

**THE TREND AND THE GROWTH OF COMMON STOCK
MARKET IN NEPAL**

By

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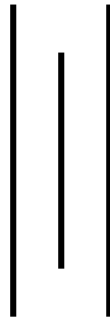
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**In the Partial Fulfillment of the Requirement for the Degree of
Master of Business Studies (M.B.S.)**

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June, 2011

RECOMMENDATION

This is to certify that the Thesis

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DECLARATION

I, hereby, declare that the work reported in this thesis entitled **“THE TREND AND THE GROWTH OF COMMON STOCK MARKET IN NEPAL”** submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the supervision of Mr. Shashi Kant Mainali and Mr. Rabindra Bhattarai, Lecturers of Shanker Dev Campus.

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Finally, due to limitations of resources constraint and others the study may be shortcoming. So I do not heart to declare that the study is comprehensive. I hereby, take responsibility of any defects of analysis or error in this thesis.

Raju Gnawali

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ABBREVIATION

B/S	Balance Sheet
BS	Bikram Sambat
CDS	Central Depository System
CRO	Company Registrars Office
CS	Common Stocks
CV	Coefficient of Variation
FOM	Faculty of Management
FY	Fiscal Year
GDP	Gross Domestic Product
HMG	His Majesty's Government
MBA	Masters of Business Administration
MBS	Masters of Business Studies
MPS	Market Price Per Share
NATS	Nepal Automated Trading System
NBL	Nepal Bank Limited
NCM	NIDC Capital Market
NEPSE	Nepal Stock Exchange Limited
NIDC	Nepal Industrial Development Corporation
NRB	Nepal Rastra Bank
NSE	Nepal Security Exchange
OTC	Over the Counter Market
P/L	Profit and Loss
SD	Standard Deviation
SDC	Shanker Dev Campus
SEBO	Security Board
SEBON	Security Board of Nepal
SEC	Security Exchange Center
T-Bills	Treasury Bills
TU	Tribhuvan University
US	United States
WTO	World Trade Organization

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

In 21st century, globalization and advent of information technology have turned the whole world into a small village. The relationship between stock market development and economic growth has received renewed attention of academicians and policy makers in the present decade both in the developed and developing countries. The growing importance of stock markets in the developing countries like Nepal has opened up many opportunities for research in the relationship between financial sector development and economic growth.

Securities markets provide an effective way of raising money for business enterprises and government and provide opportunities to individuals and institutions for investment. The securities markets serve as a reliable source for the collection of capital for the operation of companies thereby promoting efficiency. Security market is one of the components of financial sector. The stocks market is considered as a barometer of national economic activities. Therefore, policy makers use the stock market index as a basis to take appropriate actions in order to protect the national economy against any possible deviation from national goals. It is obvious that economic development mainly due to industrialization will be possible only by mobilizing sufficient amount of internal and external capital. People will invest their money when they feel that the market is efficient and transparent. So the market is to be more transparent with availability of different investment alternatives and sufficient systems should be developed to control possible fraud and errors. The securities market provides many important services and facilities to national policy maker as well as business decision makers. some of the major advantages of securities market are (i) it diverts funds efficiently to economic activities in a productive way, (ii) facilitates issue of securities, (iii) creates continuous markets for security trading, (iv) determines and publishes regularly the price of listed securities, and (v) provides feedback to management to make decisions.

Although some efforts were made to develop country's infrastructure during the Rana regime, they were not a single institution for the investment but in 1933 B.S Prime Minister Ranoddip Singh established "Tejarath Adda" which did not collect money but would provide loan to employees and public against the bullion. Efforts to achieve economic growth in the country in a planned way started only in 1956 with the adoption of the First Five Year Plan by the government. Under different plans, the government set targets for economic growth and adopted various policies and programs, which were directed towards developing infrastructure necessary for the creation of national wealth. (*Securities Board Nepal; 2004: 26*). Unfortunately, these policies and programs failed to take into account the need to develop the financial structure that ought to exist side by side with the development of infrastructure necessary for the growth of real sector. In one sense, these policies were irregular because they required attractive growth in physical assets of the nation by suppressing the development of financial sector of the country. The policy of the government to maintain control of the financial sector by restricting the entry of private sector into financial activities limited the growth of financial sector in the country. As a result the country had limited financial institutions to support its developmental activities for quite a long time. Till early eighties the country had only two commercial banks, two development banks, one provident fund and few insurance companies. As almost all of these financial institutions were under the government sector they operated more under social welfare concept than under commercial principles. As a result of the restrictive policy of the government, the gaps created in the resources needed for the development of the real sector and the resources available for it were met through foreign grants and loans under different plans. While this increased the country's dependency on the foreign aid, it also made the government less concerned for the need to mobilize resources locally to meet the resource gap.

Development of capital market is essential for the economic development of a country. It requires the development of different infrastructure to smooth out the transaction procedures. In Nepal, there is no long history for the development of the securities market. Developed securities market is the outcome of centuries of continuous practice and walking. Stock market development in Nepal commenced in 1976 AD when Nepal Government established Securities Exchange Centre (SEC) to provide and develop market for securities, both the government bond and corporate

securities. Visible impact on the development of financial sector was observed only when the government changed its restrictive policy and opened up closed financial sector to private sector and foreign participation to establishment the banks. With the adoption of privatization and economic liberalization policy the process got further impetus and the financial institutions in Nepal.

At present, NEPSE has been performing more strongly than in the earlier years. The improvement in the equity market has been attributed to various factors including good prospect of corporate earnings and broader household participation in the stock market. Investors not only rely on the statement of the brokers, but they also have a concern over the financial information of the concerned company. Therefore, the shares of companies with better prospects of dividend, capital increment and growth have normally higher prices in the stock market. At present, the stock market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertakings. During this period some discernible improvements took place in the stock market. In 1993, Securities Board Nepal (SEBO) was established with the objectives to regulate, supervise and monitor the security market. Similarly, the Securities Exchange Centre was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. An open out cry system was introduced by NEPSE for securities transaction, where the investors are allowed to deal in securities only through licensed brokers.

The equity market activities grow with the development and reform in the financial sector. Over the past seventeen years the stock market of Nepal has made some progress. Important performance indicators in the period between FY 1993/94 and FY 2009/10 are the number of listed companies in NEPSE increased from 62 to 176 and the market capitalization value rose from Rs.13.87 billion to Rs.376.87 billion. During this period, NEPSE index jumped from its base value of 100 to 477.73.

1.2 Focus of the Study

Public limited companies that have issued ordinary and preference shares to public and listed their shares in NEPSE for transaction in secondary market are playing the crucial role in the economic growth of Nepal. As of Mid July 2010, 176 companies

have listed their shares in NEPSE in order to make them eligible for trading in secondary market. They have the liability to increase the return to their shareholders.

The participation of general people in the stock investment has increased over the years but the alternatives are few. The number of listed companies has grown over the years but in a slow pace. To make the rational investment decision, investors need timely and correct information about the listed companies and market condition but Nepalese investors are out of access of such information so that the investment has not become the rational decision making process.

Therefore, this study is mainly focused on growth trend of the stock market indicators mainly number of listed companies, number of trading days, market capitalization, market turnover, NEPSE index over the period of last 17 years from FY 1993/94 to FY 2009/10 and the general perception of the investors towards the problems and prospects of the stock market growth of Nepal. Main problems and prospects have been identified through the survey of individual investors.

1.3 Statement of the Problem

“The investment process is concerned with how an investor should go about making decision with regard to what marketable securities to invest in how extensive the investment should be and when the investment should be made” (*Sharpe et. al.*; 2002: 78)

The relationship between financial development and economic growth has a highly dependent role with each other. With the development of financial sector investment will increase and with the increase in investment economic growth will be increased. Practical studies suggest that financial development helps to develop stock markets to drive pace of economic growth. Though the Government of Nepal has time and again implemented various programs to develop / reform the financial sector, most of the developments were confined to the banking sector. Stock market has mutually remained delayed because of the low priority in the government’s financial reform policies.

Various measures of stock market development indicate that stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy. Small market size has made it weak to manipulation and price rigging, low turnover ratio and value traded-ratio to volatility and high concentration ratio indicate that the stock market in Nepal is highly illiquid and risky. Investors tend to avoid stock market because they do not have options to invest in securities according to their risk-return preference. Similarly, firms reject it because stock market is less reliable source of raising funds for them. Due to this financial system in Nepal has remained basically bank-dominated.

Stock exchanges in many countries have a long history of more than one century. These stock exchanges have faced so many upheavals during this period including sacking of brokers. Everybody must note that just one and half decade is not sufficient to make a history of a stock exchange but NEPSE has created a history. All the features of a stock exchange have been applied and the possible happenings in a secondary market have already taken place during this short span of time. The big bullish period, the long bearish period, the unprecedented market capitalization, the quite fail market driven by innocent and honest market intermediaries, the quite unfair market driven by unfair practices, the rumour driven market, the big changes in ownership of joint venture banks, the addition and subtraction is the listed companies, etc. are some of the key events in the history of the Nepalese stock market.

There are changes in the NEPSE since the inception of open out cry system of trading in 1993. The noted changes are the shifting of the office from a rented house to owned premises, the introduction of computer hardware and software systems in the clearance, appointment of two brokers as member of NEPSE's Board of Directors, the shifting from T+5 system (which means that settlement of transaction within five working days following the transactions day) of settlement to T+3 system (which means that settlement of transaction within three working days following the transactions day) and changes in rules and regulations in favour of the market.

This study has tried to find the answers of the following questions in general:

-) Is the growth of common stock listed in NEPSE satisfactory?

-) Is there any growth in contribution made by common stock listed in NEPSE to overall economy of Nepal?
-) What amount of market risk rewarded by NEPSE for per unit of market return?
-) What the perception of general investor/official about NEPSE and its overall activities?
-) What are the problems and prospects of stock market growth in Nepal?

1.4 Objectives of the Study

The main objective of this study is to analyze the problems and prospects of Nepal's stock market i.e. Nepal Stock Exchange Ltd. (NEPSE). The specific objectives of this study are:

- To examine the stock market trend and growth in Nepal.
- To analyze the market turnover, market capitalization, number of listed companies, market days, issue approval, and NEPSE index.
- To analyze the Contribution of market capitalization on nominal GDP.
- To analyze market risk and return.
- To conduct a survey regarding the opinions of investors/official towards the stock market of Nepal.

1.5 Significance of the Study

Investment practices under the organized stock exchanges are heading progressively in Nepal. But very few studies and researches have been undertaken regarding the stock market. The importance of undertaking such studies in the field of stock market is immense given the background of adoption of liberalized economic policies and recent accession to WTO. More and more investors whether they are individual or institutional are investing their funds in stocks and are involved in trading of stocks in secondary market. Therefore, the findings of such studies will help them make rational decisions. Nepal's stock market is represented by unprofessional promoters, underwriting agencies, market intermediaries, unorganized market, and inefficiency of regulatory bodies, and quite adamant rules and regulations. Even the Nepal's stock

market is in the infant stage. The only stock market of Nepal i.e. Nepal Stock Exchange Ltd. (NEPSE) has, nevertheless, shown some signs that will become more professional, efficient and transparent organization.

This study helps us to find out different problems and prospects of stock market growth in Nepal. This study will be beneficial to individual investors, institutional investors, professionals involved in the stock market, regulatory authorities, professors, finance graduates and others who are interested to know about the stock market growth of Nepal.

1.6 Limitations of the Study

Each study is conducted under some constraints and limitations, this study, therefore, is not different. This study is based on the fundamental analysis of the stock market growth based on the secondary data from FY 1993/94 to FY 2009/10. Primary data are mainly based on the opinions of individual investors. However, the specific limitations of the study are as follows;

-) The study is based on secondary data. However; primary data have also been used to analyze the current scenario of trend of stock market.
-) Data of NEPSE within the last 17's years (FY1993/94-FY2009/10) are considered. The annual report of NEPSE and SEBON has only been considered.
-) The study area is also limited in respect of collection of primary data within the Kathmandu Valley only.
-) This study is affected by financial resources of the student, time and workforce are also limiting factor in this study.

1.7 Organization of the Study

The whole study is divided into 5 main chapters as:

Chapter-I: Introduction

Chapter I consists of the general background of the study; statement of the problem, objectives of the study, importance of the study, and limitations of the study.

Chapter-II: Review of Literature

Chapter II encompasses the review of literature. Books, journals, articles, and the previous studies reports on the related field will be reviewed. Review of literature is divided into two sections viz. (I) Theoretical / Conceptual Review, and (ii) Review of Related Studies

Chapter-III: Research Methodology

Chapter III consists of research methodology used to achieve the objectives of the study. Research design, population and sample, sources of data, data collection technique, data analysis tools and limitation of the research methodology are included in this chapter.

Chapter-IV: Data Presentation and Analysis

Chapter IV consists of data presentation and analysis, and major findings. It consists of descriptive analysis of the gathered data and information using statistical as well as financial tools\models. Under this study, major finding of the study have been included based secondary and primary data analysis.

Chapter-V: Summary, Conclusion and Recommendation

Chapter V, The last chapter, has been divided into three subsections i.e. (i) Summary, (ii) Conclusions, and (iii) Recommendations.

CHAPTER - II

REVIEW OF LITERATURE

The primary concern of this study is to focus on stock market growth in Nepal. Under this chapter, first of all theoretical review consists the review of available resources related to stock market growth / development and secondly, review of researches / independent studies consists of universities thesis / independent researches.

2.1 Theoretical Review

Theoretical review mainly concentrates on theoretical aspects of capital market, securities market, primary and secondary market.

2.1.1 Securities

"Securities means shares, stock, bond, debenture, debenture stock issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bond issued by the Government of Nepal and it includes the securities issued under full guarantee of the Government of Nepal by a notification published in the Nepal Gazette or receipts relating to deposits of Securities as well as rights and interest relating to Securities." (*Ministry of Law; 1983: 2*)

In general, security is a piece of paper representing the investor's right to certain prospects of property and the conditions under which he/she may exercise these rights. The piece of paper serving as evidence of property rights is called a security, for example share, bond, commercial paper, preferred stock, Treasury bill etc. The ownership of any security can be transferred to another person thus indicating legal representation of right to receive future benefits.

2.1.1.1 Common Stock

Common stock is a security issued by a company to raise equity capital. It is one of the major sources of long-term (permanent) capital. Funds provided by common equity are used to finance major portion of the firm's fixed assets such as land and building, plant and machinery, vehicle, etc. Common stock represents ownership of liability, however, is limited to the amount of their investment. Common stock certificates are legal documents that evidence ownership of the holders in a company. Common stock holders have residual claim on income and asset. Common stock dividend is paid after payment of interest to the creditors, tax to the government, preferred dividend to the preferred stockholders. Similarly, in the event of liquidation, common stockholders have a residual claim on the assets of the company after the claim of all creditors and preferred stockholders are settled in full. Common stock does not have a maturity date. Shareholders, however, can sell their stocks in the secondary market. Hence, the company which needs fund for indefinite period issues shares of common stock.

Features of Common stock

1. Authorized, Issued and Outstanding Shares

The corporate charter (memorandum of association) of a company specifies the number of authorized shares of common stock. The firm cannot sell more shares than the charter authorizes without obtaining approval from its owners through a shareholder vote or without amending its charter. As it is difficult to amend the charter to authorize the issue of additional shares, firm generally issues shares less option. When shares of common stock are sold, they become issued shares. All or some portion of these share are purchased and actually held by the investors, which are called outstanding shares. If firm repurchases any of its outstanding shares, these shares are recorded as treasury stock and shown as a deduction from shareholders equity in the firm's balance sheet.

2. Common Stock Values

Common stock has different values, which are used in different perspective.

