agreements;

(11) Number of total employees and number of full-time employees.

(6) Description of Property:

(a)The prospectus shall contain the following information in respect of plants and property:

(1) Location of the principal plants and other property.

(2) Whether the property is owned by the company or on lease.

(3) There is a mortgage or other type of lien on the property.

(4) If the property is on lease, the expiration dates of the lease.

(7) Plan of Operation and Discussion of Financial Condition:

If the company had no revenues from operations of the last two years, it needs to disclose the plan of operations for the next twelve months shall be described in the prospectus which shall, among others.

(9) Ownership of the Company's Securities:

a) There shall be disclosed in the prospectus, in tabular form, the name and address of any person who owns.

(b) There shall be a table in the prospectus showing the number of shares of the company's securities owned by the top three officers, director.

(10) Determination of Offering Price:

If common stock is being offered, the factors considered in determining the offering price shall be set forth in the prospectus.

(11) Plan of Distribution:

(1) The prospectus shall give the following information in respect of underwriters:

(a) The names of the underwriters.

(b) The principal terms of the underwriting agreement.

(c) The date by which the` securities shall be either sold or purchased by the underwriter;

(d) The amount of commissions to be paid to the underwriters.

(e) Whether the underwriters have the right to have a representative on the company's board of directors.

(f) Whether any officer or director of the underwriter is presently a director of the company.

(12) Market for the Securities Being Offered:

If the securities being offered have been approved for listing on any stock exchange, the name of such stock exchange shall be given in the prospectus and any conditions that need to be met by the company before trading on such stock exchange.

(13) Financial Statement Requirements:

The prospectus shall include a financial statement and a report by an auditor who shall be a regular member of the Institute of Chartered Accountants of Bangladesh (ICAB).

8. Placement.

Any issuer may, if it so wishes make placement with investors, both foreign and local, and the amount so placed, including the names and addresses of such investors, shall be disclosed in details in the financial structure section of the prospectus.

9. Lock-in on sponsors' capital.

The sponsors' share capital shall be subject to a lock-in of three years from the date of publication of prospectus or commercial operation, whichever comes later. This is not applicable for Foreign Sponsors either in Joint Venture Company or 100% Foreign owned company.

10. Refund of over-subscription money.

Refund of over-subscription money of applicants resident in Bangladesh shall be made by account payee check payable from any banks in Bangladesh as may be selected by the applicants, and for this purpose the number of the bank account along with name of bank and branch shall be indicated in the securities application Form.

11. Subscription and refund by or to non-resident Bangladeshi.

A non-resident Bangladeshi shall apply either directly by enclosing a foreign demand draft drawn on a bank payable at Dhaka, or through a nominee by paying out of foreign currency deposit account maintained in Bangladesh, for the value of securities applied for. The value of securities applied for by such person may be paid in Taka or US Dollar or UK Pound Sterling at the rate of exchange mentioned in the securities application Form.

12. Availability of Securities.

(1) 10% of all issues shall be reserved for non-resident Bangladeshi and the remaining 90% shall be open for subscription by the general public.

(2) All shares as stated in sub-rule (1) shall be offered for subscription and subsequent allotment by the issue manager, subject to any restriction which may be imposed, from time to time, by the Securities and Exchange Commission.

(3) In case of over-subscription of both the categories mentioned in the sub-rule (1) the issue manager shall conduct an open lottery of all the applications received under each category separately.

(4) In case of under subscription of both the categories mentioned in sub-rule (1) the unsubscribed portion of share shall be taken up by the underwriters.

(5) In case of under subscription under the 10% category as mentioned in sub-rule (1) the unsubscribed portion shall be added to the general public category and if after such addition there is over subscription in the general public category the issue manager shall conduct an open lottery of all the applicants added together taken up by the underwriters.

(6) The lottery as stated in sub-rule (3), (5) & (6) shall be conducted in the presence of representatives from the stock exchanges, and the applicants if present.

13. Compulsory Listing of Securities.

All public limited companies must enlist with at least one recognized stock exchange.

14. Issue manager.

The public company making initial public offering shall appoint an issue manager registered by the Securities and Exchange Commission.

15. Underwriter.

(1) The public company making initial public offering shall appoint one or more underwriters, having certificate of registration from the Securities and Exchange Commission to fully underwrite or place primary securities on a firm commitment basis.

(2) The issuer in the event of under subscription shall send notice to the underwriters within ten days of closure of subscription calling upon them to subscribe the securities and pay for them in cash in full within fifteen days of the date of said notice and the said amount shall be credited into share subscription account within the said period.

(3) The agreement shall contain a condition to the effect as mentioned in sub-rule (2).

(4) The issuer shall, within seven days of the expiry of the period mentioned in sub rule (2), send to the SEC proof of subscription and deposit of share money by the underwriter.

16. Fee on initial public offering.

(1) The public company applying for consent of the Securities and Exchange Commission to the issue or offer of securities shall pay an amount of Tk. 10,000/- along with the application form, as application fee, by way of a pay order or demand draft in favor of the SEC.

(2) If the necessary consent is accorded to the issuer by the Securities and Exchange Commission, the issuer shall have to pay a fee @ 0.30% on the total offered amount of IPO

by way of a pay order or demand draft in favor of the SEC and this payment shall have to be made to the commission at the time the consent of the commission is indicated to the issuer.

17. Approval, rejection and review.

(1) On receipt of an application to the issue or offer of securities from an issuer, the Securities and Exchange Commission shall review whether it is complete.

