

SENSITIVITIES OF STOCK MARKET IN NEPAL

By
BISHNU PRASAD KHANAL
Shanker Dev Campus
T. U. Regd. No. 31232-94
Campus Roll No. 1514/060

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University



*In partial fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S)*

Kathmandu, Nepal
November, 2009

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

BISHNU PRASAD KHANAL

Entitled:

SENSITIVITIES OF STOCK MARKET IN NEPAL

*has been prepared as approved by this Department in the prescribed format of the
Faculty of Management. This thesis is forwarded for examination.*

.....
Asso. Prof. Dr. Shilu Manandhar
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head of Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

BISHNU PRASAD KHANAL

Entitled:

SENSITIVITIES OF STOCK MARKET IN NEPAL

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the Degree of Master's in Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled "**SENSITIVITIES OF STOCK MARKET IN NEPAL**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of **Asso. Prof. Dr. Shilu Manandhar** of Shanker Dev Campus.

.....
BISHNU PRASAD KHANAL

Researcher

T. U. Regd. No. 31232-94

Campus Roll No. 1514/060

ACKNOWLEDGEMENT

Securities are traded in a market called securities markets. Securities markets are designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. Investment in securities in the capital markets is key factor in the national economy. Investors are the sources of fund which is life blood for any market. With out them no transaction is possible in security market. So, investors are the real asset for security market. This research report has tried to know the attitude of investors towards stock market.

This thesis report has been prepared in the partial fulfillment of the requirement of the degree of Master of Business Studies (MBS). It has covered primary as well as secondary data to analyze **“Sensitivities of Stock Market in Nepal”**.

I express my sincere gratitude to my supervisor **Asso. Prof. Dr. Shilu Manandhar** lecturer of Shanker Dev Campus, for his valuable guidance and inspiration. With out his proper guidance and excellent supervision, this research report would not have been presented in this form.

I thank to Bishweshor Man Shrestha, Head of Research Department of Shanker Dev Campus, for providing me chance to carryout this research report. I also thank to Puspa Raj Joshi for salving statistical problem for data analysis. SEBO/N, NEPSE, families and religious and all the respondents who helped me by providing related information about this thesis.

Last but not least, I am must indebted to friends for their great support and encouragement that help to give a fine accomplishment to this report.

Bishnu Prasad Khanal
Researcher

TABLE OF CONTENTS

Recommendation
Viva-Voce Sheet
Declaration
Acknowledgement
Table of Contents
List of Tables
List of Figures
Abbreviations

Page No.

CHAPTER –I INTRODUCTION

1.1 Background of the Study	1
1.2 Focus of the Study	4
1.3 Statement of the Problem	5
1.4 Objective of the Study	7
1.5 Hypothesis of the Study	7
1.6 Significant of the Study	8
1.7 Limitation of the Study	8
1.8 Organization of the Study	9

CHAPTER- II REVIEW OF LITERETURE

2.1 Conceptual Review	10
2.1.1 Financial Market	10
2.1.2 Money Market	11
2.1.3 Capital Market	12
2.1.4 Securities Market	12
2.1.5 Financial Intermediaries	16
2.1.6 Types of Investors	17

2.1.7 Investment Alternatives	19
2.1.8 Stock Exchange	22
2.1.9 Participant in the Stock Exchange	23
2.1.10 Theories of Stock Price Behavior	23
2.1.10.1 Technical Analysis	24
2.1.10.2 Fundamental Analysis Theory	25
2.1.10.3 Efficient Market Theory	25
2.1.11 Investment Return and Risk	33
2.1.11.1 Types of investment return	33
2.1.11.2 Sources of Investment Risk	35
2.1.12 Investment Prerequisite	37
2.1.13 Security Market Issues	41
2.1.13.1 Wash Sales	41
2.1.13.2 Cornering of the Market	42
2.1.13.3 Churning	42
2.1.13.4 Pools	43
2.1.13.5 Insider Trading	43
2.2 Theoretical Concept Review	44
2.3 Legal Framework & Improvements for Security Trading	56
2.3.1 Legal Framework of Security Trading	56
2.3.1.1 Review of GON Policies, Programs and Regulations	56
2.3.1.2 GON Policies and Programme	61
2.3.1.3 Institutional Arrangements for Investors' Protection	63
2.3.1.4 Trading of Promoters' Shares	64
2.3.2 Historical Background of Capital Market in Nepal	64
2.3.2.1 Policy and Program in 10th Plan	67
2.3.2.2 Historical Background of Nepal Stock Exchange (NEPSE)	68
2.3.2.3 Present Status of Stock Market in Nepal	70

2.4 Review of Related Studies	73
2.5 Research Gap	79

CHAPTER – III RESEARCH METHODOLOGY

3.1 Introduction	81
3.2 Research Design	81
3.3 Population and Sample	82
3.4 Sources of Data	82
3.5 Data Processing Procedure	83
3.6 Research Variable	83
3.7 Tools Used	83

CHAPTER - IV DATA PRESENTATION AND ANALYSIS

4.1 Introduction	86
4.2 NEPSE Index	87
4.3 Presentation and Analysis of Primary	88
4.4 Presentation and Analysis Secondary Data	92
4.4.1 Monthly Trend Analysis	92
4.4.2 Annual Trend Analysis	98
4.4.3 Number of Companies De-listed from the Stock Exchange	101
4.4.4 Listed Companies in Stock Exchange	102
4.4.5 Volume of Stock Traded in Secondary Market	103
4.4.6 Turnover, Market Capitalization & Paid Up Value	105
4.4.7 Sensitive Indicators of Securities Market	110
4.4.8 Closing Market Price of Selected Companies	112
4.4.9 Performance of Sample Companies	123
4.4.10 Correlation Coefficient Analysis of Selected Companies	126
4.2.11 Regression Analysis to Forecast the future Market Price of Selected companies	136