1. Par Value: Par value is stated price in common stock certificates. The corporate charter specifies the par value of a share of common stock. In Nepal, Company Act, 2063(2006 A.D.) has given flexibility to set a par value. A

company can set a par value of Rs 50 each or any other higher amount divisible by the figure ten as provided in the memorandum of association and article of association. A company should not issue common stock at a price less than par value, because Company Act, 2063 has prohibited issuing shares at discount.

2. Book Value: Book value per share is computed by dividing total book value or total net worth by number of shares outstanding. Book value is an accounting concept. The firm's book value of equity includes common stock, share premium (additional paid-in capital) and retained earnings. It represents owners' contribution to the firm, hence is known as the net worth of a firm. Book value is simply the amount per share of common stock to be received if all of the firm's assets are sold for their exact book value and all liabilities (including preference stock) are paid.

3. Liquidation Value: Liquidation value is the amount that a company could realize if it sells its assets after having terminated its business and paying all creditors. Liquidation value does not include the value of intangible and fictitious assets since the operations of the company are assumed to cease. These values are different from going concern value. Going concern value is the amount at which firm can be sold for as a continuing operation business rather than book value but still fails to consider the earning power of the firm's assets.

4. Intrinsic Value: Intrinsic value of a security is theoretical value or fair value. It is based on future cash flows, future prospects, future state of the economy and other factors that affect the valuation of the security or asset. Intrinsic value of a security is its economic value. In an efficient market there is no significant difference between market value and intrinsic value of the security. Intrinsic value is calculated as the present value of the expected cash flow stream discounted at the investors' appropriate required rate of return.

5. Market Value: Market value of a security (common stock) is the current (actual) price at which the stock is being traded in the market. Company's future growth, earnings, earning power, level of risk etc, are reflected in market price of the security. Therefore common stock's price fluctuates widely. Market value per share is expected to be higher than the book value and liquidation value per share for profitable and growing firms.

3. Maturity

Common stock has no maturity date. It exists as long as the firm does. Therefore, Capital raised from common stocks is also called fixed or permanent capital.

4. Claim on income and Assets

Common stockholders have residual claim on income. Common stockholders are paid after satisfying claims of creditors, bondholders and preferred stockholders. Residual income can be distributed to common shareholders directly in the form of dividends or retained and reinvested by the firm.

It also has residual claim on assets in case of liquidation. When a firm is declared bankrupt, its assets are sold, and at first, the proceeds are distributed to employees, to the government, to secured creditors, to unsecured creditors, to preferred stockholders and finally to common stockholders.

5. Voting Rights

Generally, each share of common stock entitles the holder to one vote in the election of directors and in other major decisions. Common stockholders can attend at the annual general meeting and cast vote in person or by means of proxy. A proxy is a legal document giving one person the authority to represent on behalf of others.

6. Preemptive Rights

Common stockholders also have preemptive right. The preemptive right gives the existing shareholders right to purchase any new shares issued by the company at subscribed price on pro-rata basis. Preemptive rights allow common stockholders to maintain their proportionate ownership and control in the company.

7. Limited Liability

Although the common shareholders are the actual owner of the company and have residual claim on all assets, their liability in case of the liquidation/bankruptcy is limited to the amount of their investment. But shareholders' liability will equal to par value if paid up capital is less than par value.

8. Classified Common Stock

Most firms have only one type of common stock. However, small, new companies seeking funds from outside sources, frequently issue more than one class of common stock to retain control over the management of for other special need. For example, common stock might be classified according to voting power and to the claim on income. Generally classified common stock is given a special designation, such as

class A, class B, and so forth. Class A common stock of a company may have inferior voting privileges but may be entitled to a prior claim to dividend, whereas class B common stock may have superior voting right but a lower claim to dividends. Similarly, common stock can be classified on the basis of type of holders. For example, common stock can be classified as promoters' shares, institutional shares, general public shares. This classification is made to ensure each group's representation in the board of director. For example, in case of Everest Bank Ltd., class A represents promoter's shareholders, class B represents general public and class C represents institutional investor (Punjab National Bank).

2.1.2 Securities Market

Securities market is a mechanism for channeling savings to the ultimate investor in real assets or security. Securities market is important essential of capital market. It has wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the trading of corporate securities. Securities market is a mechanism that facilitates the transaction of financial assets. Securities market includes secondary market as well as primary market.

“A security market or financial market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading”. (*Sharpe et. al.; 2002: 47*)

Nepal Stock Exchange Ltd. has defined the securities market as, “The securities market is the place where a large number of financial securities (shares, bonds, debentures etc) is traded according to prescribed rules (*NEPSE; 1978: 11*)

Financial instruments are traded in securities market. Stock market is the largest financial market all over the world where stocks of various business organizations are traded. It has the greatest role in the development of financial system.

2.1.2.1 Money Market

“Money market is a sub- sector of the fixed income market. It consists of very short term debt securities that usually are highly marketable. Many of these securities are traded in large denominations and so are out of the reach of individual investors. Money market funds however are easily accessible to small investor. These mutual funds pool resources of many investors and purchase a wide variety of money market securities on their behalf.” (*Bodie et. al.; 2002: 65*)

Money market is the market for short-term, highly liquid debt securities. In money market, securities or financial assets with maturity period of less than one year are traded. The government and business organizations raise short term funds through sales of money market instruments such as treasury bills, commercial paper, certificates of deposits and banker's acceptance and investors purchase such instrument in the market. Money market instruments include short-term marketable liquid and low-risk securities. Money market instruments sometime are called cash equivalents.

2.1.2.2 Capital Markets

Capital markets are markets for long-term securities issued by the government or corporation. In capital markets, financial assets with a maturity period of more than one year are traded such as common stocks, bonds, government securities. These capital markets instruments are also known as long-term financial instruments. In capital market, demand for funds comes from agriculture, industry, trade and government while the supply of fund comes from individual or corporate savings, institutional investor and surplus of governments.

The capital market serves as a link between supplies and uses of funds. It is a mechanism for the mobilization of public savings and channelizing them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and sellers of securities and all those agencies and institutions, which assist the sale, and resale of corporate securities. (*Gupta; 1978: 325*)

Capital market consists of (i) Primary Market, and (ii) Secondary Market.

- (i) Primary Market: New securities are usually issued by corporations and governmental bodies in what is called primary market (*Francis, 1986; 68*). “The financial market in which securities are initially issued, the only market in which the issuer is directly involved to the transaction is called primary market.”(*Gitman; 1985: 33*).
- (ii) Secondary Market: “The secondary market is that financial market in which pre-owned securities are traded.” (*Gitman; 1985: 33*). Once the securities are issued into primary market, then they are traded in secondary market. The corporations need to list their shares in any organized securities exchanges to qualify for the trading. In Nepal, Nepal Stock Exchange Limited (NEPSE) represents the secondary stock market.

Development requires economic growth. Economic growth occurs when people and their government respond to economic incentives. Sustainable development also takes hold when good governance is found with a dynamic private sector. A vibrant private sector gives free reign to human creativity, fostering innovation and improving the living standard of everyday people.(*US Department of State; March 2003*). Increased economic growth and individual prosperity through economic freedom must be the core goals of development. Open market and economic liberalization provide the fastest and most reliable path to increased growth and prosperity. With the worldwide move towards open and market oriented economic system, it has led to growth and expansion of banking and financial systems too.

2.1.2.3 Common Stock Market

The stock market is a secondary market, which aids to the liquidity of securities traded there on. When investors have to buy securities in secondary market, they have to contact the securities broker for opening the account for purchase of securities. After the account has been opened, the securities broker conveys the order of investor to the securities dealers who handle the inventory of securities. There are two basic types of stock markets- organized stock exchange and over-the-counter market.

Organized stock exchanges are the physical locations where securities are traded under some established rules and regulation through the license members of the exchange. It is one of the important secondary markets where the investors buy and sell the securities, which are listed in it. This means the securities, which are not listed, are not traded in organized stock exchanges.

There are many organized stock exchanges around the world. One of the best known is New York Stock Exchange (NYSE), which deals with the trading of more than 50 percent of the volume of total shares traded in United States. Other well-known exchanges are London Stock Exchange, Tokyo Stock Exchange, Hong Kong Stock Exchange. There can be more than one stock exchange in a country, for example, Bombay stock Exchange, Delhi Stock Exchange, Calcutta Stock Exchange in India. But, in our country, Nepal Stock Exchange (NEPSE) is the only one organized stock exchange.

An over-the-counter (OTC) market was traditionally concerned with trading of securities which were not listed in an organized stock exchange. However, today the securities listed in organized stock exchanges are also traded in OTC market. OTC market is an informal type of market for securities where no compulsory listing of securities is required. Any security can be traded on OTC market as long as a registered dealer is willing to make a market in the security (willing to buy and sell the security). It is not a central physical place like an organized exchange, rather it is the network of brokers and dealers scattered across the country. Buy and sell trades in an OTC market are conducted through negotiated bidding through a network of communication line and computer system, which links broker and dealers in OTC market to their clients. The brokers and dealers in OTC market can compete with both investment bankers and the organized exchanges because they can operate in both primary as well as secondary market. There is an international link of communication system used by brokers and dealers in OTC market, which facilitates the investors for selection of most competitive market makers as opposed to being forced to trade with a monopolistic market maker. National Association of Securities Dealers Automated Quotation System (NASDAQ) in the United States and Over-the-Counter Exchange India (OTCEI) in India are the examples of OTC market.

One significant advantage of OTC market in the past was that it required less financial disclosure. But today some OTC markets require furnishing same information as that of organized exchange provides for the investors. Previously, OTC market did not exist for corporate securities but it did for government securities in Nepal. However, the Nepal Stock Exchange now has been operating OTC market since Jestha 2065 B.S. for de-listed securities and those securities which are not listed in the NEPSE. The trading of securities in OTC market is not require to go through brokers of licensed members.

2.1.3 History of Capital Market in Nepal

The history of Nepalese capital market began when Biratnagar Jute Mills Ltd. and Nepal Bank Limited floated their equity shares to the general public in 1937. Other early significant development relating to capital markets are the introduction of Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Centre Ltd. in 1976.

The Security Board was also established in 1982, which was another step towards the capital market development. Its main objective was to regulate and monitor the functions of the Security Exchange Centre. Security Board (SEBO) has been working as an apex regulatory body to facilitate the orderly development of a dynamic and competitive capital market and has attempted to maintain its credibility, fairness, efficiency, transparency and responsiveness. (*Security Board Nepal; 1999: 13*)

In the absence of developed securities market in Nepal, the government was the sole issuing authority of development bonds and national saving certificates. In the initial period, only the government securities were traded in the market. Nepal Rastra Bank, as the central bank, is responsible to mobilize resources, on behalf of the government, to finance development activities and manage public debt under the Public Debt Act. Accordingly, NRB has been managing the issue of short-term treasury bills and various types of development bonds to collect public debt for the development works from time to time. Ninety-one day Treasury Bills of Rs. 7 million were issued for the first time during June/July 1962. The government issued 6% Development Bond of Rs. 13.1 million with a maturity period of five years for the first time on 12 February

1964. In 1965, 3% Compensation Bonds with a maturity period of 10 years were issued for the acquisition of Birta Land and 1% Compensation Bonds with a maturity of 20 years were issued for the acquisition of private forests. Non-interest bearing Prize Bonds of Rs. 8.61 million were also issued to general public in 1969. NRB makes arrangement for the issue, register, purchase and sale, transfer of ownership and redemption of government bonds and debentures. These securities are traded under the sole management and supervision of NRB.

Institutional development of securities market in Nepal began when the Securities Exchange Center (SEC) was established in 1976 under the Company Act. It was established with the objective of facilitating and promoting the growth of capital markets. Before converting it into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making of government bonds, and other financial services.

Primary Market: In Nepal, there was no institutional arrangement to undertake new issue and manage the sale of the shares and debentures of the corporate bodies before the establishment of the Security Exchange Centre (SEC). A public limited company could make public offering according to the provisions of the Companies Act, 1964. When the SEC came into existence, it started managing new issues of shares and debentures according to the Guidelines for new Issues and Sales Management, 1986.

Secondary Market: Initially, the public limited companies had to list their securities in SEC to qualify for trading. But the government bonds issued under the National Debt Act were exempted from such compulsory obligation. Securities Exchange Act 1983 made it obligatory to trade the securities through the recognized exchange center or their licensed brokers. As a result, the SEC opened its floor for secondary trading of corporate shares in 1984.

2.1.4 Nepal Stock Exchange Limited

Nepal Government had established Securities Exchange Center Ltd. in 1976 with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking

the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

Nepal Government, under a programme initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange Limited in 1993. Nepal Stock Exchange Limited, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994.

Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of the NEPSE.

2.1.4.1 Process to obtain membership of stock exchange

Corporate bodies wishing to be member shall have to submit application in prescribed format within specified time along with certificate of incorporation, tax certificate, Memorandum of Association, Articles of Association and concerned Act, rules and regulations in the case of corporate body other than company after the incorporation and the projected B/S and PL A/C for the next three years, last three years audited financial statement, if the year of incorporation is less than three years, the B/S and A/C of investment in shares of subsidiary company or investment made in its parent company's share capital, details of share investment in any other company other than subsidiary, the name, address, number of shares subscribed and the amount invested by shareholders having more than 5% of the share capital need to be submitted

2.1.4.2 Board of Directors

The Board of Directors of NEPSE consists 9 (Nine) directors in accordance with Securities Exchange Act, 1983. Six directors are nominated by Government of Nepal and different institutional investors. Two from the licensed members and the General Manager of the NEPSE is the Ex-Officio Director of the Board.

2.1.4.3 Capital Structure

The authorized and issued capital of the exchange is Rs.50 million. Of this Rs.30.41 millions is subscribed by Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and licensed members.

2.1.4.4 Members

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and by-laws.

Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and underwriter for public issue of securities whereas securities trader (Dealer) works as individual portfolio manager.

At present there are 11 sales and issue manager and 2 dealers (Secondary market).

2.1.4.5 Tenure of Membership

The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty.

2.1.4.6 Listing

Trading on the floor of the NEPSE is restricted to listed corporate securities and government bonds. At present, 193 companies have listed their securities to make them eligible for trading. Besides this, NCM Mutual Fund enlisted its units to make them eligible to trade in the floor.

2.1.4.7 Listing Fee

The listing fee and the annual fee to be paid by the listed company is based on the capital of the company.

2.1.4.8 Trading System

NEPSE has adopted a “NEPSE automated trading system” (NATS) system. It means transactions of securities are conducted on the principle of a driven market. The best buy order is matched with the best sell order. An order may match partially with another order producing multiple trades. For order matching the best buy order is the one with the highest price and the best sell order is the one with the lowest price. This is because the system views all buy orders available from the point of view of the sellers and all sell orders from the point of view of the buyers in the market. So, of all buy orders available in the market at any point of time, a seller would obviously like to sell at the highest possible buy price that is offered. Hence, the best buy order is the order with the highest price and the best sell order is the order with the lowest price.

2.1.4.9 Trading days and hours

Trading on equities takes place on all days of week (except Saturdays and holidays declared by exchange in advance). On Friday only odd lot trading is done.

The market timings of the equities are:-

Market Open: - 12:00 Hours

Market Close: - 15:00 Hours

Odd Lot Trading is done on Fridays. For Odd Lot Trading Market Timings are

Market Open: - 12:00 Hours

Market Close: - 13:00 Hours

Note: - The exchange may however close the market on days other than schedule holidays or may open the market on days originally declared as holidays. The exchange may also extend, advance or reduce trading hours when it deems fit necessary.

2.1.4.10 Settlement

NEPSE has adopted a T+3 systems, which mean that settlement of transactions, should be done within 3 working days following the transactions day. Settlement will be carried out on the basis of paper verses payment.

2.1.4.11 Brokerage

The rate of brokerage on equity transactions ranges from 0.7 percent to 1 percent depending on the traded amount.