(2) In case the said application is incomplete, days the Securities and Exchange Commission shall inform the applicant to complete it within fifteen.

(3) If any applicant fails to remove the incompleteness within thirty days of communication thereof, it shall have to file a fresh application.

(4) In case nothing is communicated by the Securities and Exchange Commission to the applicant within the aforesaid fifteen days, it shall be deemed that the application is complete unless the SEC notifies the applicant that requires additional time.

(5) The Securities and Exchange Commission shall issue letter of consent subject to such conditions as the Securities and Exchange Commission may deem fit to specify, within sixty days of receipt of a complete application, if such application is acceptable to the SEC

(6) If the application is not acceptable to the Securities and Exchange Commission, it shall issue a rejection order, stating the reasons for such rejection, within sixty days of receipt the application.

18. Penalty.

If any issuer or its representative violates any of the provisions of this Rule or furnishes false, incorrect, misleading information or suppresses any information, the SEC may impose penalty as prescribed under the Securities and Exchange Ordinance, 1969.

3. Initial Public Offerings (IPO)

"**IPO**" stands for an "**initial public offering**" of securities. The term is usually used when a business has decided to "**go public**" to raise substantial amounts of capital by offering ownership interests in the company to the public at large. The "**securities**" being offered can include:

- Shares of stock in a company
- Bonds

- Notes
- Debentures
- Evidences of indebtedness
- Limited partnership units
- Memberships
- Other types of investments in a company

A public offering can be a hugely complicated affair. It is usually something that is not undertaken by a company until:

- The company has had a chance to prove itself and has a profitable business model that will scale too much larger operation on a regional, nationwide or international level.

The very first sale of stocks to the public is called an initial public offering (IPO), and occurs on the primary market. This study will cover the following factors involved in IPO:

- The Process of Issuing Securities
- The Basics of Underwriting
- Types of Underwriting Arrangements
- The Prospectus
- Ways A Stock May Be Advertised Before It Is Sold

3.1. THE PROCESS OF ISSUING SECURITIES

Corporations sell stock to the public as one way to raise capital. Before it can issue new stock, a corporation must first file registration statements with the SEC http://www.secbd.org. A twenty-day wait is required before it can sell the stocks. At the time of issue, a final prospectus is presented. This includes the price of the stock (offering price).

3.2. THE BASICS OF UNDERWRITING

A Corporation going public hires an investment banker to help it sell its stock. This process is called underwriting. The investment banker functions as an intermediary between the issuing corporation and the public. In most cases, the underwriter (investment banker) purchases the stocks from the company for resale to the public. To reduce its own risk, the investment banker may form an underwriting syndicate of other investment bankers to co-purchase the shares. The underwriting syndicate forms a selling group to sell specified allotments of the issue. The investment banker (underwriting syndicate) then marks up the price of the offering. This markup represents the fee for the syndicate's service. The difference between the prices the underwriter pays and the price the public pays is called the underwriting spread. The SEC also requires the underwriter to investigate the issuing company-particularly any audits, how it uses proceeds, its financial statements and the management team. This process is called due diligence.

3.3. TYPES OF UNDERWRITING ARRANGEMENTS

A stock issue can be underwritten by several methods.

The underwriter can act as an agent, in which it tries to sell as much of the issue as it can at market prices. This is a best effort arrangement.

The issuing company can also agree to issue new stock on the condition that all of it is sold. If all of the stock is not sold, then it will withdraw the issue.

A negotiated underwriting is when the issuer and the corporation negotiate the terms of the issue, the price, the size and other details.

The issue may be subject to competitive bids from investment bankers. The top bidder underwrites the issue and resells it to the public but this is not the case of Bangladesh.

When a public company issues more of its stock, it must first offer that stock to existing shareholders; that is their ***preemptive right.***

A firm commitment arrangement is when an investment banker buys all of the stock from the corporation and then resells it to the public at a higher price.

A private placement is an offering in which the company sells to private investors.

3.4. THE PROSPECTUS

Prospectuses are legal documents that explain the financial facts important to an offering. They must precede or accompany the sale of a primary offering. The law requires companies selling primary offerings to send prospectuses to anyone who wants to buy a primary offering.Customers should read prospectus carefully before purchasing any primary offering. Prospectuses include but are not limited to the following:

- Offering price
- Legal opinions about the issue
- Underwriting method
- The history of the company
- Other costs related to investing in the stock
- The management team
- The handling of proceeds

The prospectus must be provided to customers before they complete any transactions. It must also include the SEC's disclaimers that it does not approve or disapprove of the stock being offered, and that it does not judge the prospectus' statements for accuracy.

3.5. WAYS AN ISSUE MAY BE ADVERTISED BEFORE IT IS SOLD

A new issue of stock is allowed to be advertised before it is actually sold, although it may not be sold during the actual registration period.

Registered representatives are allowed to accept oral solicitations from clients. They are not allowed to sell any shares of the new stock. Neither are they allowed to affirm any offers of sale.

Registered representatives may send ***preliminary prospectuses***, to clients. Information in these documents will discuss why the stock is being sold and the offering timetable. Preliminary prospectuses are only issued for information purposes.

Advertisement has to be given at least two Daily Newspapers to announce the new stock. Their sole purpose is to function as communication.

4. Investing In IPO

An **IPO** is the first sale of a corporation's stock to outside investors that means the company is offering shares to investors outside the corporate "family" for the first time.