4.2.12 Signaling Effect	144
4.3 Major Finding	146

CHAPTER V SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary	149
5.2 Conclusion	151
5.3 Recommendations	152

Bibliography

Annex

LIST OF TABLES

Table No.	Title	Page No.
3.1	Total Population & Sample(2006/07)	82
4.1	Closing NEPSE Index of different Months For the Year 2063/064 (2006/07)	93
4.2	Closing NEPSE Index of different Months for the Year 2064/065 (2007/08)	94
4.3	NEPSE Index (Closing) of different Months For the Year 2065/066 (2008/09)	97
4.4	Closing NEPSE Index of different Year (1993/94 to 2008/09)	99
4.5	Listed Companies in Stock Exchange	102
4.6	No of Transacted Companies Volume of Stock Traded and Price	103
4.7	Turnover Value of Listed Companies (2064/65)/ (16 July 2007 to 15 July 2008)	105
4.8	Market Capitalization (16 July 2007 to 15 July 2008)	107
4.9	Paid up Value of Listed Securities F/Y 2007/08.	108
4.10	Securities Markets Indicators	110
4.11	Closing Market Value of Selected Banks	112
4.12	Closing Market Price of Selected Finance Companies	114
4.13	Closing Market Value of Selected Insurance Companies	115
4.14	Mid July 2007 to Mid July 2008	117
4.15	Mid July 2007 to Mid July 2008	119
4.16	Top Ten Companies on the Basis of Number of Transactions (Mid July 2007 to Mid July 2008)	120
4.17	Top Ten Companies on the basis of Market Capitalization (Mid July 2007 to Mid July 2008)	122
4.18	Performance of sample Companies (Fiscal Year 2006/07)	123

4.19	Companies Performance Analysis (Fiscal Year 2007/08)	125
4.20	Correlation between EPS and DPS of Himalayan Bank Ltd	126
4.21	Correlation between EPS and DPS of Nabil Bank Ltd	127
4.22	Correlation between EPS and DPS of Kathmandu Finance Co. Ltd	128
4.23	Correlation between EPS and DPS of National Finance Co. Ltd	128
4.24	Correlation between EPS and DPS of Sagarmatha Insurance Co. Ltd	129
4.25	Correlation between EPS and DPS of Everest Insurance Co. Ltd	130
4.26	Correlation Coefficient of Selected Companies (EPS & DPS)	130
4.27	Correlation between MPS and DPS of Himalayan Bank Ltd	131
4.28	Correlation between MPS and DPS of Nabil Bank Ltd.	132
4.29	Correlation between MPS and DPS of Kathmandu Finance Ltd	133
4.30	Correlation between MPS and DPS of National Finance Ltd	133
4.31	Correlation between MPS and DPS of Sagarmatha Insurance Co. Ltd	134
4.32	Correlation between MPS and DPS of Everest Insurance Co. Ltd	135
4.33	Correlation Coefficient of Selected Companies (DPS & MPS)	135
4.34	Market Price Forecast for Himalayan Bank Ltd	137
4.35	Market Price Forecast for Nabil Bank Ltd	138
4.36	Market Price Forecast for Kathmandu Finance Ltd	139
4.37	Market Price Forecast for National Finance Ltd	140
4.38	Market Price Forecast for Sagarmatha Insurance Co. Ltd	141
4.39	Market Price Forecast for Everest Insurance Co. Ltd	142
4.40	Comparative Analysis of Real Market Price and Forecasted Market Price of the Selected Companies	143
4.41	Result from t- test	145

LIST OF Figures

Figure No. No.	Title	Page
4.1	Closing NEPSE Index of different Months for the Year 2063/064	93
4.2	Closing NEPSE Index of different Months for the Year 2064/065 (2007/08)	95
4.3	NEPSE INDEX for the Year 2008/2009	97
4.4	Yearly NEPSE Index	99
4.5	Listed Companies in NEPSE	102
4.6	Volume of Stock Trade	104
4.7	Turnover Value of Listed Companies (2064/65)/ (16 July 2007 to 15 July 2008)	106
4.8	Market Capitalization of Securities	107
4.9	Paid up Value of Listed Companies	109
4.10	Securities Markets Indicators	111
4.11	Closing Market Value of Selected Banks	113
4.12	Market Price of Selected Companies	114
4.13	Market Price of Selected Insurance Co.	116
4.14	Market Capitalization	118
4.15	Top Ten Companies on the Basis of Share Traded	119
4.16	Top Ten Companies on the basis of Number of Transactions	121
4.17	Top Ten Companies on the basis of Market Capitalization (Mid July 2007 to Mid July 2008)	122
4.18	Performance of Sample Companies (Fiscal Year 2006/07)	124
4:19	Companies Performance Analysis (Fiscal Year 2007/08)	125

ABBREVIATION

BJM	:	Biratnagar Jute Mills
EI	:	Everest Insurance Ltd.
EPS	:	Earning Per Share
HBL	:	Himalayan Bank Limited
IPO	:	Initial Public Offering
KF	:	Kathmandu Finance Ltd.
NABIL	:	Nepal Arab Bank Limited
NEPSE	:	Nepal Stock Exchange
NF	:	National Finance Limited
NIDC	:	Nepal Industrial Development Corporation
NRB	:	Nepal Rastra Bank
OTC	:	Over-The-Counter Market
P/E Ratio	:	Price Earning Ratio
ROC	:	Registrar of Companies
SEA	:	Security Exchange Act
SEBO/N	:	Security Board of Nepal
SEC	:	Security Exchange Centre
STA	:	Security Transaction Act