2.1.5 Nepal Government's Policies and Programmes

Nepal Government after adopting liberalized economic policy has been initiating different programmes for the organized development of securities market. In this context, during the period of Eighth Five Year Plan (1992-1997), some infrastructures regarding the securities market regulation were prepared. In the ninth Five Year Plan period (1997-2002), efforts were made to develop an organized and credible market. While implementing the programmes of Ninth Five Year Plan, Nepal Government through the budget speech of 2000/01, announced the programmes to amend Securities Exchange Act, initiate necessary steps to bring wider participation in the stock exchange and make its operation more transparent. Similarly, the budget speech has also included the programme to take legal action against those listed companies, not publishing and submitting their audited financial statements of last two years. Accordingly, 19 companies were de-listed for not publishing their financial statements and not paying annual listing fees to the stock exchange in fiscal year 2009/10. However, other programmes like amendment of Securities Exchange Act, standardizing stock exchange etc., which were perceived to be more important for the securities market development, could not move ahead concretely.

In the fiscal year 2001/02, Nepal Government came with The Tenth Five Year Plan (2002-2007), which includes various programmes for securities market development. The objective of the securities market development programme is to increase public ownership in the development projects operated by private sector and promote

industries by supplying financial resources through securities as well as increase employment opportunities and fulfil the capital requirements to the development projects operated by Nepal Government, government enterprises and municipalities issuing debentures in the securities market thereby reducing foreign loan. To meet these objectives, it has taken the policy of modernizing stock exchange, strengthening the regulatory system of the securities market, widening the participation of the stock exchange and making it dynamic, transparent, credible and investor friendly and developing the securities market as an important sources of long-term financial growth by increasing its depth and breadth. It has incorporated the programmes of making public issue effective, enhancing regulatory capability of SEBO, making the securities trading process standard and credible, creating a state of transferring ownership immediately after transaction, diversifying securities market instruments, attracting institutional investors, protecting investors interest, expanding the securities market services nationwide and improving the compliance and integrity of the market.

2.1.6 Fiscal Policy Announcements and the Secondary Market Development

The government recognised the importance of private sector to lead the role in market oriented and competitive economic activities, while its own role was to provide basic services to boost up the private sector. The government has taken several measures to promote private sector and strengthen its managerial capability that include the privatization of public enterprises and the promulgation of different laws for creating conducive investment environment. Better environment has also been created to attract foreign capital, technology and management. The budget announcement for the fiscal year 2009/10 had realised that the government's role in the industrial and other enterprises should gradually be decreased with corresponding increased participation of the private sector. Various fiscal incentives were offered by the government to the general public limited companies as well as to investors in such companies in order to augment the development of secondary market in Nepal. In the process of modernizing the transactions of the securities market,

Computerizing process of the transactions have started at Nepal Stock Exchange from this year. In this process, to make the transactions more Transparent and to simplify the ownership transfer process in order to complete

It quickly, infrastructures including legal arrangements will be developed to Implement the Central Depository System in this Fiscal Year.

- The present rate of business income tax has been changed to encourage business enterprises to convert to more transparent form of incorporation so that the family finance is kept separate from the business finance. From now on, public limited companies listed at the Nepal Stock Exchange will be given a 2 percent tax rebate on the existing tax rate.
- Private sector participation will be promoted in the business activities of the monopoly Public Enterprises. The ownership of the people in the share capital of the potential Public Enterprises will be enhanced through the stock market. Continuity will be provided to the privatization process of the selected Public Enterprises.
- Share listing of Nepal Telecom Company and the policy to encourage private companies to get transformed and get listed as public limited companies will definitely make various investment instruments available in share markets. In order to diversify the investment instruments available in share market, the government will encourage issuance of bond and listing of companies. Nepal Telecom Company Ltd will sell 5 percent shares to the employees of the company and 10 percent share to the general public.

Nepal Government had established Securities Exchange Center Ltd. in 1976 with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

Nepal Government, under a programme initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange Limited in 1993. Nepal Stock Exchange Limited, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor

through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994.

Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of the NEPSE.

2.1.7 Regulations of Stock Market

Securities operation in Nepal's stock market is regulated by various acts, regulations, and bye laws. Securities Exchange Act 1983 was the main law to regulate the securities market in Nepal till last year. The same was amended 3 times within the 22 years of its history. Under this act, Securities Exchange Regulation 1993 and membership of stock exchange and transaction by-laws, 1998 were formulated and enforced. Last year, the government introduced Securities Ordinance 2062 in order to regularize the issue, sales, purchase and transaction of securities.

Companies Act, 2021 was previously replaced by Companies Act, 2053, which was further replaced by Companies Ordinance, 2062 with a view to make formation, operation and administration of the companies simple and transparent. Various formats related to Articles and Memorandum of Association, prospectus, application form for purchase of shares, balance sheet and profit and loss accounts have been prescribed.

Securities Investment Trust Act, 2053 have been formulated and enforced for the operation of trust funds such as mutual fund and unit funds. “During the review period of FY 2004/05, Primary & Secondary Market Management of Bonds Regulation, 2004 was implemented for the purpose of managing transaction of Government Bonds through Securities Exchange Market. A total of 11 accounting standards were developed with the participation of Nepal Accounting Standards Board to maintain the economic records of issuers and indexed companies at the international level. In this regard, the Securities Board in collaboration with the Nepal Accounting Standards Board conducted awareness program for the adoption of the said accounting standard”.(Ministry of Finance; 2005: 87)

Three government agencies, viz., Securities Board, Company Registrar's Office and Nepal Rastra Bank are involved in approving and registration of public issues. Through Securities Board is the only regulatory body in securities market to supervise and regulate the overall functioning of the market, the functions performed by other two agencies seems to be of duplication of works. Here, how all these three bodies work in approving and registering the public issue are elaborated.

2.1.7.1 Securities Board

Securities Board is empowered by Securities Exchange Act, 2040 for the development of capital market, protection of investors' interest, approval of stock exchanges, regulation of market intermediaries, secondary and primary markets, mutual funds and conducting investment awareness programs for various interest groups.

When prospectus is submitted for the registration purpose, the securities board does betting and if disclosures in the prospectus are found adequate then Board registers the securities to be issued in the public and grants permission on it. During the review period of FY 2004/05, Securities Exchange Board, under the implementation of Corporate and Financial Governance (CFG) project relating to securities market reform, prepared the draft regulation on securities registration and disclosure, licensing of stock exchange, the Operation guidelines for stock exchange, working procedures for the stock market and members, format relating to annual and quarterly reporting by indexed companies, and format for reporting special events and circumstances directly affecting the price of stock.

SEBON, during the review period, has brought the Procurement Regulation of Securities Board of Nepal, 2009 and SEBON Financial Administration Regulation, 2009 into effect from 17 September 2009. Enforcement of these regulations is expected to improve internal governance and transparency in the Board's operations.

Securities Board of Nepal (SEBON), during the F/Y 2009/10 period, completed a number of activities under the Establishment of Securities Data Management System Project with the International Development Association (IDA) grant. The following are the major activities completed: (i) high level training to the Board staff on data

management system; (ii) procurement and installation of computer and other information technology related equipment; preparation of various modules on the information flow system, and preparation and set up the data bank.

Experimentation and improvisation of developed electronic data flow modules have also been completed under this project. The Board implemented project is awarded with the Certificate of Excellence for making valuable contribution to the country's economic and governance reforms.

2.1.7.2 Nepal Rastra Bank

Nepal Rastra Bank, the central bank, approves prospectus when banks and finance companies propose public issue. It also gives permission to issue debentures in the public along with the approval on interest rate on debentures and bonds. Under NRB directive bank and finance companies are required to issue shares equivalent to at least 30 and 40 percent in both situation if they have foreign joint venture stake. But while in debentures and bonds issue NRB get assured, by vetting the prospectus, about the size of the issue interest rate, collateral and repayment of the loan.

2.1.7.3 Company Registrar's Office

Company Registrar is only agency where companies are registered monitors the operations of the companies and makes arrangements for winding up of the companies when required. Approval on prospectus is granted by CRO only. Before granting approval it obtains the advice/opinion from securities board and for banking and finance companies opinion/advises on prospectus is taken from Nepal Rastra Bank too.

2.1.7.4 Nepal Stock Exchange

While, issuing securities to the general public consent should be obtained from the NSE. For the issuing companies and issue managers are required to submit the prospectus. In the meantime before concluding agreement along with the 5% of commission amount should be forwarded to the NSE. This is applicable for underwriting arrangements too.

2.1.7.5 Insurance Board

When an insurance company makes a public issue, insurance Board also performs the inspection of prospectus as it is done by Nepal Rastra Bank.

2.1.7.6 Concerned Ministries of Nepal Government

The companies which are incorporated by special Acts are required to get approved the prospectus from concerned ministers. For example, companies such as Nepal Industrial Development Corporation, Citizen Investment Trust and Rastriya Beema Sansthan are under the preview of Minister of Industry and Ministry of Finance. Thus prospectus of these companies required to be approved from Ministry of Industry and Ministry of Finance instead of Company Registrar's Office.

2.1.8 Laws and Regulations of Security Market in Nepal

Security Board of Nepal (SEBON) is the apex body to regulate the Nepalese security market. It was established in 1993 under the Securities Exchange Regulations, 1993. In order to achieve the objectives of promoting and protecting the interest of investors by regulating the securities market, it has formulated various acts and laws.

The first securities related act was Securities Exchange Act that was enacted in 1983 to regulate the trading of securities in Nepal. This act restricted the exchange of unlisted securities and provided the role of stock exchange. The following acts, regulations and other laws are complied with by the securities issuing companies, investors, brokers, market makers in the securities market of Nepal.

Securities Legislations

Securities Exchange Act 1983

Securities Exchange Regulations 1993

Membership of Stock Exchange and Transaction Byelaws, 1998

Securities Listing Byelaws, 1996

Issue Management Guidelines, 1997

Securities Allotment Guidelines, 1994

Securities Registration and Issue Approval Guidelines, 2000
Guidelines on Business Code of Ethics for Securities Brokers, 2001
Bonus Share Issue Guidelines, 2001

Other related Acts

Banking and Financial Institutions Ordinance, 2061 (BAFIO)
Companies Ordinance, 2062
Insurance Act, 1992
Foreign Exchange (Regulations) Act, 1962
Foreign Investment and Technology Transfer Act, 1992

BAFIO has replaced the Commercial Bank Act, 1974 and Finance Companies Acts, 1986. Companies Acts, 1997 was replaced by Companies Ordinance, 2062.

Moreover, the government has recently enacted the following laws regarding the securities market of Nepal that is considered helpful for the development of securities market of Nepal. Securities Act, 2063

1. Securities Board Regulation, 2064
2. Stock Exchange Operation Regulation, 2064
3. Securities Businessperson (Stock Broker, Dealer & Market Maker) Regulation, 2064
4. Securities Businessperson (Merchant Banker) Regulation, 2064
5. Securities Registration and Issue Regulation, 2065
6. Securities Registration and Issue Regulation, 2065 (First Amendment)

Other Amendments

Revision on Rules & Regulation

Provision for Merchant Banker

7. Securities Allotment Guidelines, 1994
8. Compliance Guidelines for Securities Broker, 2058
9. Securities Issue Guidelines, 2065
10. Bonus Share Guidelines, 2067
11. Government Securities Bylaws of SEBON, 2062

12. Government Securities Transaction Bylaws of NEPSE,
13. Securities Listing Bye-laws, 2053(1996)
14. SEBON Financial Administration Regulation, 2066
15. SEBON Procurement Regulation, 2066
16. Mutual fund Regulation, 2067
17. Central Depository Service Regulation, 2067 (2010)
18. portfolio management directives, 2067 (2010)

(a) Securities Exchange Ordinance, 2062

Securities Board of Nepal has recently introduced Securities Exchange Ordinance , 2062 in effect from 7/6/2062 in order to develop the securities market of Nepal with credible, competitive and transparent mechanisms. This new ordinance has the following major provisions:

- Giving more powers to SEBON for the effective monitoring of securities market of Nepal.
- Providing authority for the implementation of group investment plan.
- Provision of alternative mechanisms for the transaction of securities that are not listed and not eligible for listing.
- Provision of central deposit system for the effective and efficient transaction of securities related to ownership transfer.
- Provision of Investors' compensation fund.

(b) Securities Act, 2007

An Act Made to Amend and Consolidate Laws Relating to Securities Preamble:
Whereas, it is expedient to make timely the laws relating to securities by amending and consolidating such laws in order to regulate and manage the activities of the securities markets and persons involved in the business of dealing in securities by regulating the issuance, purchase, sale and exchange of securities for the purpose of protecting the interests of investors in securities, by developing the capital market to mobilize necessary capital for the economic development of the country; Now, therefore, be it enacted by the House of Representatives in the First Year of the issuance of the Proclamation of the House of Representatives, 2006.

2.2 Review of Articles and Journals

Though specific research studies have not yet been conducted / available related to the impact of stock market on economic development and vice versa in the Nepalese context, policy framework for development and regulation of capital market and intermediaries is available. Vast numbers of research studies have been performed internationally on the stock market. The findings of some of the research studies are as follows:

Herriot (2003), in his article, "*The 4 Biggest stock market Myths*" has mentioned that many investors are wonder whether or not investing in stock is worth all the hassle. At the same time, however, its important to keep a realistic view of the real problems, common myths about the stock market. Regardless of the real problems, common myths about the stock market after arise. The three main myths in stock market are

1. *Investing in stocks is just like gambling*

This reasoning causes many people to shy away from the stock market. To understand why investing in a stock is inherently different from gambling, one needs to review what it means to buy stocks. Shares entitle the holder to gain an asset of company as well as fraction of profit. Gambling, on the contrary, is a zero-sum game. It merely takes money from a loser and gives it to a winner. No value is ever created.

2. *The stock market is exclusive club in which only brokers and rich people make money.*

The fact is that almost every study done on this topic has proved that these claims are false.

Most market prognosticators are notoriously inaccurate; furthermore the advent of the internet has made the market much more open to the public than ever before.

3. *Stock that group most comes down:*

The laws of physics do not apply in the stock market. There is no gravitational force that pulls stock back to ever. Over ten years ago, Berkshire Hathaway's stock price went from \$6000 TO \$10000 per share in a little more than a year. Had you thought that this stock was going to return to its lower initial position you would have missed out on the subsequent rise to \$ 70000 per share over the following 6 year.

Bhattarai (2006), published an article on “*Bear Economy, Bull Market*”. The article explored that the move of king from the country since February 2005, the country’s economy is in decreasing trend. However the stock market is showing a bullish trend even since king’s move on Feb. 2005. He has concluded the six reasons for bullish stock market as follows.

1. 90% if the market is dominated by banks, finance companies and insurance companies and the financial performance of these companies is continuously improving.
2. The stock market is totally concentrated in the Kathmandu Valley and the people feel safer in this area. So, the people feel safer to invest in the stock market.
3. The Nepali stock market has no impact from the situation out of the valley. If there is some such effect, the people who had their investment in the assets outside valley have diverted if to the stock market in the valley.
4. The buying and selling pressure in the market is totally dependent on the valley’s limited investors.
5. There is diversion of the investment from gold to the stock market.
6. The opportunities to invest in other sectors are limiting, the people are increasing investing in the stock market.

Kafle (2007), published an article on “*Building a Dynamic Capital Market.*” He has high lightened the important reform initiatives and some critical aspects of capital market development in Nepal. The vision of New Nepal has to have an important place for dynamic capital market, Nepalese Financial system is characterized by small but growing capital market.

During the past 16 years of its operation, securities market has witnessed three market phases of ups and downs.