4.1. Why Go Public?

Basically, going public (or participating in an "initial public offering" or IPO) is the process in which a business owned by one or several individuals is converted into a business owned by many. It involves the offering of part ownership of the company to the public through the sale of debt or more commonly, equity securities (stock).Going public raises cash, and usually a lot of it. Being publicly traded also opens many financial doors:

- Because of the increased scrutiny, public companies can usually get better rates when they issue debt. As long as there is market demand, a public company can always issue more stock.
- Trading in the open markets means liquidity. This makes it possible to implement things like employee stock ownership plans, which help to attract top talent.

What are the Advantages and Disadvantages?

Advantages	Disadvantages
Stronger capital base	Short-term growth pressure
Increases other financing prospects	Disclosure and confidentiality
Better situated for making acquisitions	Costs - initial and ongoing
Owner diversification and	Restrictions on management
Executive compensation	Loss of personal benefits
Increase company and personal prestige	Trading restrictions

4.2. WHAT SHOULD INVETORS LOOK FOR WHEN CHOOSING AN IPO?

As with any investment, investors must do their homework carefully. Keep in mind that an IPO is a cheap way to raise capital. Investing in an IPO is not always best for the investor. Before signing that check, they must be clear about the benefits they hope to obtain from the investment. Are investors investing for income? The offering's financials will tell the story.

- As an income investor, they need to examine the company's potential for profits and its dividend policy. They are looking for steadily rising profits that will be distributed to shareholders regularly.
- A growth investor evaluates the company's growth plan, earnings and potential for retained earnings. They are looking for potential steady increase in profits that are reinvested for further expansion.
- A speculator looks for short-term capital gains. This sounds simple, but what are the risks involved?
- **4.3. WHAT ARE THE RISKS OF INVESTING IN AN IPO?**

Slow down. It may sound easy, but it is risky. Before investing in an initial public offering, investors need to ask themselves some questions. How much do they really know about this company? A sage once said, "Never invest money in anything you don't understand." We may understand all about how an IPO works, but what do we really know about the business of the company in which we plan to invest? Before it went public, the only shareholders in a privately held company were the management, employees and their families. They all know about the business; they are in it. Before investing, we need to learn the fundamentals of the business. What is their product or service? Who are their competitors? What is their share of the market for their product? Ignorance is our worst enemy. Investors should concern themselves with three kinds of risk related to the company.

- Business Risk: Does this company have a sound business plan and management with education, training, experience sufficient to execute the plan?
- Financial Risk: Is this company solvent with sufficient capital to whether short-term business setbacks?
- Market Risk: Are other investors likely to buy this stock on the secondary market? Does this company possess sufficient appeal to investors?

4.4. WHAT INFORMATION SHOULD INVESTORS GET BEFORE INVESTING?

The more information they have the better decision they will be able to make. The original stockholders are insiders. Among the information we will want to know is:

- Business Operations: What is management like? Do the employees like to work there? Is there a large turnover in the labor force? How do customers perceive the company?

- Financial Operations: What is the company's credit history? Are they in default on any debts? Have the owners invested sufficient capital to give them a financial stake? How does this company's expenses compare to their competitions?
- Marketability: Would we buy and use their product? Who would? Is their product a long-term commodity? Can we buy the IPO shares directly from the issuer?

By taking the time to answer each of the questions above, Investors gain valuable information that will help them decide whether this IPO is a suitable investment for them.

4.5. WHERE CAN INVESTORS FIND INFORMATION ABOUT THE COMPANY?

Unless we actively seek out IPOs, the first we hear about an IPO is likely to be that dreaded dinnertime sales solicitation. Fortunately, all the information we need is readily available to us, but we must take the time to read it. Forget about the sales pitch. If the "...deal is too good to pass-up" and "... we must buy it tonight..." chances are we want to gain further information before investing.

Law states that: ALL INITIAL PUBLIC OFFERINGS ARE REQUIRED TO BE ACCOMPANIED OR PRECEDED BY A PROSPECTUS. The **prospectus** is the official offering document that contains all material information about the company and it's offering. If we are looking for an IPO as an investment, we should be familiar with the following:

- IPOs are often introduced in the financial press. This contains the "bare bones" information, including the name of the stock, the issuer and how to obtain a prospectus.
- Investors may obtain a preliminary informational prospectus to ascertain whether or not they have any interest in the prospectus and offering when available.
- Today, many companies have their own web sites that provide information to their customers and prospective investors.
- The daily newspapers like financial express and other financial reports periodicals report on companies going public.

4.6. SOME THINGS TO CONSIDER BEFORE BUYING AN IPO

Let's say we do get in on an IPO. Here are a few things to look out for.

4.6.1. No History

It's hard enough to analyze the stock of an established company. An IPO company is even trickier to analyze since there won't be a lot of historical information. Investor's main source of data is the preliminary prospectus. Look for the usual information, but also pay special attention to the management team and how they plan to use the funds generated from the IPO and what about the underwriters? Successful IPOs are typically supported by bigger brokerages that have the ability to promote a new issue well. Be more wary of smaller investment banks because they may be willing to underwrite any company.

4.6.2. The Lockup Period

If we look at the following many IPOs return, we will notice that after IPOs the stock price takes a steep downturn. Thus, there is a need for lock up provision.When a company goes public, the underwriters make company officials and employees sign a lockup agreement. Lockup agreements are legally binding contracts between the underwriters and insiders of the company, prohibiting them from selling any shares of stock for a specified period of time. The period can be anything from 3 to 24 months. But the lockup specified by the underwriters can last much longer. It is not available in Bangladesh context. The problem is, when lockups expire all the insiders are permitted to sell their stock. The result is a rush of people trying to sell their stock to realize their profit. This excess supply can put severe downward pressure on the stock price.

