

# A CASE FOR SHARE AUCTION

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February 24, 2014  
NMB Capital Limited



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Initial public offerings (IPO), right shares, bonus shares and buying shares in the secondary market are quite prevalent in the Nepalese market. But a majority of general investors who invest aren't aware of another kind of investment vehicle- **SHARE AUCTION**. Hence, only seasoned investors who keep track of these anomalies gain from investing in this novel approach.

### WHAT is a share auction?

There are two instances when institutions undertake auctions.

#### a. Offloading the institution's current holdings

- This type of auction happens when institutions have shares of other institutions and want to sell these shares for profit booking or for compliance issues.
- Example: To comply with the central bank's directive that all BFIs give up cross holdings in other BFIs, Rastriya Banijya Bank Limited had called a tender to divest 56.52 lakh units of promoter shares of Nepal Investment Bank Limited and 1.96 lakh units of promoter shares of Nepal Awas Finance Limited.

(Source: [http://www.rbb.com.np/downloads/NoticeFiles/Auction\\_Notice\\_Shares.pdf](http://www.rbb.com.np/downloads/NoticeFiles/Auction_Notice_Shares.pdf))

#### b. Auction of the unsubscribed right shares

- When institutions need to inject additional capital, they issue right shares which can only be applied by the existing shareholders of that company. **Disinterest of the current shareholders, unavailability of funds or unawareness of the current shareholders about the right issuance might lead to a fraction these shares being unclaimed.** The shares that aren't subscribed (unclaimed) for are then called for auction to the regular investors/public (who may or may not be the institutions current shareholders).
- Example: Life Insurance Corporation (Nepal) Ltd. recently issued 1,012,500 right shares of which 35,468 units were unclaimed by its "current" shareholders which were then called for auction to the general public.

(Source: <http://www.sharesansar.com/sadmin/uploadnews/8lzyk1s2xyu94vm.jpg>)

## HOW can I apply?

Applying to unclaimed shares is quite similar to applying for IPOs.

- Get the forms from institution undertaking the auction, usually an Issue Manager such as NMB Capital.
- Fill the forms and deposit the entire amount equivalent to the applied shares in the bank or submit a good for payment check.
- Usually auctions only open for a short period and after which the unclaimed shares are allotted to the highest bidders. Auction of right shares follows the regular bidding process; whoever bids the highest price gets the shares he/she has applied for. In case, two or more bidders applied for the shares at an equal rate then they are allocated shares proportionate to their applied shares. The bidders who weren't allotted any shares are refunded their entire amount.

## WHY should I apply?

Applying for auctions can have a few advantages.