The market lacks seat oral diversification of performing listed companies, access to secondary trading issue and market is not sufficient, capacity of regulator, exchange and players is limited, the market is featured by active individual investors and the institutional investors are conspicuously investors are conspicuously absent. He also concluded that the government sector involvement in the market operation should be

shifted to benefit from private sector efficiency and competition and its forms should be towards strengthening the market regular and in building market infrastructure.

Shrestha(2007), has published an article on “ *NRB Monetary Policy and stock market impact* ”.He revealed that the massive decline in the share prices and the NEPSE index following some changes announced in the monetary policy by the Central Bank in July 2006, NEPSE has taken a number of steps aimed at market stability. For example, matching transactions (some brokers functioning on behalf of both the seller and buyer of a company’s shares) are prohibited so that the power of the brokers to manipulate the prices of shares in the market is curtailed. However, some sort of matching is said to still be in practice as some brokers are colluding to match transactions. One of them acts from the seller’s side and the other acts from the buyers’ side. However, this step of NEPSE has reduced the majority of the problem, it is believed. Now, according to Karki, NEPSE is scrutinizing if there is circular trading, a name given to the phenomenon when a group of closely related persons trade among themselves and influence the price of a particular share.

Pokhrel and Bhurtel (2009), in their article “*Budget effect on the stock market*” explored that the bench mark index (Barometer of investors confidence in the market) appended some extra points in the trading few hours before the finance minister presenting the budget in the parliament, dropped the capital gains tax to 10% and pledged to implement central depository system by 2066 Aswin (September / October 2009). The index perked up by 38.72 points (+5.75%) to close at six weeks high of 717.46 from 678.74. They also concluded that the capital market is directly linked with country’s political and economical environment. Nepal’s capital market has suffered from both economic and political news during the past several months. The political uncertainties never seem to end. The upswing witnessed in the market prior to and after the budget speech is yet to get firm direction. Investors are still worry that the change made in the capital gain tax an the promise made to implement the CDS soon could be one step forward and two step backs, which has become the characteristics of Nepali Policymakers.

2.3 Review of Thesis

Aryal (1995), conducted a study on “*The General Behaviour of Stock Market*” in 1995. The study is somehow related with this study. The objective of study was to discuss theoretically the movements of stock market prices as predicated by the random walk model. He had used the data of 21 listed companies as well as primary data to assess the following findings in detail.

Major findings of the study were:

- On the basis of run tests and serial correlation, the independent assumption of random walk model in stock prices is rejected by the collected sample data of 21 companies at least as a description of price behaviour in NEPSE.
- The random walk of security speculative price behaviour has been refuted at least in the Nepalese context, which clarifies that the knowledge of the past becomes useful in predicting the future movements of stock's market price.
- The securities in the past were incorrectly priced either over or under valued, as actual market prices of securities do not reflect their intrinsic value.
- There exists frequent persistence than reaction in the general stock market climate because of the investors' irrational behaviour that causes the irrational movement of prices of stock.

The general stock market of Nepal for the initial period appeared to be inefficient in incorporating the possible appearance of information into the successive price changes. Therefore, the investing publics are not aware of the information available publicly, appropriate in adjusting with the actual market price.

Sherpa (2000), conducted a study on “*Corporate Information Disclosure and its Effect on Share Price*”. The objectives of this study were to obtain an insight on corporate information disclosure with special reference to Nepalese stock market and its listed companies.

This thesis reveals the corporate information disclosure practices in Nepal, extent of information disclosure, quality of corporate disclosure and relationship between corporate information disclosure and stock prices.

Major findings of his study focussed that most of companies do not disclose adequate and qualitative information on their annual reports and most of disclosed information consisted of only relationship between disclosure scores and variables like earning margin, asset size etc. According to his study findings, there existed a positive relationship between market price of share and disclosure score. In other words, the company having greater disclosure score had the higher prices of stock.

Rekha (2000), conducted a study on “*Current Problems and Prospects of Securities Market in Nepal*”. This is somehow related with this thesis. The main objective of this thesis was to know the trend of the Nepalese stock market and present state of primary and secondary market as well as problems and prospects of Nepalese stock market through primary as well as use of secondary data. The ten year secondary data were (FY1993/94- FY 2001/02) collected from secondary as well as primary market to assess the prospects of Nepalese stock market. Major findings of the study were:

- The development of stock market primarily depends on program and their implementation.
- In Nepal, the overall policy environment has not been conducive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- Lack of investor’s confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM.
- Restriction on foreign portfolio investment hindered market development.
- NEPSE does not have appropriate policies, memberships and fee structure to attract member outside the Kathmandu.
- In Nepal, banks dominate primary market in government debt instruments, OTC trading is not permitted; therefore, secondary market is totally inactive.
- Lack of necessary provisions in the laws and regulation for the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).

Sharma (2002), conducted a study on “*Problems and Prospects of Primary and Secondary Market in Nepal*”. Main objectives of the study were to specify the state of primary and secondary market, to identify the problems and prospects of primary as

well as secondary market, to assess the past and present behaviour of business operation in the NEPSE.

Sharma deployed primary data and secondary data in order to analyze the problems and prospects of primary and secondary market of Nepal. She collected primary data through interview / questionnaire.

After the analysis of primary and secondary data, Ms. Sharma finds that due to lack of access to the information supposed to be made available to the potential investors the secondary market is still lagging behind. In addition, with the provision of stockbrokers in the secondary market and market makers in primary market, Nepalese securities market has gained incentive for its future growth. She further finds that primary market enjoys overpowering oversubscribed status, then secondary market; the liquidity position of our country is also high; this could have also led to high public response to share application; growth of primary market in Nepal was growing slowly.

After the analysis, she also added in her finding Nepalese people are attracted towards investing in shares rather than in other sectors. The dynamism of stock market has been greatly reduced by the domination of long-term shareholders, who prefer holding the shares with the hope of increasing their wealth. This can be justified by small number of share that is traded on stock market.

Baral(2003),conducted a study on "*Stock Price Movement in Nepalese Security Market*" is somehow related with this thesis. Which had the objectives to study and analyze the stock price and volume, to study and analyze the rate of newly listed companies and maintenance of already listed companies in NEPSE, to study and analyze the investors views regarding the decision on stock investment, to suggest the finding of the study to the interested parties related to stock investment, and to study and examine the signalling factors in part on stock price with the help of NEPSE index.

He had used the secondary data of Ten years (1993-2002) as well as primary data to find the following finding in detail.

-) That company's dividend affects the stock price and bullish trend of stock price movement is suitable for Nepalese Security market;
-) government's policy is not clear and perfect regarding the price of stocks in NEPSE, investors of Nepalese stock market take decision on the basis of their own analysis and they are not aware about investment procedure and analysis,
 - Nepalese stock market is in the growth stage; it has crossed the initial stage but not reached in mature stage claiming that stock price trend is running in unsystematic manner.

Lamichhane (2005), conducted a study on "*Problems and Prospects of Stock Market Growth in Nepal*". This study used primary as well as secondary data in order to achieve the objectives to assess the trend of stock market in Nepal.

In order to achieve set objectives, this study analyzed five years data (FY 1993/94–FY 2003/04) of common stock listed in NEPSE. After the detailed analysis of primary as well as secondary data, the major findings of this study were summarized as follows:

- The development of stock market in Nepal so far cannot be considered satisfactory level -- the growth trend is slow and is in developing stage. This is evident from the facts and figure available in the stock market performance during the last 12 years.
- Small market size has made it weak to manipulation and price. Low turnover and value traded shows that stock market in Nepal is highly illiquid. Only the shares of banks, some finance companies and some insurance companies are liquid.
- Although, it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has a better prospect for the resource mobilization of the country.
- Most of the companies that are listed with NEPSE belong to banking, finance, and insurance sectors. While only few companies from the trading, hotel, manufacturing, and other sectors are listed with the exchange, not a single

company from construction sectors and information technology has entered the organized stock exchange of the country.

- The brokers have problem mostly in signature verifications, and cash payment and share transaction account kept by NEPSE. All brokers agreed that there should be right code of conduct and monitoring for brokers operations. It was observed that the prescribed code of conduct is hardly enforced. Majority of brokers agree that they should be professionals and competitive.

Shrestha (2008), conducted a study on “*Problem and Prospect of Stock Market Growth in Nepal*”. The topic of the thesis is related to this thesis. He has used only five years secondary data (FY 2003/04- FY 2007/08) as well as primary data to trace out the trend of Nepalese stock market, to analyze the problem and prospects of Nepalese stock market and to realize the various components for the good governance of primary and secondary data.

Major findings of the study were as follows;

-) The NEPSE index followed increasing trend .The NEPSE index started from Rs.222.04million in the fiscal year 2003/04 and ended with Rs.963.36 million in FY 2007/08.It increased maximally by 76.81% in FY 2006/07 compared to the index of previous year.
-) In average 88.96% of the listed companies were traded in the five year period.Likewise,NEPSE converted 5.36% of total market capitalization into turnover and 35.58% of total paid up capital in turnover in average.
-) 64% of the respondents said that they are satisfied with the growth trend of NEPSE.Lack of confidences of investors is the problems for hindering stock market growth in Nepal.
-) The major malpractices, pooling is wide spread in stock market and thus is creating uncertainty in stock price. Besides pooling wash sale is also equally practiced.
-) 41% of the investors look at the NEPSE index before making investment in the secondary market and 58% of the respondents stated that SEBON should be responsible for appropriate trading system in market.

2.4 Research Gap

Very few studies have been undertaken regarding the stock market growth and investor's general perception regarding the stock market development of Nepal. Other studies undertaking the title regarding stock market growth have covered the trend of stock market only taking sample data and measuring few indicators of stock market. This study focused overall barometer for measuring the growth of stock market as well as market return and risk through use of whole population data. This study further reveals the relationship of economic growth and stock market growth. In order to know recent development of the stock market, studies should be done on regular basis. This study covers all the available data from FY 1993/94 to FY 2009/10. This study is based on the total information from the beginning to the recent fiscal year so that the analysis is more complete. Likewise, this study covers the opinions of the investors through survey and a general conclusion has been drawn on the basis of survey. In a nutshell, overall development scenario with updated information and data is available.

CHAPTER-III

RESEARCH METHODOLOGY

In this chapter, research design, population, and sample, sources of data, data collection method, data analysis tools and the limitation of research methodology have been described.

3.1 Research Design

This study has attempted to undertake an analysis based on the responses of various experts. Basically, this study is based on secondary as well as primary information. The study is mainly descriptive in nature based on secondary data and analytical in nature based on the primary source of information obtained through questionnaires / survey.

3.2 Population and Sample

Population of this study includes stock market indicators as a whole that are also considered in the sample for the study purpose during the period from FY 1993/94 to FY 2009/10.

3.3 Sources of Data

In order to undertake this study, both types of data have been used i.e. secondary as well as primary. Secondary data have been sourced from the annual publications of various organization listed in NEPSE, annual reports of NEPSE and SEBON. Primary data have been collected mainly through questionnaire and discussions with various experts related to stock market such as security exchange authorities, security brokers, professors, credit analysts of commercial banks and others.

3.4 Data Collection Techniques

Primary data was collected mainly through questionnaire. Altogether, 60 questionnaires were distributed to individual investors and only 55 (91.67%) could be collected.

Secondary data were collected from annual reports of SEBON, trading reports of NEPSE, their websites and the publication of NRB.

3.5 Data Analysis Tools

Under this study, financial as well as statistical tools have been used to analyze the gathered data and information. The various applied tools are described as follows.

3.5.1 Arithmetic Mean

An arithmetic mean is the value which represents the group of values and gives an idea about the concentration of values in the central part of the distribution. An average gives us a point, which is most representative of the data. It depicts the characteristic of the whole group. The value of arithmetic mean lies in between the two extreme observations of the entire data. It is an envoy of the mass of homogeneous data. An arithmetic mean of a set of observations is defined as the ratio of the sum of all the observations to the total number of observation.

The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically

Arithmetic Mean (AM) is given by

$$\bar{X} = \frac{\sum x}{N}$$

Where \bar{X} = Arithmetic Mean

$\sum x$ = Sum of all the values of the variable x

N = Number of observations

3.5.2 Return on Market

Annual return on market is the average return of market based on the index of market. It is denoted by R_m . Under this study, NEPSE index will be used. It is a value weighted index and comprises of all the stocks listed in NEPSE. The NEPSE index is used for the study.

$$\text{Annual Market Return } (R_m) = \frac{\text{Ending NEPSE Index} - \text{Beginning NEPSE Index}}{\text{Beginning NEPSE Index}}$$

Average Market Return (\bar{R}_m)

$$\bar{R}_m = \frac{R_m}{n}$$

Where R_m = Summation of annual market return

n = Number of observations

3.5.3 Standard deviation

The standard deviation measure the absolute amount of dispersion. Here, standard deviation has been used to measure the absolute unit of market risk available in Nepal. Standard deviation is defined as the positive square root of the mean of the square of the deviation taken from arithmetic mean.

Mathematically,

$$\text{Standard Deviation } (\sigma_x) = \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

Where,

X = Single observation

\bar{X} = Average Observation

n = Number of observation.

3.5.4 Coefficient of Variation

The coefficient of variation (C.V.) is given by the following formula and this gives the percentage.

$$\text{Coefficient of variation (C.V.)} = \frac{\dagger}{X} \times 100$$

These three statistical tools have been used side-by-side along with financial ratio analysis to measure trend and consistency.

3.5.5 Other statistical tools

The mostly secondary data as well as primary data are analyzed through following tools:

-) Tables
-) Percentage
-) Pie chart figure
-) Bar figure
-) Line figure

Secondary data have first of all been tabulated in columns, diagrams are prepared and trend is analysed in descriptive way. Likewise, information collected through the questionnaire and through the discussions with the concerned persons was interpreted and conclusion was drawn.

3.6 Limitation of the research Methodology

Each and every methodology suffers from some kind of limitation. So; the methodology deployed in this research cannot be different from the common limitation of same type of thesis.

-) Secondary data are collected through availability of published data.
-) Hence, the reliability, accuracy and validity of research findings depend on published data.
-) Primary data have been collected through questionnaire distributed to the investment officers of concerned companies. Some of the conclusion and recommendation are solely based on the consultation with some of the officers.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter is concerned with the presentation and analysis of common stock growth in Nepal. Logically, this chapter divided into three sections: Analysis of secondary data, Analysis of Primary data and Major findings of the study.

The trend of common stock growth of listed and traded companies in terms of no. of company, paid up value, market capitalization, Turnover and NEPSE index have been analyzed on the basis of secondary data.

Additionally, primary data have been used to assess whether the investors/ official involved in secondary market are satisfied or not with the trend of stock market of Nepal. Tables, diagrams, and charts have been used to depict the information precisely where necessary.

4.1 Presentation and Analysis of Secondary Data

Common stock growth of secondary market in terms of no. of listed companies, traded companies, issue approval, turnover, market capitalization, paid up value, market days, NEPSE index ,market capitalization with nominal GDP and market return and market risk have been analyzed in this section.

4.1.1 Market Capitalization

Market capitalization is calculated by multiplying closing price with respective outstanding number of shares of the company. It is considered as an important secondary market indicator as it is compared with the indicators of the economy.

Total value of market capitalization of the securities in FY 2009/10 was NRs. 376871.37 Million where as it was NRs 512939.00 Million in FY 2008/09. The current year's market capitalized reflects negative growth of -26.53% over the figures of previous year. The sector wise market capitalizations of securities have been depicted first in Table 4.1.1.