4.6.3. Flipping

Flipping is reselling a hot IPO stock in the first few days to earn a quick profit. This isn't easy to do, and Investors will be strongly discouraged by their brokerage. The reason behind this is that companies want long-term investors who hold their stock, not traders.

There are no laws that prevent flipping, but Investor's broker may blacklist them from future offerings or just smile less when they shake hands.

4.6.4. Avoid the Hype

It's important to understand that underwriters are salesmen. The whole underwriting process is intentionally hyped up to get as much attention as possible. Since IPOs only happen once for each company, they are often presented as "once in a lifetime" opportunities. Of course, some IPOs soar high and keep soaring. But many end up selling below their offering prices within the year. Don't buy a stock only because it's an IPO - do it because it's a good investment.

4.6.5. Tracking Stocks

Tracking stocks appear when a large company spins off one of its divisions into a separate entity. The rationale behind the creation of tracking stocks is that individual divisions of a company will be worth more separately than as part of the company as a whole. While a tracking stock may be spun off in an IPO, it's not the same as the IPO of a private company going public. This is because tracking stock usually has no voting rights, and often there is no separate board of directors looking after the rights of the tracking stock. It's like Investors are a second-class shareholder! This doesn't mean that a tracking stock can't be a good investment. Just keep in mind that a tracking stock isn't a normal IPO.

5. DATA & METHODOLOGY

5.1. Data

A total of 43 stocks (IPOs) were issued during the period 2000 through 2004. However, the present study covers 43 IPOs. The offer price of each IPO, its 1st trading prices and its closing prices of subsequent six months after IPOs in the secondary market at the end of each month were collected from the Dhaka Stock Exchange Library. Prospectuses for the IPOs were collected from the SEC library in Dhaka, Bangladesh.

5.2. Methodology

5.2.1. Estimation of Underpricing

There is considerable research on the underpricing of initial public offerings (IPOs). The level of underpricing is typically measured by the IPO listing-day return, that is, the rate of return in terms of the market price of the IPO on its listing-day compared to its subscription price. The underpricing for each IPO, adjusted for market, is calculated as:

$UP = [(Pt - P0) / P0] \times 100$

Where,

Pt = Price in secondary market at time t , $P0$ = Initial offer price,

5.2.2. Estimation of Initial Return

Initial return of IPOs is the return of first trading day after IPO.
The initial return on IPOs was especially higher for the firms during 2000 to 2005 in most of the cases. Such a high initial return may indicate that the IPO was underpriced but it is not the case of Bangladeshi context. The IPOs are overpriced in Bangladesh because price decreases overtime during 2000 to 2004 in our analysis. When price decreases, initial returns have been deteriorating over the period. Because the shares are overpriced, in that case the issuer received more than it should have from issuing the shares. Such usually high performance has attracted individual investors to the IPO market.

5.2.2.1. Snap-Shot of Initial Return of IPOs

Year	SL. NO.	Company Name	Offer Value (Tk.)	Opening Price (Tk.)	Initial Return of IPOs (%)
IPOs 2000	1	Aims 1st M.F.	1	1.10	10.00
	2	Fu Wang Food	10	16.80	**68.00**
	3	Miracle Ind.	10	11.80	18.00
	4	Social Investment Bank	1,000	1150.00	15.00
	5	Prime Insurance	100	129.75	29.75
	6	Raspit Data Management	10	15.70	57.00
	7	Meghna Pet Industries	10	10.00	**0.00**
IPOs 2001	1	Bangladesh Online	10	23.20	**132.00**
	2	Dutch-Bangla Bank (50% premium)	150	281.50	87.67
	3	German Bangla Foods	10	11.40	14.00
	4	Hakkani Pulp & Paper	10	12.30	23.00
	5	Keya Cosmetics	10	13.40	34.00
	6	Meghna Condensed Milk	10	13.00	30.00
	7	Pioneer Insurance (35% premium)	135	237.50	75.93
	8	Rangamati Food	10	11.70	17.00
	9	Al-Amin Chemicals	10	9.50	**-5.00**
	10	Beach Hatchery Ltd.	10	10.90	9.00
	11	Metro Spinning	10	11.30	13.00
		Continued			
IPOs 2002	1	BDCOM Online Ltd.	10	13.80	38.00

	2	Fine Foods Limited	10	10.80	8.00
	3	In Tech Online Ltd.	10	13.60	36.00
	4	Information Services Network	10	13.90	39.00
	5	MIDAS Financing Ltd.	100	168.50	68.50
	6	Modern Cement	10	10.40	4.00
	7	Padma Cement	10	9.40	**-6.00**
	8	Square Textile (Direct listed)	10	26.10	**161.00**
	9	Fahad Industries			
IPOs 2003	1	1st Lease International	100	136.25	36.25
	2	Agni Systems Ltd.	10	10.30	3.00
	3	ICB AMCL 1st M.F.	100	100.50	**0.50**
	4	Keya Detergent	10	10.10	1.00
	5	Lafarge Surma Cement	100	NA	NA
	6	Mutual Trust Bank Ltd.(25% premium)	125	174.00	39.20
	7	One Bank Limited	100	223.00	123.00
	8	Standard Bank	100	153.25	53.25
	9	Bank Asia	100	224.50	**124.50**
	10	Mercantile Bank	100	214.50	114.50
IPOs 2004	1	Export Import(Exim) Bank Ltd.	130	505.75	**289.04**
	2	Mercantile Insurance	100	203.00	103.00
	3	ICB AMCL Islamic Mutual Fund	100	194.50	**94.50**
IPOs 2005	1	Agrani Insurance	100	155.25	55.25
	2	Global Insurance Limited	100	135.75	**35.75**
	3	Popular Life Insurance	100	339.00	239.00
	4	Fareast Islami Life	100	861.50	**761.50**
	5	Peoples Leasing	100	311.50	211.50
	6	Meghna Life Insurance	100	569.75	469.75
	7	Grameen Mutual Fund one	10	18.00	80.00
	8	Prime Finance	100	646.25	546.25
	9	Premier Leasing Int. Limited	100	343.25	243.25