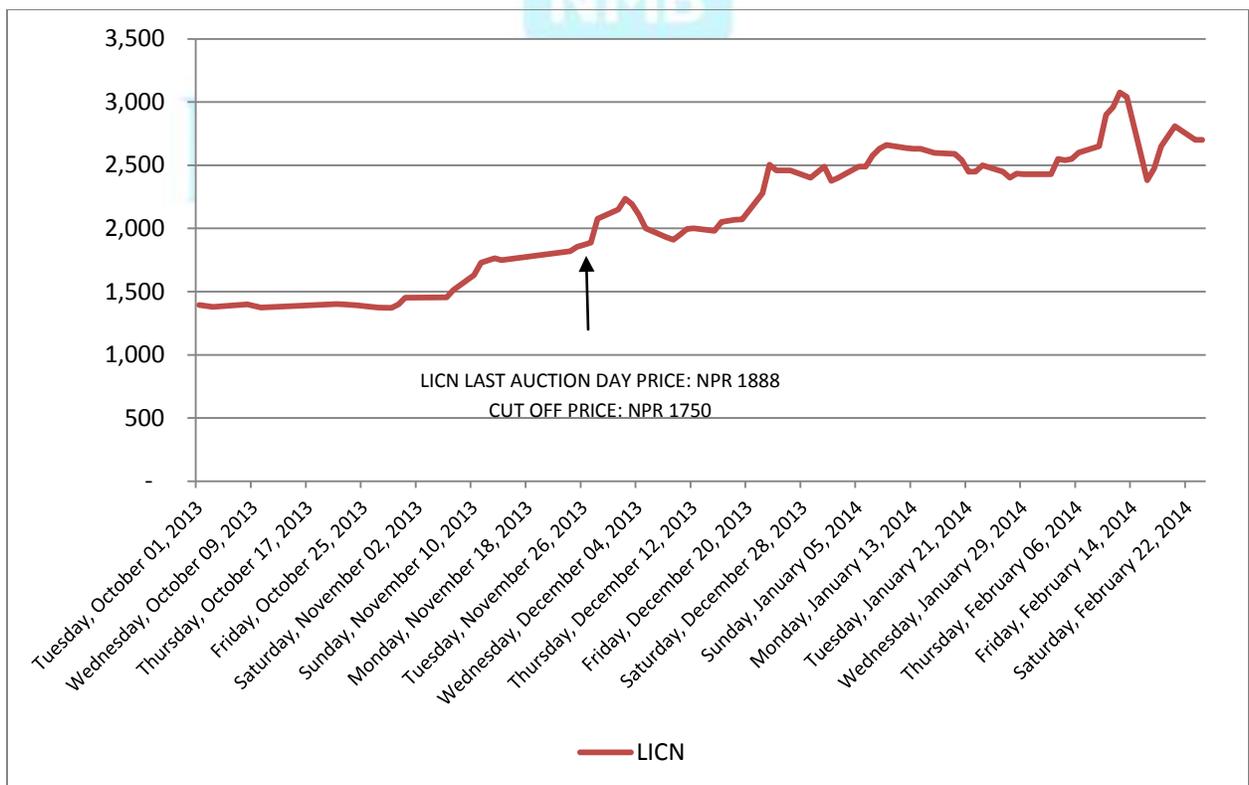
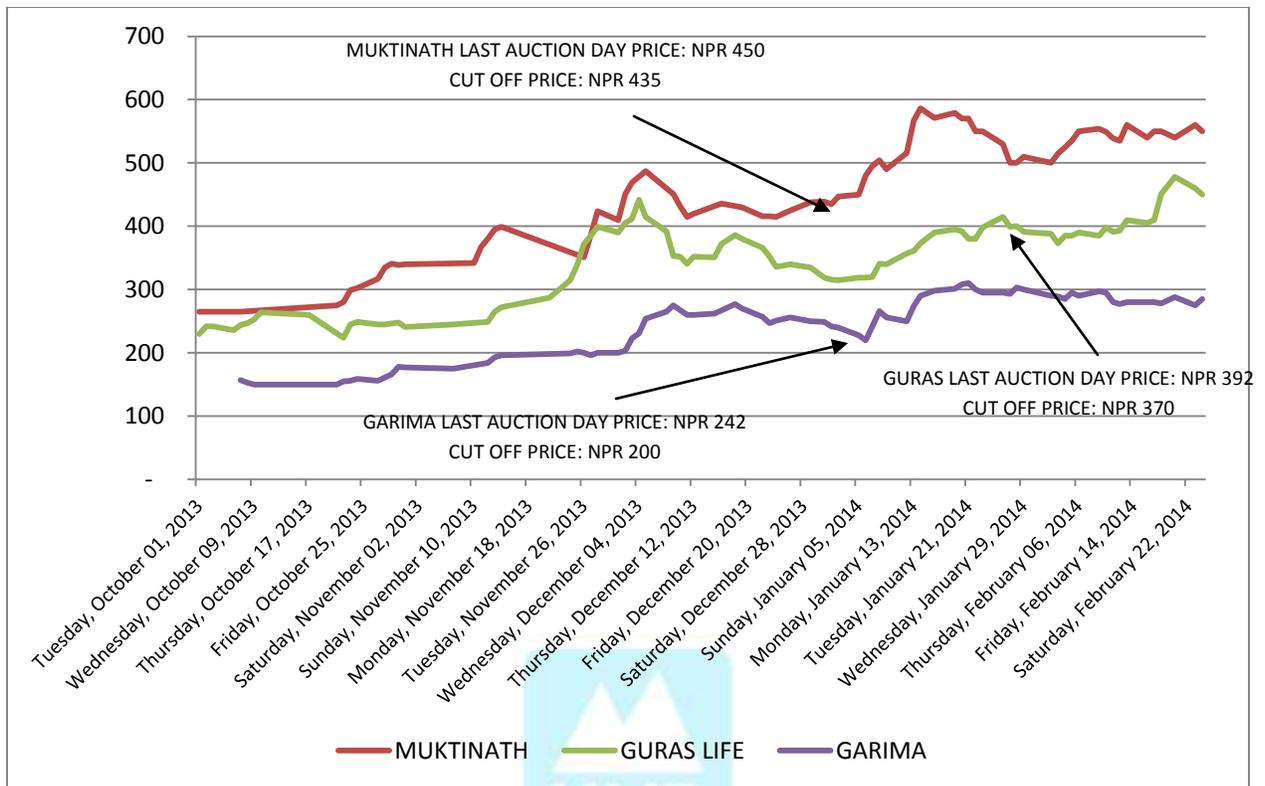
- Funds are only frozen for a few days (roughly 15 days) as opposed to 120 days in IPOs.
- These shares are listed in a few weeks (depends on the Issue Manager) and can be traded allowing for quicker turnover of funds. This period is significantly shorter than IPO's.
- Since the investor is purchasing shares directly from the institution, they don't have to pay broker and Security Board Nepal (SEBON) commission.
- In our market acquiring big blocks of certain shares is difficult ; but share auctions give investors an opportunity to acquire these shares in huge chunks.

This paper tries to make a case for the second type of auction- "Auction of the unsubscribed right shares". Recently, a number of institutions have called for auction of their unclaimed right shares. Below are listed some of the recent unclaimed public shares auction and other important details:

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RECENT AUCTIONS

Institution Name	Auction Status	General Share Units	Last Auction Day (approximation)	Cut Off Price	Price on Last Auction Day (approximation)	Today's Price (Feb 24, 2014)
Prudential Insurance	Undergoing	11,636		-	-	452
Nilgiri Vikas Bank	Undergoing	31,122		-	-	197
Western Development Bank	Undergoing	80,269		-	-	225
Gurans Life Insurance	Closed	41,112	Jan 27, 2014	370	392	450
Garima Bikas Bank	Closed	93,784	Jan 7, 2014	200	242	285
Muktinath Bikas Bank	Closed	42,148	Jan 5, 2013	435	450	550
Life Insurance Corporation	Closed	35,468	Nov 27, 2013	1,750	1,888	2,700



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