Table - 4.1.1

Sector-wise Market Capitalization in FY 2009/10

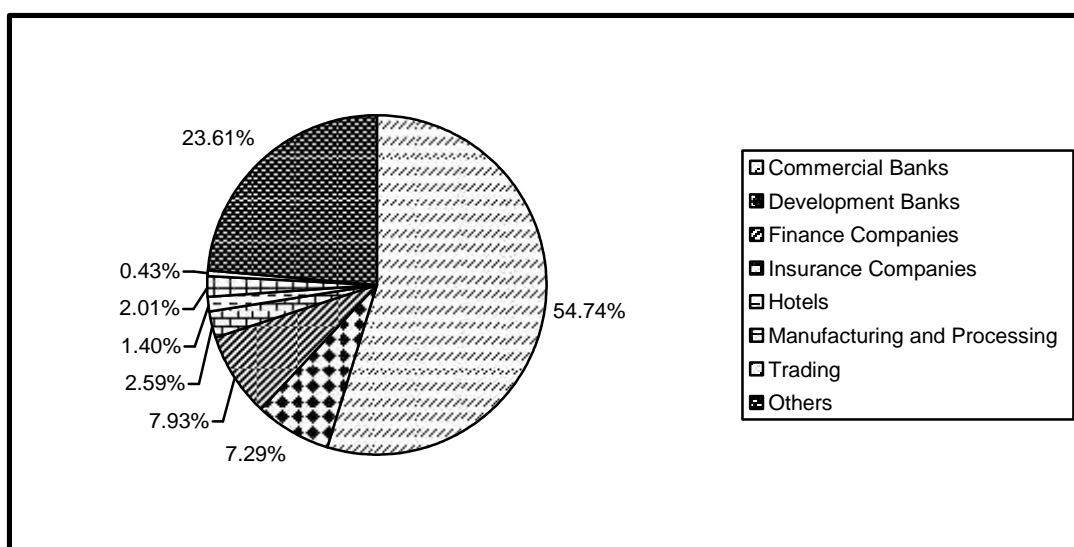
Sectors	Market Capitalization in NRs. Crore	Percentage
Commercial Banks	206282.52	54.74
Development Banks	27488.87	7.29
Finance Companies	29869.59	7.92
Insurance Companies	9756.61	2.59
Hotels	5285.58	1.40
Manufacturing and Processing	7592.03	2.01
Trading	1617.51	0.43
Others	88978.67	23.61
Total	376871.37	100.00

Source: Annual report of SEBON 2009/10.

Market capitalization in FY 2009/10 is NRs.376, 871.37 Million. The Commercial banks and Others sectors in FY 2009/10 recorded the highest of the total market capitalization. with 54.74% and 23.61% respectively. The development banks and finance companies recorded the shares third and fourth stake in total market capitalization with only 7.29% and 7.92% respectively. Shares of Insurance companies, Trading companies, Hotels for total capitalization is insignificant, Which recorded only less than of 2.59%. The above group wise market capitalization shows that Nepalese capital market is deeply concentrated at banking and others. Others group is contributing more due to including of hydro power company in its category.

Figure – 4.1.1

Sector-wise Market Capitalization in FY 2009/10



4.1.2 Analysis of Market Capitalization for Different Years

Total market capitalization of different years starting from FY 1993/94 to 2009/10 has been presented in Table 4.1.2.

Table – 4.1.2
Market Capitalization of different years (Figure in NRs. Million)

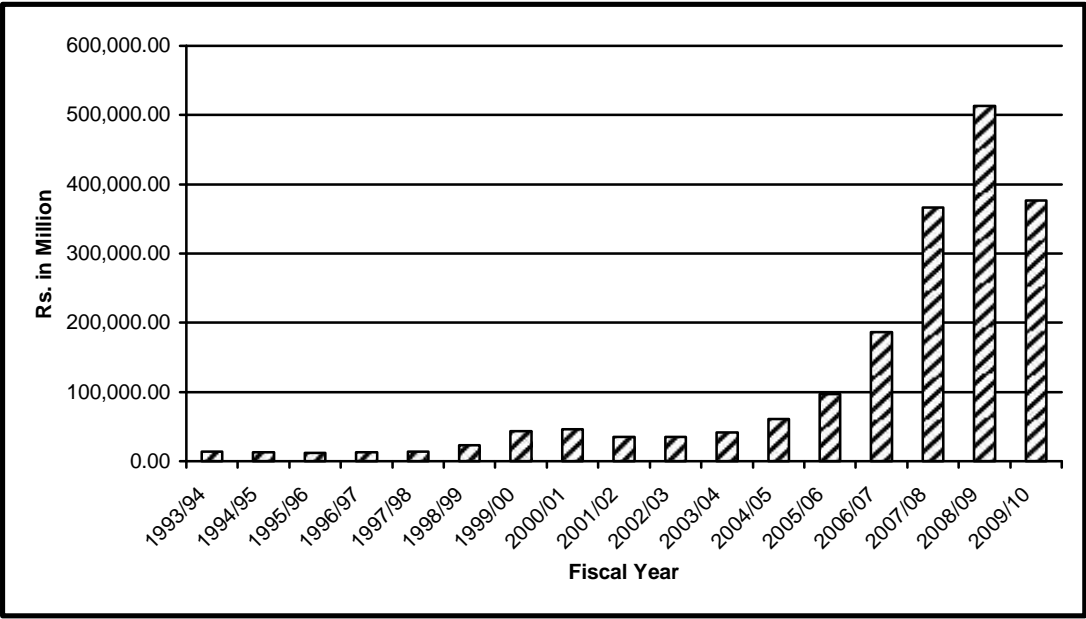
Fiscal Year	Market Capitalization	Growth
1993/94	13,872.00	N/A
1994/95	12,963.00	-6.55%
1995/96	12,295.00	-5.15%
1996/97	12,698.00	3.28%
1997/98	14,289.00	12.53%
1998/99	23,508.00	64.52%
1999/00	43,123.33	83.44%
2000/01	46,349.40	7.48%
2001/02	34,703.90	-25.13%
2002/03	35,240.40	1.55%
2003/04	41,424.77	17.55%
2004/05	61,365.58	48.14%
2005/06	96,813.74	57.77%
2006/07	186301.30	92.43%
2007/08	366247.50	96.58%
2008/09	512939.00	40.05%
2009/10	376871.37	-26.53%

Source: Trading Report of NEPSE 2009/10 & various report of SEBON.

Total market capitalization in FY 1993/94 was only NRs. 13,872 Million, which decreased to NRs. 12,698 Million in FY 1996/97. After then, the figure improved up to FY 200/01. It decreased by around 25% in FY 2001/02. However, it has now gradually improved over the years reaching to NRs. 376871.37 Million in FY 2009/10 reflecting 2616.77% growth over the figure of 1993/94. The biggest increased in the market capitalization is in the FY 2006/07 and FY 2007/08 reflecting 92.43% and 96.58% growth respectively. The market capitalization growth rate has decreased to 40.05% in 2008/09 from 96.58% in 2007/08. This all shows that the transaction of securities in stock market of Nepal has tremendously increased up to the FY 2008/09. The market capitalization is decreased by 26.53% in FY 2009/10 as we compared the FY 2008/09. After fiscal year 2001/02, the market capitalization increasing trend just stopped in FY 2009/10. High percentage in negative growth of -

26.53% is seen in FY 2009/10, This might be bad signal of stock market growth for upcoming year. The market capitalization in average of 28.87% per year increasing as we analyzed the Market capitalization for 17;s years (FY 1993/94- FY 2009/10) data of NEPSE. Different years market capitalization are presented in figure 4.1.2.

Figure 4.1.2
Market Capitalization of Different Years



4.1.3 Sector-wise Listed Companies

Listed companies are eligible for trading of their securities in secondary market. The company which want to be listed in NEPSE have to fulfil their minimum criteria set by SEBON and NEPSE. The secondary market of Nepal has been divided into eight sectors. The sector wise listed companies of FY 2009/10 have been depicted in table 4.1.3.

Table 4.1.3
Sector Wise listed Companies in FY 2009/10

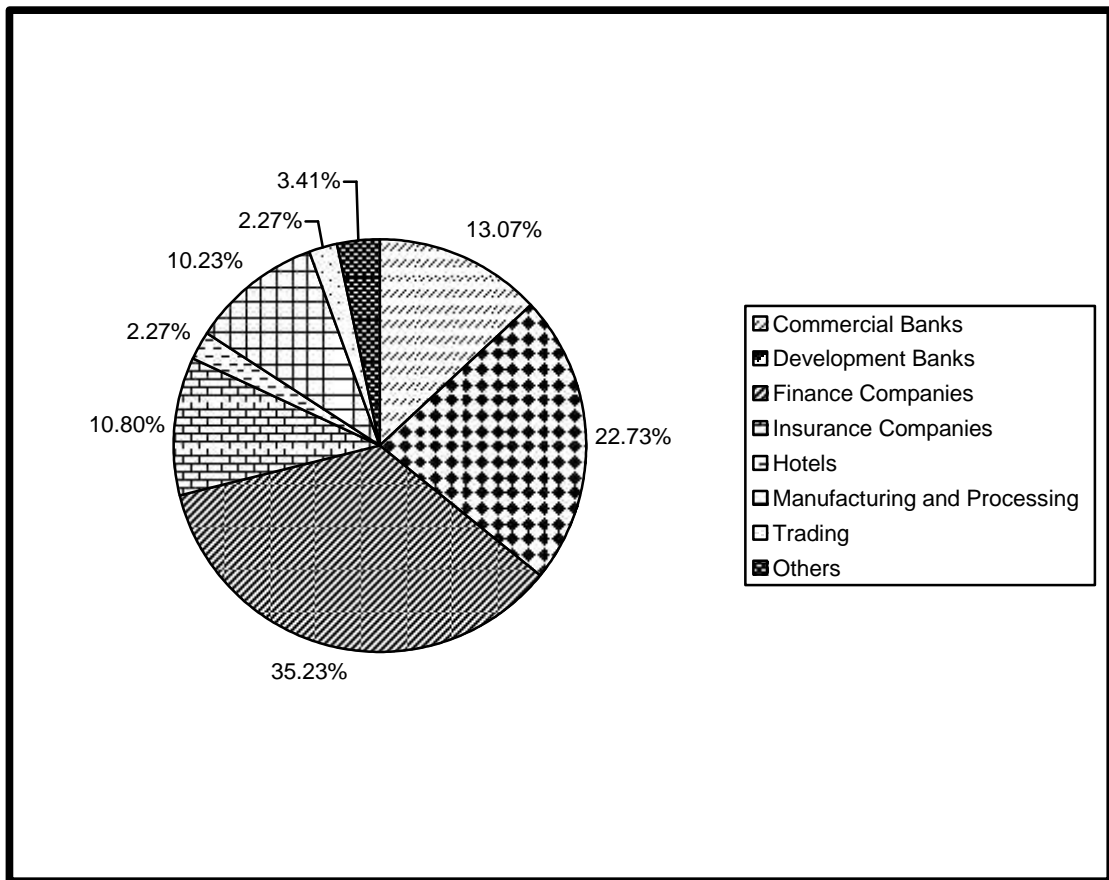
Sectors	No. Of Listed Companies	Percentage
Commercial Banks	23	13.07
Development Banks	40	22.74
Finance Companies	62	35.22
Insurance Companies	19	10.79
Hotels	4	2.27
Manufacturing and Processing	18	10.22
Trading	4	2.27
Others	6	3.41
Total	176	100.00

Source: Annual report of SEBON of 2009/10

In the fiscal year 2009/10, the total no. of listed companies reached to 176 while it was 159 in fiscal year FY 2008/09. This indicates 10.69% growth over the number of listed companies last year. The highest no of listed companies' in FY 2009/10 is recorded by the finance companies with 35.22 % of total listed companies, then, second highest is Development bank with 22.74% out of eight categories of listed companies. The shares of total listed companies taken by Commercial bank ,Insurance companies and Manufacturing and processing companies is 13.07%, 10.79% and 10.22% respectively, where the Hotels ,Trading and others have recorded only 2.27%, 2.27% and 3.41% respectively out of total listed companies.

This shows the normal growth in the context of deteriorating business environment of the country. Sector-wise Listed Companies in FY 2009/10 is depicted in figure 4.1.3

Figure – 4.1.3
Sector-wise Listed Companies in FY 2009/10



4.1.4 Growth of Listed and Traded Companies

The numbers of listed and traded companies in NEPSE from FY 1993/94 to FY 2009/10 have been presented in Table 4.1.4.

Table - 4.1.4**Number of Listed and Traded Companies in NEPSE**

FY	No. of Listed Companies	% of Growth	No. of Traded Company	% of Growth
1993/94	66	-	38	-
1994/95	79	19.70%	53	39.47%
1995/96	89	12.66%	59	11.32%
1996/97	95	6.74%	67	13.56%
1997/98	101	6.32%	68	1.49%
1998/99	107	5.94%	69	1.47%
1999/00	110	2.80%	69	0.00%
2000/01	115	4.55%	67	-2.90%
2001/02	96	-16.52%	69	2.99%
2002/03	108	12.50%	81	17.39%
2003/04	114	5.56%	92	13.58%
2004/05	125	9.65%	102	10.87%
2005/06	135	8.00%	110	7.84%
2006/07	135	0.00%	116	5.45%
2007/08	142	5.19%	136	17.24%
2008/09	159	11.97%	170	25.00%
2009/10	176	10.69%	198	16.47%

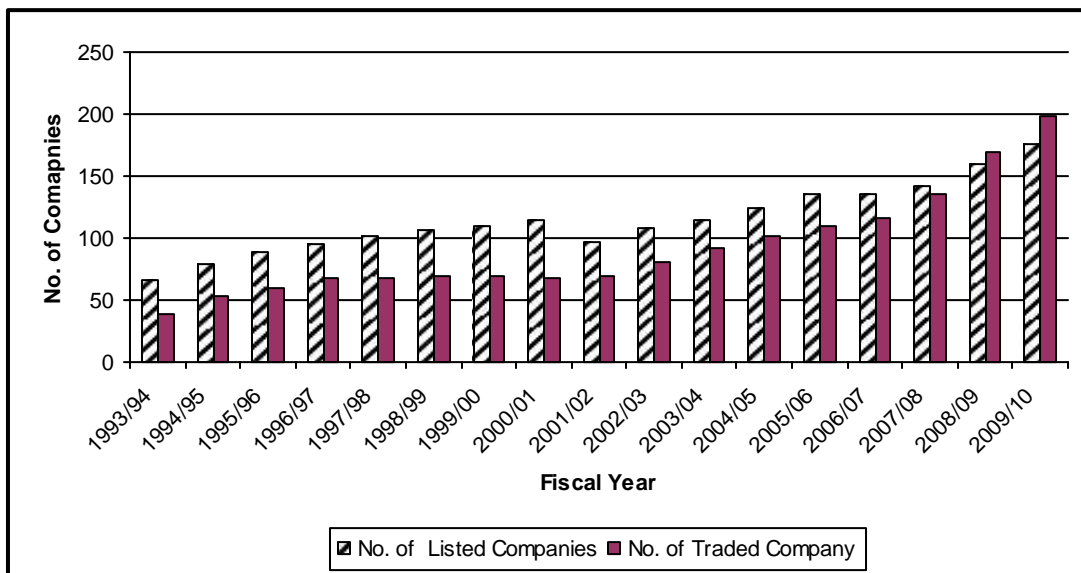
Source: Trading Report of NEPSE 2009/10 & various report of SEBON.

NEPSE started its transaction with 66 listed companies in FY 1993/94. The same year, the number of traded companies was only 38. Gradually, the number of listed companies increased to 115 in FY 2000/01 but decreased to 96 in FY 2001/02 because of delisting some of the companies that did not fulfil the criteria of the NEPSE for the continuation of the trading in NEPSE. However, it increased the next

year and has reached to 176 companies in FY 2009/10. Growth trend shows that except in FY 2001/02 and FY 2006/07, there is a growth of listed companies every year. The listed companies in average of 6.61% per year increasing over the full 17's year history of NEPSE from FY 1993/94 to FY 2009/10.