5.2.2.2. INITIAL RETURN FROM IPOs OVER THE PERIOD FROM 2000 TO 2005

From the analyzing the information above, we conclude that the initial return from IPOs were much higher than the subsequent returns over the period from 2000 to 2005. Exceptionally, very few companies were performing badly where investors got the negative return from the IPOs when the stock selling in the secondary market. But, we cannot justify the whole market from their point of view. We will see next whether these companies were performing well or not after the IPOs.

Generally the trend of IPOs initial return is greater than return the investors getting from the existing securities.

5.2.3. Estimation of the Long-Term Performance of IPOs

For the comparison of Initial Return with the subsequent returns after IPOs, we have taken the data of last trading prices of every six-month immediately after IPOs and the offer prices for every IPO over the period from 2000 to 2005. Then, we have calculated the returns (Stock Price at time t minus Offer Price divided by Offer Price).

5.2.3.1. Subsequent Returns After IPOs Over the Period From 2000 to 2004

		Value in Taka		Monthly Return After 1st Trading Price (In %)						
	IPOs 2000	Offer	Opening	Initial Return	1st	2nd	3rd	4th	5th	6th
NO.	Company Name	Price	Price	of IPOs	Return	Return	Return	Return	Return	Return
1	Aims 1st M.F.	1	1.10	10.00	5.00	18.00	15.00	5.00	6.00	1
2	Fu Wang Food	10	16.80	68.00	63.00	69.00	51.00	26.00	29.00	30
3	**Miracle Ind.**	10	11.80	18.00	12.00	17.00	39.00	50.00	40.00	53
4	Social Investment Bank	1,000	1150.00	15.00	-7.50	-7.50	2.00	-3.20	3.25	10.13
5	**Prime Insurance**	100	129.75	29.75	19.00	39.50	60.75	56.25	49.50	36
6	Raspit Data Management	10	15.70	57.00	40.00	46.00	44.00	35.00	19.00	4
7	Meghna Pet Industries	10	10.00	0.00	30.00	23.00	18.00	8.00	11.00	18

		Value in Taka		Monthly Return After 1st Trading Price (In %)						
	IPOs 2001	Offer	Opening	Initial Return	1st	2nd	3rd	4th	5th	6th
NO.	Company Name	Value	Price	of IPOs	Return	Return	Return	Return	Return	Return
1	Bangladesh Online	10	23.20	132.00	127.00	91.00	95.00	62.00	69.00	72
2	**Dutch-Bangla Bank**	150	281.50	87.67	122.67	117.67	169.83	267.67	300.67	199.67
3	German Bangla Foods	10	11.40	14.00	-3.00	1.00	-15.00	-25.00	-23.00	-30
4	Hakkani Pulp & Paper	10	12.30	23.00	-10.00	-20.00	-9.00	-15.00	-36.00	-39
5	Keya Cosmetics	10	13.40	34.00	70.00	86.00	57.00	69.00	44.00	48
6	Meghna Condensed Milk	10	13.00	30.00	11.00	-8.00	-8.00	-21.00	-40.00	-38
7	Pioneer Insurance	135	237.50	75.93	34.44	22.41	20.37	15.74	8.52	16.85
8	Rangamati Food	10	11.70	17.00	4.00	-5.00	-5.00	1.00	-10.00	-35
9	Al-Amin Chemicals	10	9.50	-5.00	NA	NA	NA	NA	NA	NA
10	Beach Hatchery Ltd.	10	10.90	9.00	NA	NA	NA	NA	NA	NA
11	Metro Spinning	10	11.30	13.00	24.00	34.00	27.00	25.00	30.00	25

		Value in Taka		Monthly Return After 1st Trading Price (In %)						
	IPOs 2002	Offer	Opening	Initial Return	1st	2nd	3rd	4th	5th	6th
NO.	Company Name	Value	Price	of IPOs	Return	Return	Return	Return	Return	Return
1	BDCOM Online Ltd.	10	13.80	38.00	29.00	26.00	14.00	23.00	41.00	45
2	Fine Foods Limited	10	10.80	8.00	21.00	13.00	10.00	25.00	22.00	19
3	In Tech Online Ltd.	10	13.60	36.00	41.00	41.00	26.00	42.00	71.00	71
4	Information Services Network	10	13.90	39.00	27.00	20.00	25.00	26.00	122.00	114
5	MIDAS Financing Ltd.	100	168.50	68.50	53.00	76.00	92.25	80.75	74.25	62.5
6	Modern Cement	10	10.40	4.00	-12.00	-19.00	-26.00	-25.00	-24.00	-26
7	Padma Cement	10	9.40	-6.00	-6.00	1.00	-3.00	-5.00	-4.00	-5
8	Square Textile (Direct listed)	10	26.10	161.00	55.00	146.00	184.00	210.00	176.00	170
9	Al-Amin Chemical	10	9.50	-5.00	-17.00	-6.00	-12.00	-8.00	-10.00	-11
10	Beach Hatchery Ltd.	10	10.90	9.00	-5.00	-6.00	-9.00	-14.00	-22.00	-13

		Value in Taka		Monthly Return After 1st Trading Price (In %)						
	IPOs 2003	Offer	Opening	Initial Return	1st	2nd	3rd	4th	5th	6th
NO.	Company Name	Value	Price	of IPOs	Return	Return	Return	Return	Return	Return
1	1st Lease International	100	136.25	36.25	34.00	60.25	55.25	46.25	49.75	49.25
2	Agni Systems Ltd.	10	10.30	3.00	35.00	36.00	34.00	32.00	27.00	35
3	ICB AMCL 1st M.F.	100	100.50	0.50	6.00	9.75	10.25	10.50	10.00	10
4	Keya Detergent	10	10.10	1.00	1.00	10.00	11.00	5.00	8.00	18
5	Lafarge Surma Cement	100	135.00	35.00	40.50	24.50	23.75	27.25	109.25	129.25
6	Mutual Trust Bank Ltd.	125	174.00	39.20	28.00	33.00	32.80	44.40	76.60	78.4
7	One Bank Limited	100	223.00	123.00	89.50	70.75	64.00	65.50	73.25	94.25
8	Standard Bank	100	153.25	53.25	68.25	76.25	71.50	67.00	70.00	78.25

		Value in Taka		Monthly Return After 1st Trading Price (In %)						
	IPOs 2004	Offer	Opening	Initial Return	1st	2nd	3rd	4th	5th	6th
NO.	Company Name	Value	Price	of IPOs	Return	Return	Return	Return	Return	Return
1	Mercantile Bank	100	214.50	114.50	110.20	140.50	163.50	178.75	212.25	180.50
2	Bank Asia	100	224.50	124.50	131.00	126.30	143.25	205.75	316.50	316.50
3	Export Import(Exim) Bank Ltd.	130	505.75	289.04	355.19	409.42	496.92	NA	NA	NA

5.2.3.2. Findings after Analysis of IPOs over the Period from 2000 to 2005

Already, we have discussed about the initial return of IPOs. We saw most of the companies did well initially rather than after IPOs. But, we have to look forward to see what the long-term performance of those IPOs. We have scrutinized the long-term performance of those IPOs. From our analysis, we have seen many IPOs did well initially. But, they failed to keep these returns in the long run. Generally, most of the companies are failed to perform to keep their stable. From our observations, we saw that few companies did well after the IPOs though their initial returns were lower than those companies, which have higher returns. To the extent that the investors base their expectations on the firm's performance before the IPO, they should be aware that firms do not perform as well after going public. The weak performance of IPOs was partially attributed to irrational valuations at the time of IPO, which were corrected over time. In addition, it was partially attributed to the firm's managers, who spent excessively and were les efficient the firm's funds than they were before the IPO.

5.2.4. Overall Situation in IPO Market

The most of the companies coming for IPOs are overvalued. The IPOs are from unfamiliar and unexamined companies, which give initial return much higher from their offer prices. In most cases, investors are buying these shares more than the offer prices. But why they are buying those shares more than the offer price, investors failed to give proper answers. When the price of IPOs shares whether it is related with the company's original ability or not, it is not justified by the investors when they investing in the stock market. By analyzing the investors' characteristics, we can say that they have a tendency to buy the new IPOs by selling the existing shares of reputed companies to get the initially high return. For capitalizing the initial IPOs return, they invest in the unfamiliar companies' shares by withdrawing money from the secondary market. As a result, market capitalization and price index have been a declining tendency after the immediate IPO offer.

From the Statistical point of view, in the current year of up to 30th September, seven companies and one mutual fund have been listed to raise their fund from Dhaka Stock Exchange. The most of the companies are from Insurance and Leasing, which have drawn a great attention among the investors. According to DSE, in the first trading day of Popular Life Insurance Company's share has got price up to Tk. 339 per share, Fareast Life Insurance Tk. 861.50, People's Leasing Tk. 311.50 and Megna Life Insurance Share price was Tk. 569.75, which is much greater than their offer prices. This is really amazing highly return from IPO shares. Why not investors would not jump to catch the higher return, which is an opportunity cost of selling the existing shares in the secondary market. These companies not only selling their shares more than the offer price but also they have captured the highest transaction securities.

As a result, investors are more willing to invest in the IPOs shares by selling shares of high-quality companies. This tendency has been raised only for getting high initial IPOs return. Investors are reluctant to get return in future by investing in good companies shares, which will bring definitely disruption in the stock market. Rather than, investors are trying to get in the money by investing in the IPOs. Therefore, demands of the IPOs are high, but supply is less comparable to investors in IPOs, which causes to raise the share prices of new companies. According to various experts from the DSE, those who are investing in the IPOs, it is not safe investment. If we analyze the performance of IPOs shares, it will be deteriorating in future. The prices of IPOs of General Insurance Company sectors, which brought the IPOs in few months ago, now the price is in the declining position. They did not keep their share prices, which were risen substantially after IPOs. For example, 5th March was the first trading price of Agrani Insurance Company, the first trading price of the company was Tk.155 in DSE. But, the price has been declined to at Tk. 91.50 in 29 September. In the same manner, first trading price of Global Insurance was Tk.135. But, the price decreased from Tk.135 to Tk. 104.80 in 29 September. Therefore, those shares are overpriced now; it will decline in future within 2 or 3 years after IPOs according to experts of DSE. This impact is from the various sectors that are coming with IPOs. If they perform badly after IPO, Share Price will decline in future. Companies are not giving true picture in their prospectuses, which are published before coming in the primary market. If investors are not analyzed the companies previous performance from the financial statements before investing the share of the companies, they will definitely lose their money.