The negative growth as -2.90% of traded company was only recorded in FY 2000/01 over last 17 years history of NEPSE. The highest increase of traded company as 39.47% was only shown in FY 1994/95. The traded companies at the establishment period of 1993/94 was only 38, now it reached to 198 in FY 2009/10. This indicates that the around 421% growth over last 17's years history of NEPSE establishment. The average 24.77% growth per year indicates that the normal increase of traded companies in Nepal. The traded companies has reached maximum no, 198, in FY 2009/10. The traded companies just in FY 2008/09 and FY 2009/10 were more than the listed companies as we compared the last 17 years history of Secondary market in Nepal. The reasons behind it that NEPSE had opened the over the counter market since Jestha 2065 BS, to facilitate the delisted companies shares to be sold in the market. The listed and traded companies for different years are presented in figure 4.1.4.

Figure – 4.1.4
Number of Listed and Traded Companies



4.1.5 Sector-wise Paid-up Value of Listed Securities

Total paid up capital of total number of listed companies has reached to NRs 79356.73. Million in FY 2009/10 against NRs. 611, 40.39 Million in FY 2008/09 reflecting 29.80% growth over the last year. Group-wise shares of paid up capital has been depicted in Table 4.1.5.

Table4.1.5
Paid up Value of Listed Securities in FY 2009/10

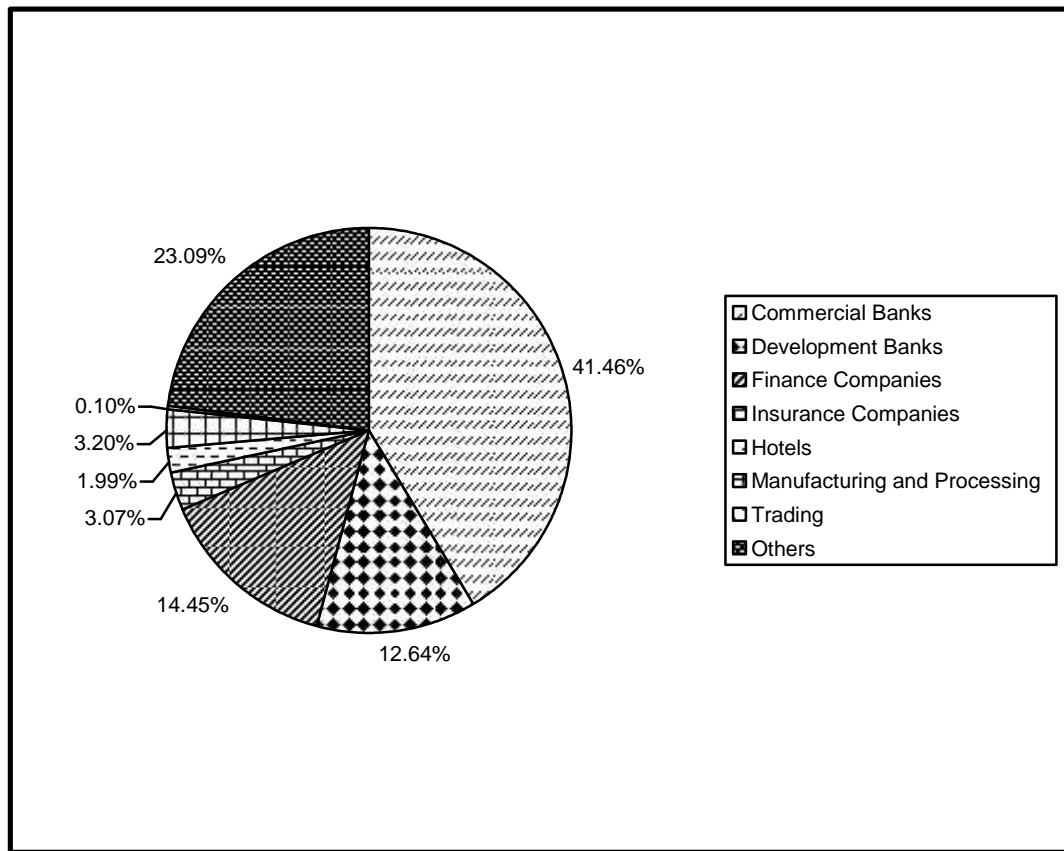
Sectors	Paid up Value in NRs. Million	Percentage
Commercial Banks	32900.64	41.46
Development Banks	10027.14	12.46
Finance Companies	11466.39	14.45
Insurance Companies	2432.94	3.07
Hotels	1580.71	1.99
Manufacturing and Processing	2539.74	3.20
Trading	82.18	0.10
Others	18326.98	23.09
Total	79356.73	100.00

Source: Annual report of SEBON of 2009/10

Out of eight sectors of total listed companies in NEPSE, paid up capital of commercial banks group is the highest with 41.46% shares and that of trading companies group is the lowest with 0.10% shares. After the commercial banks, the percentage shares in total paid up capital is highest in order of Others, Finance companies, Development banks, Manufacturing and processing companies, Insurance companies, Hotels and Trading group with the shares of 23.09%, 14.45%, 12.46%, 3.20%, 3.07%, 1.99% and 0.10% respectively. The most of the paid up value is covered by commercial bank of 41.16% out of whole paid up capital of total listed companies in NEPSE. The paid up value in FY 2009/10 has been depicted in figure 4.1.5.

Figure 4.1.5

Paid up Value of Listed Securities in FY 2009/10



4.1.6 Paid up Value of Listed Securities in Different Years

Paid up value for different years have been presented in table ,which shows the yearly trend of stock market in terms of upward and downward pattern of common stock market over the last 17's years (FY 1993/94-2009/10).Paid up value for different years depicted in table 4.1.6.

Table – 4.1.6**Paid up value of different years (Figure in NRs. Million)**

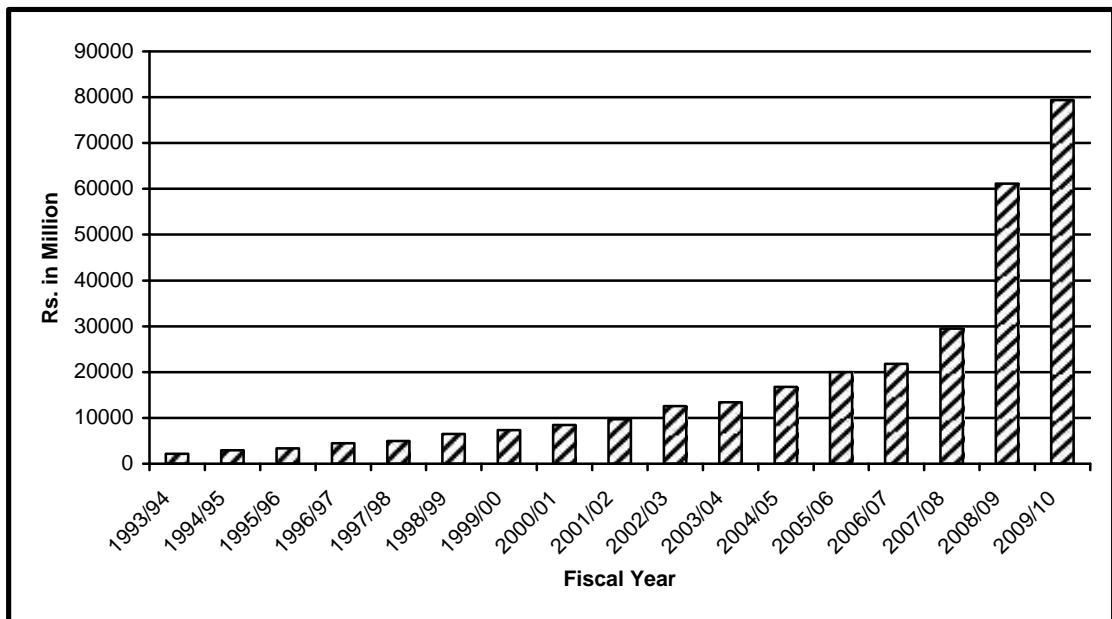
Fiscal Year	Paid up value (NRs. in Million)	Growth in Percentage
1993/94	2182.2	N/A
1994/95	2961.8	35.73
1995/96	3358.5	13.39
1996/97	4476.5	33.28
1997/98	4959.8	10.79
1998/99	6487.4	30.79
1999/00	7347.4	13.26
2000/01	8455.2	15.08
2001/02	9685.0	14.54
2002/03	12560.1	29.69
2003/04	13404.9	6.73
2004/05	16771.8	25.12
2005/06	20008.6	19.30
2006/07	21798.8	8.94
2007/08	29465.0	35.17
2008/09	61140.0	107.50
2009/10	79356.73	29.80

Source: Trading Report of NEPSE 2009/10 & various report of SEBON.

Table 4.1.5 depicts that total paid up capital of listed companies has grown significantly over the years. Total paid up value in FY 1993/94 was only NRs. 2182.2 Million, which has now reached to NRs. 79356.73 Million by FY 2009/10 reflecting 36.36 times growth against the initial year's paid up value. The paid up value is increased sharply by 107.5% in FY 2008/09 than FY 2007/08 as we compared in other 16 years history of NEPSE establishment. This increasing trend is continued by significant increase of paid up values by 29.80%.in FY 2009/10.

paid up value from 2182 million in FY 1993/94 took around 13 years time to reach only Rs.20008.6 million in FY2005/06.Now it has reached to Rs.79356.73 million in FY 2009/10, this is around of four fold increase within four years since FY 2005/06 to FY 2009/10.This indicates that the common stock market is going to be expanded as we analyze last four years with initial 13 years of NEPSE. The paid up value for different years are presented in figure 4.1.6.

Figure – 4.1.6
Paid up Value of Listed Securities in Different Years



4.1.7 Analysis of Turnover

In FY 2009/10, total turnover of the securities traded was NRs.11851.11 Million against NRs. 21,681.10 Million in FY 2008/09. This shows that the decreased in the turnover value by 45.34% than the FY 2008/09.Groupwise transaction and turnover have been depicted in Table. 4.1.7.

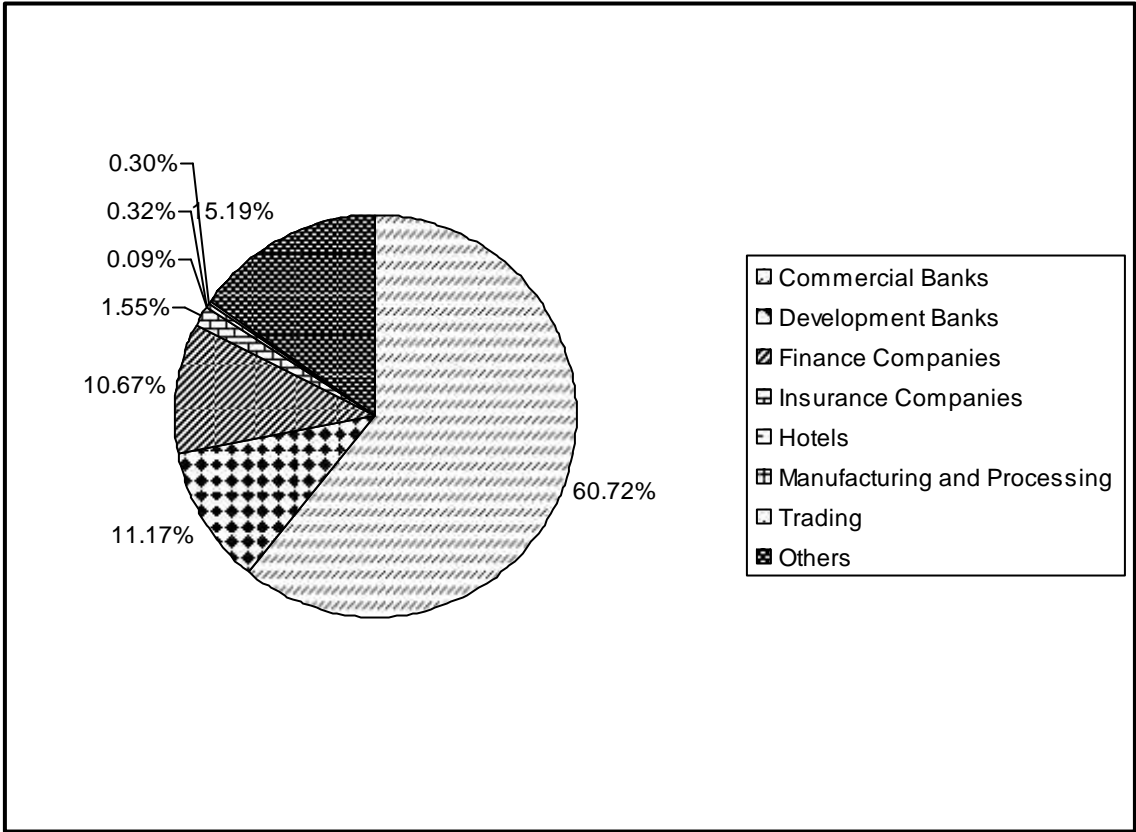
Table 4.1.7
Sector wise Turnover in FY 2009/10

Sectors	Turnover in NRs. Million	Percentage
Commercial Banks	7196.24	60.72
Development Banks	1323.53	11.17
Finance Companies	1263.94	10.66
Insurance Companies	183.47	1.55
Hotels	10.15	0.08
Manufacturing and Processing	37.74	0.32
Trading	35.43	0.30
Others	1800.61	15.91
Total	11851.11	100.00

Source: Annual report of SEBON 2009/10

Table 4.1.2 depicts that the annual turnover among the various groups of listed companies was the highest of commercial banks with 60.72% shares of total turnover. Lowest turnover amongst the group of listed companies was of hotels group with only 0.08% shares of total turnover. Annual turnover of total listed companies stood at NRs.11851.11 Million in FY 2009/10. The second and third stake in market turnover has been taken by Others and Development banks with 11.17% and 10.66% respectively, after then the shares in total turnover has been recorded by Finance companies with 10.66%. The insignificant shares of market turnover has been recorded by Insurance, Hotels, Manufacturing and processing and trading with 1.55%, 0.08%, 0.32%, 0.30% respectively. Sector wise turnover are depicted in figure 4.1.7.

Figure – 4.1.7
Sector wise Turnover in FY 2009/10



4.1.8 Security Turnover in Volume and Value

In FY 2008/09, total market turnover stood at NRs. 21681.1 Million, which decreased to NRs. 11681.11 Million in FY 2009/10 indicating 46.12% decreased over the market turnover of previous year. Year wise market turnover in terms of volume and value have been presented in Table 4.1.8.

Table 4.1.8**Annual turnover in volume and value**

Fiscal Year	Annual Turnover in Volume ('000)	Growth in %	Annual Turnover in Value (Rs. in '000)	Growth in %
1993/94	993.00	N/A	441,600.00	N/A
1994/95	3,900.00	292.74	1,054,300.00	138.74
1995/96	2,947.00	-24.44	215,600.00	-97.95
1996/97	9,143.00	210.24	416,200.00	93.04
1997/98	1,195.00	-86.93	202,600.00	-51.32
1998/99	4,788.00	300.67	1,500,000.00	640.37
1999/00	7,674.00	60.27	1,157,000.00	-22.37
2000/01	4,987.00	-30.01	2,344,200.00	102.60
2001/02	6,005.00	20.41	1,540,600.00	-34.28
2002/03	2,428.00	-59.56	575,800.00	-62.62
2003/04	6,468.00	166.39	2,144,270.00	272.40
2004/05	18,433.55	184.99	4,507,400.00	110.21
2005/06	12,221.93	-33.69	3,451,750.00	-23.42
2006/07	18,147.00	48.49	8,360,100.00	142.20
2007/08	28,599.77	57.60	22,820,800.00	172.97
2008/09	30,547.17	6.80	21,681,100.00	-4.99
2009/10	26,230.50	-13.83	11,851,110.00	-45.33

Source: Various reports of NEPSE and SEBON

While NEPSE opened its floor for secondary market operation in 1993, the annual turnover of the securities was only 993,000 units and equivalent to NRs. 441.6 Million, which has reached to 30,547,170 units of securities with equivalent amount of NRs. 21681.1 Million in FY 2008/09. The annual turnover in value decreased to NRs. 11851.11 million from 21681.10 Million in FY 2009/10. The lowest annual turnover was in FY 1997/98 with annual turnover of NRs. 202.6 Million and highest turnover in terms of volume was in FY 2008/09 with 30547000 units and the highest turnover in terms of value in FY 2007/08 with annual turnover of NRs. 22820 Million. The introduction of automated trading system in NEPSE since 2007 raised

the turnover in volume and value up to mid July of 2009. The annual turnover in value of FY 2009/10 is decreased by 45.33% than FY 2008/09, whereas, the turnover in volume is only decreased by 13.83% than FY 2008/09. The sharp decline in market price of shares causes to large decline in value of turnover even small decrease in volume of turnover. The average growth rate of turnover in volume is 68.76% per year and turnover in value is 83.11% per year as we analyze last 17 years history of NEPSE. Market turnover in volume and value for different years presented in figure 4.1.8 and 4.1.9 respectively.