5.2.5. Impact of IPOs

The chairman of DSE Shahiq Khan said that the new IPOs would cause a negative impact on the secondary market. Companies raise an enormous amount of money from the primary market by issuing new shares. Investors withdraw their money from the secondary market to capitalize the higher return and invest in IPOs. Definitely, it has an impact on the stock market. But, this impact is temporary as chairman said.

If market index and market capitalization deteriorating day by day, investors will lose their zeal on the stock market. The other opinion is that many new investors coming with these IPOs, they will also be interested for the secondary market. With the increasing number of investors in the stock market, liquidity will be more than before because of outstanding shares increases in the market. It will also increase the market capitalization of the stock market.

5.2.6. Timing of IPOs

With the analyzing of 11 years of IPOs history, highest number of IPOs was 23 in 1994, the second highest number was 22 in 1996 and the lowest number of IPOs was 3 in 2004. The number of IPOs from 1994 to 2004 respectively was 23, 21, 22, 12, 6, 11, 7, 11, 8, 14 and 3. It is not a wise decision for SEC to approve many IPOs within one year. But this was happened in the year of 1994. From the point of view of brokers and market specialists, SEC has been performed poorly in past to give the approval of IPOs for different companies. They have suggested that SEC should approve the IPOs with a wise time distance rather than approving the IPOs together. They give an opinion that many companies distribute their dividends within the month of June, after that market falls in bearish position. Due to IPOs, capital transfers from secondary market to primary market. Therefore, it will defer the bearish situation for further period. It is not a great period for approving IPO.

Other opinion, I have got from the EX. President of DSE. He said that this was not the highly concerned matter. It is temporary bearish situation in the market. It will go out from the market in the long run and will bring a profitable situation in future. Now, there are many young literate investors coming with the new IPOs. Funds are coming and it will increase liquidity in the market. He said if many IPOs did not come, capital would not increase in the market.

5.2.7. Recommendation on Findings from Trend of IPOs Return

Market specialists suggest that Pre-IPO allotment should not be for individual investors. Individual investors do not keep the shares for the future. After getting the IPO allotment, they will sell shares for high return and it will bring negative impact on the market. But, the institutional investors are not afraid of this situation. So, market will be more stable.

5.2.8. Estimation of the Cost of Going Public

Out-of-pocket expense is reported in the prospectuses as 'Preliminary Expenses' and is inclusive of brokerage commission to the Bankers to the Issue, auditors' fee, the fee paid to the Issue Manager, etc. The prospectuses typically stipulate the upper limit for Preliminary

Expenses and consequently, this upper limit is taken as a proxy for out-of-pocket expenses. This out-of-pocket expense is first expressed as a percentage of total issued capital net of insiders share. Next, the wealth loss from going public, the underpricing as calculated using the methodology specified in the preceding section, is then added to it to arrive at the cost of going public. Finally, this cost of going public is compared between the small and large firms, divided on the basis of the size of the issued capital. Cost can vary considerably depending upon an individual company's history, size and complexity.

The following costs are considered minimums and many larger offerings will have costs that greatly related with:

- Legal
- Accounting
- Audit
- Printing
- Fees
- Plus underwriter commissions and expenses as well as numerous expenses on the part of the company.

6. The rise and fall of the IPO Market in Bangladesh before Sample Period

The IPO market in Bangladesh got more and more active as the years progressed within period 1991 through 1997 before the sample period of the current study. Aggressive market reform measures initiated at the turn of the last decade initiated this magnificent growth, which however, turned out to be short lived. The most significant of the reforms was the opening of Bangladesh securities markets to non-resident/foreign investors during the 1991-1992 Fiscal Year (FY).However, international investors/institutions were allowed to participate in the primary (IPO) market only in the 1992-1993 FY subject to some ceiling which were, however, withdrawn in the subsequent years. Allowing the foreigners to invest in stocks had a tremendous impact on the activity of the local markets. The flow of capital into the stock markets by non-residents stood at Tk. 387.50 million at the end of 1992-1993 FY. But by the end of 1993- 1994 FY this amount shot up to a record of Tk. 3101.80 million followed by a fresh injection of another whopping Tk. 2982.70 million in the 1994-1995 FY. Significant steps were taken to ease the process of repatriation of capital gains and dividends by foreigners during the 1993- 1994 FY. Capital gains tax on securities transactions was abolished altogether during the same FY. Simultaneous to these reform measures, the

Investment Corporation of Bangladesh (ICB), at the turn of the past decade, started disbursing loan for investors for investment in the securities market with the objective of encouraging liquidity and growth of the market. The total amount of loan disbursed by the ICB for this purpose during the FY 1992-1993 was Tk. 19.40 million, which shot up to Tk. 1561.60 million by end of the 1996-1997 FY.

Furthermore, the (central) bank rate was lowered to 5.5% in March 1994. This decline in bank rate caused the interest rates on time and savings deposits offered by the commercial banks to fall, which, in turn, was expected to generate more investment in the securities market by the local investors. The average investing population in Bangladesh, lacking any investment related skills, started to pour their money into the stock markets thinking investment in equity market is a one way street (it can only go up) and thereby, creating the speculative bubble. The companies going public from the stock market during 1995 and 1996 raised a record amount of money. On July 7, 1996 the All Share Price Index crossed the 1000 level for the first time and reached the all time high, 3648.75, on November 5, 1996.

The institutional framework regulating the stock market, however, did not keep pace with the continuous record rise of the stock market. There were serious drawbacks in the area of enforcement of contracts, settlement procedures, laws related to insider trading, transparency, accounting standards and ethical standards of accounting firms that audited and certified the financial statements of the companies going public. The SEC of Bangladesh turned a blind eye to several irregularities that led to massive market manipulations. Trading of fictitious shares and fake bulk trading went unhindered. It is alleged that a number of big trading houses arranged trades among themselves and thereby creating an illusion of strong demand for certain stocks. Thousands of dealers bought and sold shares in the unauthorized/illegal 'kerb' market. Share prices in the 'kerb' market, on the average, were about 20% higher compared to the prices on the exchange floor during the later part of 1996 and reputed brokerage houses of the country were reported to have been involved in buying shares from the trading floor of the DSE and selling them illegally on the 'kerb' market for huge profit. The of huge amount of money disbursed to the general public by the ICB, intended to provide liquidity and growth of the stock market, contributed further to the speculative activities in the market. When the 'lock-in' period of one year for the foreign investors, adopted in the 1994-1995, was removed in 1996 it simply made the speculation and the process of disinvestments easier for foreigners. Foreign and some select few local investors took profit and closed out their positions in the market sensing instability. The non-resident investors were reported Tk. 63321 million out of the stock markets during the FY 1996-1997. By January 25, 1997 the All Share Price Index slid down 1874 points from the record of 3648.75, on November 5, 1996 – the speculative bubble began to burst. Then another policy was promulgated in 1997 under which people were allowed to invest money in the market without being asked about its source in exchange of the commitment to pay tax at the rate 7.5% and retain the amount so invested in the securities markets for one year. Although no empirical evidence is provided in this study the possibility that this new policy contributed further to the downslide of the share market is real. This new policy was obviously too tempting for the local corrupt elites. It is alleged that, under this new policy, the local corrupt elites poured 'black money' into the stock markets, 'white washed' it and then withdrew it from the market - the All Share Price Index was at 516.94 in December 1998 and 487.77 in December 1999 compared to the level of 1111.47 in June 30, 1997.

7. Concluding Remarks

The present study provides an empirical analysis of the market for new issues in Bangladesh for the sample period 2000 through 2005. A total of 43 new issues are included in the sample. The initial return and subsequent returns of IPOs is estimated and analyzed from a variety of perspectives. An analysis of the cost of going public is also done in the present study. Furthermore the sequence of events leading to the rise and fall of the IPO market in Bangladesh are also described in details for the period 1991 through 1997. Despite the spectacular growth during the early to mid 1990s the market for new issues in Bangladesh is currently stagnant. Until the institutional framework, within which the market participants in Bangladesh operate, is strengthened e.g., the investors' are given a solid legal backing against market corruption, auditors are held accountable for the way they conduct business, the corporate governance structure is radically improved, the SEC is held accountable for failure to enforce security related laws, etc., both the individual and institutional (local and the foreign) investors cannot be expected to participate in the market for new issues in Bangladesh actively again.

References

Ahmed, M. Farid, Khan, Harunur Rashid and Islam Md Sadiqul, 'Industrial Finance Through 'Capital Market in Bangladesh; A study on the Demand Side'. The Asia Foundation and Bureau of Economic Research, Dhaka University;

Annual Report and monthly Review of DSE and CSE, various issues;

Annual Report of Bangladesh Bank, Various issues.

Aggarwal, R., R. Leal and L. Hernandez (1993), "The aftermarket performance of initial public offerings in Latin America," *Financial Management*, Vol. 22 (Spring), pp. 42-53.

BIBM Bulletin, Vol.2 No. 3, May-June, 1999. Bangladesh Economic Review, 1999.

Beatty, R. and J. Ritter (1986), "Investment banking, reputation, and the under pricing of initial public offerings," *Journal of Financial Economics*, Vol. 15, pp. 213-232.

Clarkson, P. and J. Merkley (1994), "The under pricing of initial public offerings, ex ante uncertainty and proxy selection," *Accounting & Finance*, Vol. 34 (Nov.) pp. 67-78.

"Foreign Investment in Asian Stock Markets" ESCAP, Monograph No. 6, 1996;

Hasan, T., S. Quayes and M. Alam (forthcoming), "Stock market opening: the Bangladesh experience," *Analytical Issues in Bangladesh's Development*, Academic Press.

Levin, Ross "Stock Markets: "A Spur to Economic growth", Finance & Development, March, 1996;

Loughran, T., and J. Ritter and K. Rydqvist (1994), "Initial Public Offerings: International Insights," *Pacific-Basin Finance Journal*, Vol. 2, pp. 165-199.

MCCI, Chamber News, Various issues.

P. Rivoli (1991), "Evaluating the costs of raising capital through an initial public offering," *Journal of Business Venturing*, Vol. 6, pp. 351-361.

Rouf, M.A and Nabi, Md Golzare "Stock Market in Bangladesh Challenges Ahead" "Thoughts on Economics", July December, 1998.

Ritter, J. (1984), "The 'Hot Issue' Market of 1980," *Journal of Business*, Vol. 57, pp. 215

SEC Quarterly Review and Annual Report, various issues; The Financial Express, Various issues.

"The costs of going public," *Journal of Financial Economics*, 1987, Vol. 19, pp. 269-281.

Web Sites: www.secbd.org, www.dsebd.org