Figure - 4.1.8

Security Turnover in volume

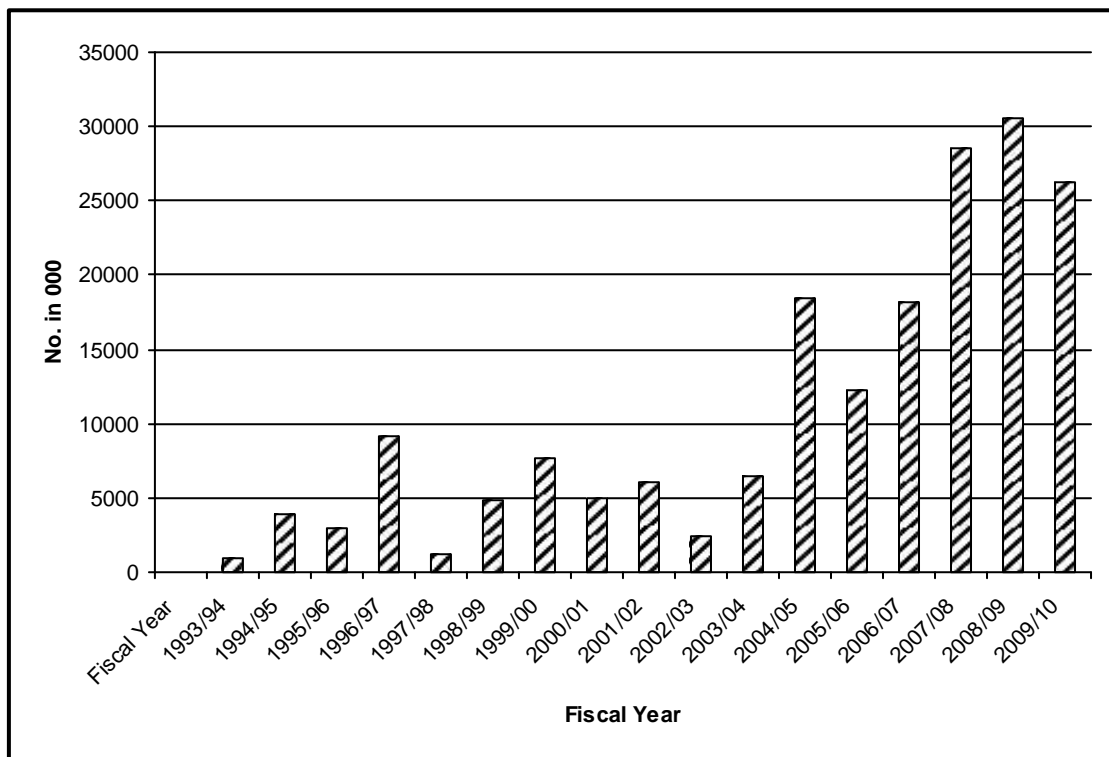
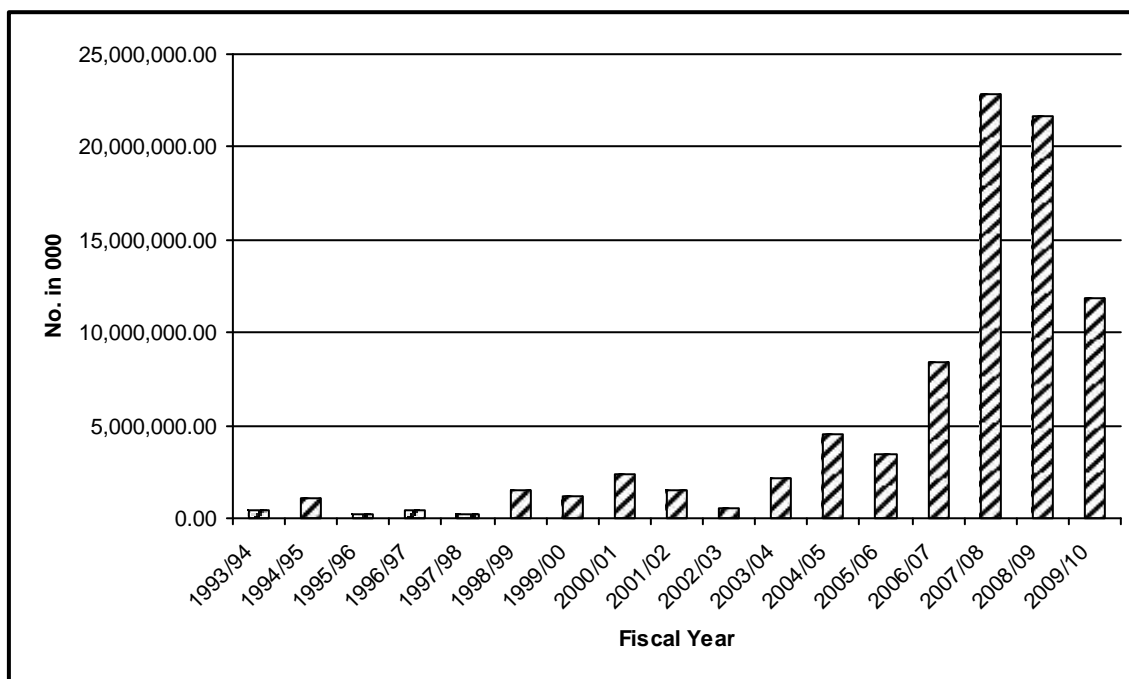


Figure - 4.1.9
Security Turnover in Value



4.1.9 Market Days Per Year and Average Daily Turnover

Market days per year refer no. of days that opened the floor of NEPSE for trading of securities out of available of 365 days in a year. Average daily turnover is one of the most important indicators of stock market development. Daily turnover provides liquidity to the stock market and commission to the stockbrokers. Stockbrokers will not survive without having transaction in stock market. Inconsistent average daily turnover suggests that the stock market has run / operated in inconsistent manner in terms of transaction.

Total number of market days from the initial days of FY 1993/94 to FY 2009/10 and average daily turnover over the same years has been presented in Table 4.1.9.

Table 4.1.9
Market Day Per Year and Average Daily Turnover

Fiscal Year	Market Days Per Year	Average Daily Turnover (NRs. in 00,000)
1993/94	121	36.5
1994/95	242	43.6
1995/96	240	9.0
1996/97	239	17.4
1997/98	237	8.5
1998/99	231	64.9
1999/00	240	48.2
2000/01	231	101.4
2001/02	246	62.6
2002/03	238	24.2
2003/04	243	88.2
2004/05	236	191.0
2005/06	228	151.4
2006/07	232	360.34
2007/08	235	971.09
2008/09	234	926.54
2009/10	225	526.71

Source: Trading Report of NEPSE 2009/10 & various report of SEBON.

Table 4.1.9 shows that market days per year in FY 1993/94 was only 121 days while in other years, it is always more than 225 days over the years. Average daily turnover is found to be affected by market days per year. Daily turnover has been increased since FY 2005/06 in a huge volume and value up to FY 2008/09 and the peak point of daily turnover was in FY 2007/08 of NRs.97.109 million. The second lowest market days per year has been recorded in FY 2009/10 with 225 days. The market daily turnover is decreased significantly to NRs52.671 Million in FY 2009/10 from NRs 92.654 in FY 2008/09. The huge amount of daily turnover was only recorded in FY 2007/08 and FY 2008/09. The root out of the open out cry system by adopting of automated trading system since 2007 might be the satisfactory trading system for rise

of daily turnover in FY 2007/08 and FY 2008/09. The new trading system of NEPSE have only been contributed rising of daily turnover for only 2 years, however, the daily turnover decreased to NRs 52.671 in FY 2009/10 from NRs. 92.654 in FY 2008/09. The average daily turnover of last three years have recorded with more than NRs.50 million. This shows that turnover can be maintained towards a upward way through the maintenance of national political system and economy system. The political and economical stability inevitable for rise in price of each common stock which lead to large grow in turnover. The market day per year and average daily turnover are presented in figure 4.1.10 and figure 4.1.11 respectively.

Figure - 4.1.10
Market Day Per Year

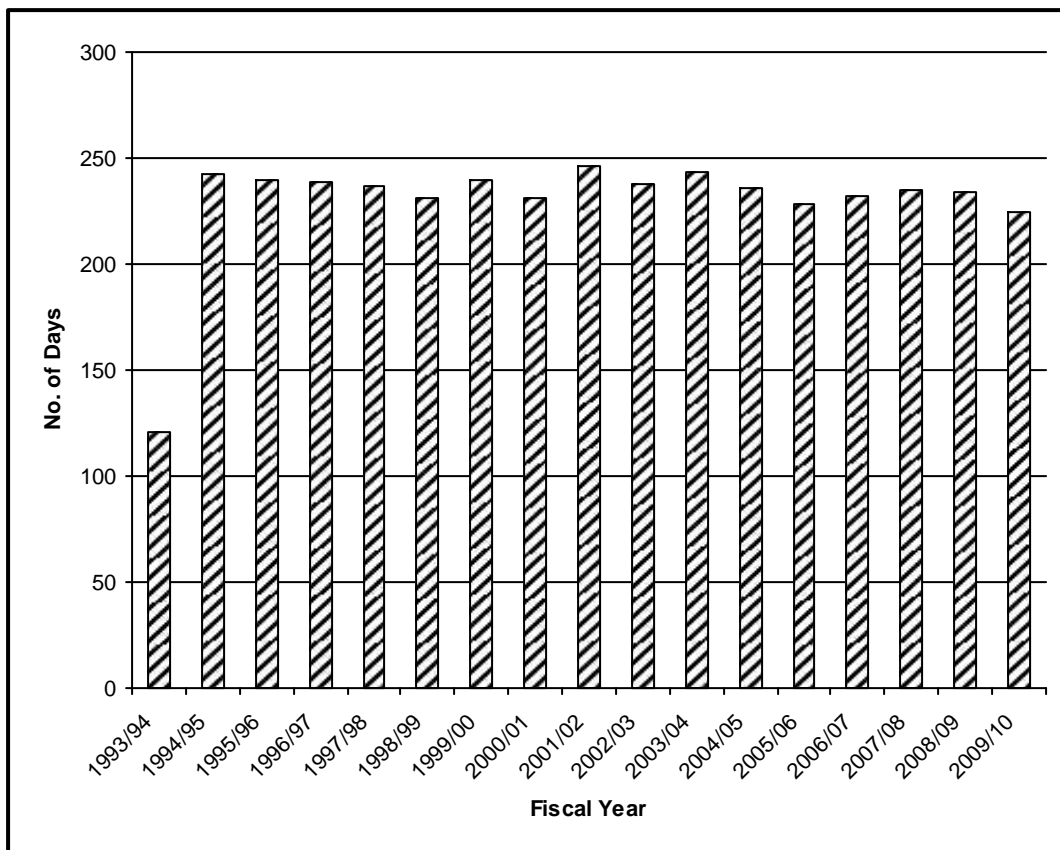
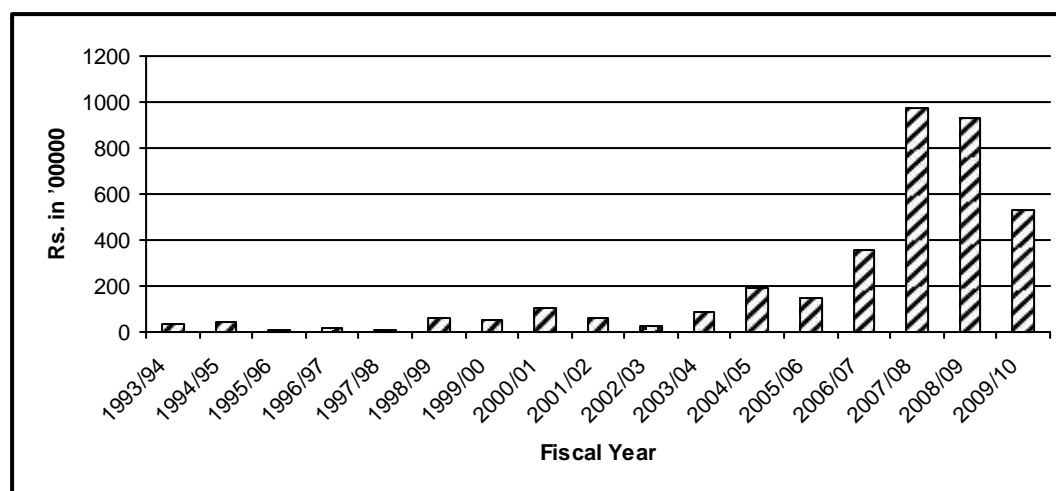


Figure - 4.1.11

Average Daily Turnover



4.1.10 Analysis of the Issue Approved

Securities Board of Nepal has so far approved 385 companies for the issuance of securities with total value of NRs. 49511 Million. The year wise approvals of amount as well as numbers have been presented in Table 4.1.10.

Table – 4.1.10

Total Number of Companies and the amount of Issue approved.

Fiscal Year	Amount of Issue (NRs. Million)	Growth in %	Number of Issue	Growth in %
1993/94	244	N/A	16	N/A
1994/95	174	-28.69	10	-37.50
1995/96	294	68.97	12	20.00
1996/97	332	12.93	5	-58.33
1997/98	462	39.16	12	140.00
1998/99	258	-44.14	5	-58.33
1999/00	327	26.74	6	20.00
2000/01	411	25.69	9	50.00
2001/02	1441	250.61	12	33.33
2002/03	557	-61.35	18	50.00
2003/04	1028	84.56	14	-22.22
2004/05	1627	58.27	14	0.00
2005/06	2443	50.15	29	171.14
2006/07	2295	-6.06	34	17.24
2007/08	9968	334.34	64	88.24
2008/09	16828	68.82	64	0.00
2009/10	10822	-35.69	61	-4.69
Total	49511		385	

Source: Trading Report of NEPSE 2009/10 & various report of SEBON.

In terms of amount of issue approval, the least issue approval was in FY 1994/95 with approved amount of NRs. 174 Million and the highest was in FY 2008/09 with amount of NRs. 16828 Million. Issue approval for the FY 2001/02 shows a significant increase over the approval of FY 2000/01 but it again significantly decreased to NRs. 557 Million next year. After 2002/03, the trend was in sharp rise up to FY 2005/06 and little bit decreased in FY 2006/07. After FY 2006/07, the amount of issue approved was increased in large volume and value up to FY 2008/09, then decreased to NRs. 10822 Million in FY 2009/10. The amount of issue approval before of FY 2000/01 is meaningless because there is no significant increase in the terms of amount of issue approval. The significant increase in amount of issue approval was recorded by FY 2007/08 and thereafter. The amount of issue approval is reduced to NRs. 10822.00 Million in FY 2009/10 from NRs. 16828 Million in FY 2008/09 reflecting - 35.69% growths over the FY 2008/09.

In terms of number of companies approved for issuance of securities, it was only 16 in FY 1993/94, which could not increase over the years. Number of companies approved for the issuance of securities is found to be average of 22.65 per year, which can not be taken as satisfactory. The lowest number of companies approved for issue of securities was in FY 1996/97 and FY 1998/99 with the issue approval of 5 companies. Likewise, the highest number of companies approved for issue of securities was in FY 2007/08 and FY 2008/09. The number of companies approved in FY 2009/10 was only 61.

Total amount of issue approved and total no. of issue approved presented in figure 4.1.12 and 4.1.13 respectively.

Figure – 4.1.12
Total Amount of Issue Approved

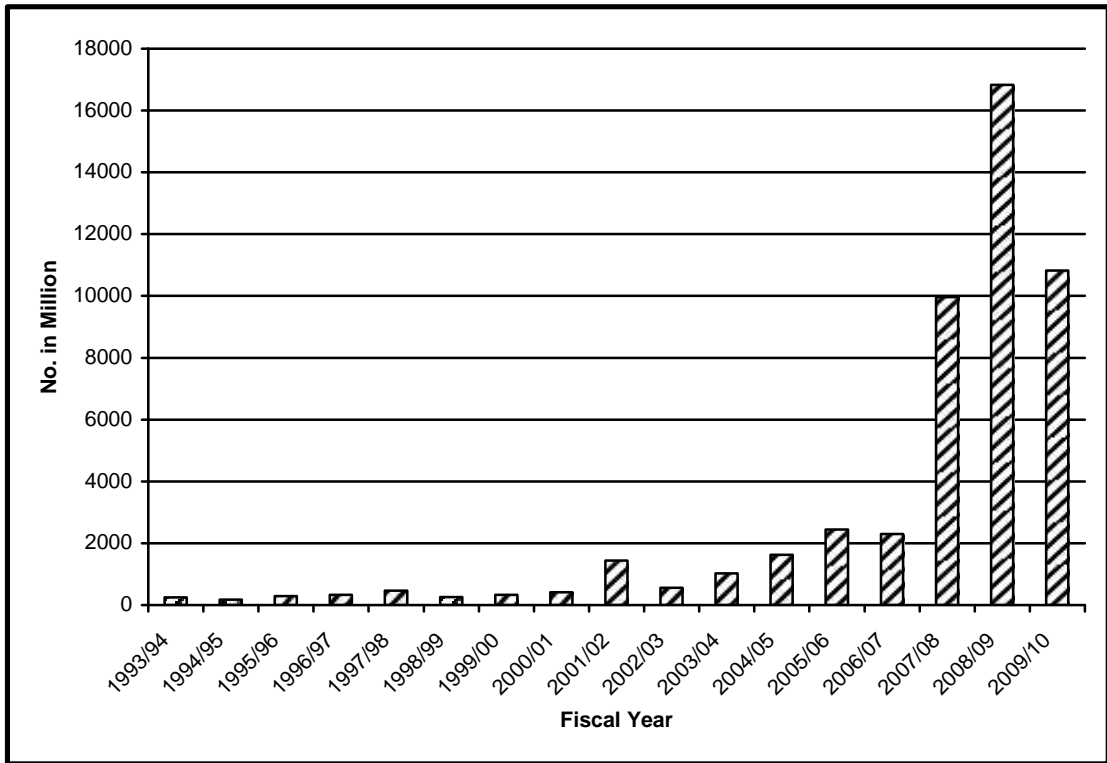
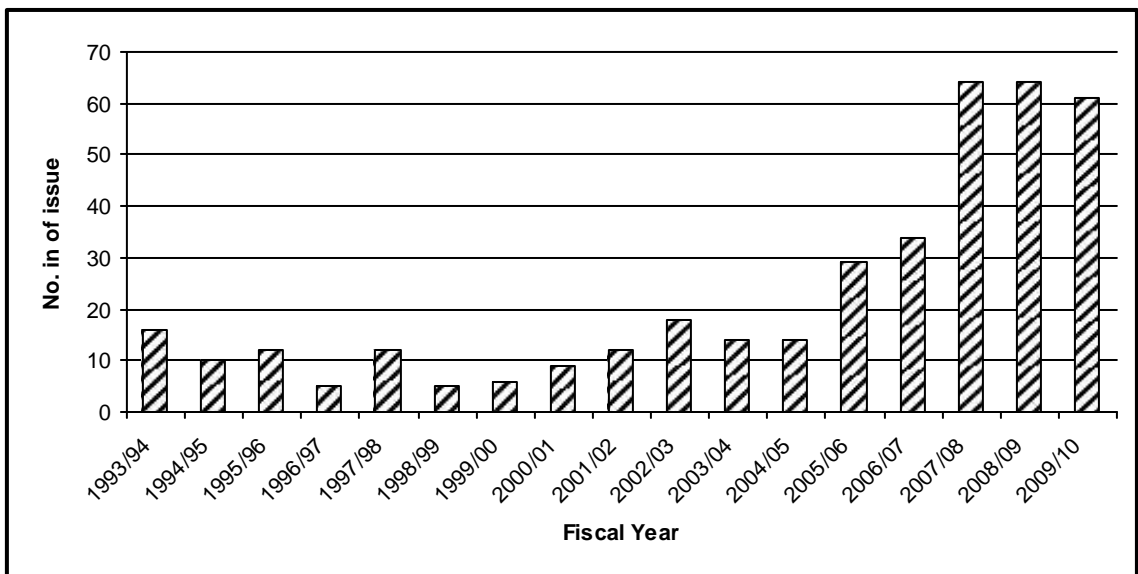


Figure – 4.1.13
Number of Issue Approved



4.1.11 NEPSE Index

Stock market index is a measuring tool for the performance of stock market whether it is good or not. It also indicates the level of prices of the listed stocks in the secondary market. Because the prices of stocks go up and down in a particular period compared to the previous period as disclosed by index, we interpret the development of stock market. If the index is in increasing trend, we say that the performance of stock market is better and vice versa. The highest index suggests the increase in market price of the stocks and implies the better performance of companies and vice-versa. NEPSE index is the Nepal's only stock market index that shows the behaviour of stock prices in Nepal's stock market i.e. Nepal Stock Exchange Ltd.

Year-wise NEPSE Index and percentage growth have been presented in Table 4.1.10.

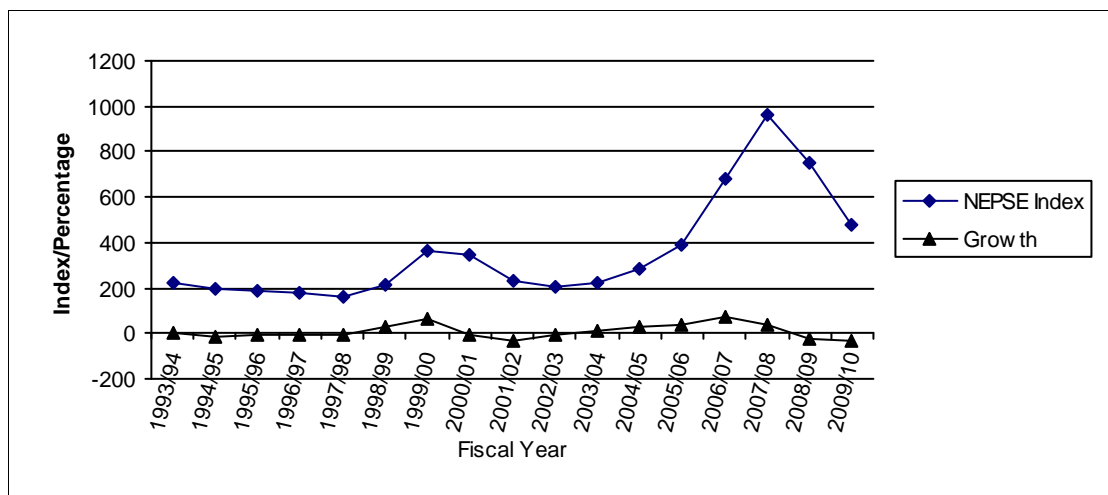
Table 4.1.10
Year-wise NEPSE Index and percentage growth

Year	NEPSE Index	% Growth
1993/94	226.03	-
1994/95	195.48	-13.52%
1995/96	185.61	-5.05%
1996/97	176.31	-5.01%
1997/98	163.35	-7.35%
1998/99	216.92	32.79%
1999/00	360.70	66.28%
2000/01	348.43	-3.40%
2001/02	227.54	-34.70%
2002/03	204.86	-9.97%
2003/04	222.04	8.39%
2004/05	286.67	29.11%
2005/06	386.83	34.94%
2006/07	683.95	76.83%
2007/08	963.36	40.85%
2008/09	749.10	-22.24%
2009/10	477.73	-36.23%

Source: Trading Report of NEPSE 2009/10 & various report of SEBON.

In 1993/94, NEPSE Index was only 226.03 that gradually decreased and reached to 163.35 in FY 1997/98 indicating poor performance of stock market of Nepal. However, it increased gradually and again reached to 360.70 in FY 1999/00 and decreased to 286.67 by FY 2004/05 but increased to 386.83 by FY 2005/06 and the increasing trend of NEPSE index increased up to FY 2007/08. The highest NEPSE index was in FY 2007/08 with 963.36 point over the last 17 years history of secondary market establishment. Average growth of NEPSE Index over the last 17 years is only 9.48%. Before FY 2000/01, The NEPSE index was satisfactory in FY 1998/99 and FY 1999/00. After FY 2000/01, the prosperity of stock market was recorded as NEPSE index increased from 286.67 in FY 2004/05 to 963.36 in FY 2007/08. The NEPSE index unexpectedly decline to 477.73 in FY 2009/10 from 963.36 in FY 2007/08 reflecting -36.23% growth over the last years. As we analyze the index of NEPSE over the last 17 year history of secondary market establishment, The bullish period of Nepal was recorded in FY 2007/08 with the highest index point of 963.36 and Bearish period recorded in FY 1997/98 with the lowest index point of 163.35. As compared to stock market of developing and developed countries, Nepal's index is in the infant stage so far. The NEPSE index and percentage of growth presented in figure 4.1.14.

Figure 4.1.14
NEPSE Index and Percentage of Growth



4.1.12 Market Capitalization Vs Nominal GDP

Market capitalization is one of the major indicators of the secondary market as it is compared with the indicator of the economy. Nominal GDP is the estimated GDP which works as an overall economy indicator of nation.

Yearwise market capitalization, gross domestic product and the percent of market capitalization on gross domestic product has been shown in Table 4.1.11.

Table – 4.1.11

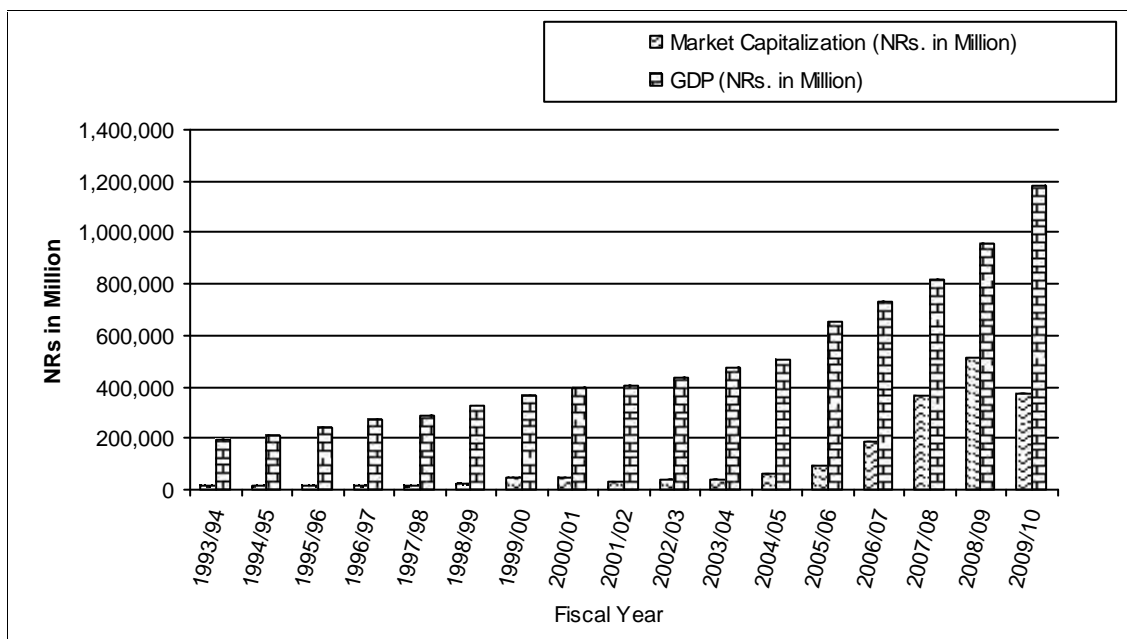
Market capitalization and Gross domestic product for different years

Fiscal Year	Market Capitalization (NRs. in Million)	GDP (NRs. in Million)	% of Market Capitalization on GDP
1993/94	13,872	191,596	7.24%
1994/95	12,963	209,976	6.17%
1995/96	12,295	239,388	5.14%
1996/97	12,698	269,570	4.71%
1997/98	14,289	289,798	4.93%
1998/99	23,508	330,018	7.12%
1999/00	43,123	366,251	11.77%
2000/01	46,349	394,052	11.76%
2001/02	34,704	406,138	8.54%
2002/03	35,240	435,546	8.09%
2003/04	41,425	474,919	8.72%
2004/05	61,366	508,651	12.06%
2005/06	96,814	654,054	14.80%
2006/07	186,301	728,178	25.58%
2007/08	366,247	818,402	44.75%
2008/09	512,939	960,012	53.43%
2009/10	376,871	1,182,680	31.87%

Source: Trading Report of NEPSE 2009/10 & various report of SEBON.

Market capitalization is one of the constituent of GDP. In 1993/94, market capitalization was only 7.24% of gross domestic product and it reached to 11.77% of GDP in 1999/00 and remained at the same level in 2000/01 and decreased to 8.54% next year. In FY 2004/05, market capitalization stood 12.06% of gross domestic product and reached to 14.80% in FY 2005/06. After FY 2005/06, the market capitalization on nominal GDP has been increased significantly upto FY 2008/09 and decreased to 31.87% in FY 2009/10 from 53.43% in FY 2008/09. The reason behind this decrease of percentage of market capitalization on nominal GDP in FY 2009/10 was fall in the value of market capitalization of that fiscal year. Over the last 17 years, the data in Table 4.8 shows that lowest and highest percent of market capitalization on gross domestic product was 4.71% and in FY 1996/97 and 53.43% in FY 2008/09. The low percentage of market capitalization on nominal GDP of any particular year denote that year's low contribution of stock market in overall economy, likewise, high percentage of market capitalization on nominal GDP of any particular year refer that year's high contribution of stock market in overall economy. Contribution of stock market in the GDP has been increasing over the years. The relationship between market capitalization and nominal GDP constructed in figure 4.1.15.

Figure – 4.1.15
Market capitalization and GDP



4.1.13 Market Return and Risk analysis

Nepal stock exchange limited (shortly called as NEPSE) is the secondary market of Nepal. Market return is calculated on the basis of NEPSE index .The market indexes of last 17;s years(FY 1993/94- FY 2009/10) history are the base for calculating average market return and market risk in Nepal. The market return and market risk available in Nepal are presented in Table 4.1.12.and 4.1.13.

Table 4.1.12
Calculation of Market Risk and Return

Year	NEPSE Index	Annual market return(R_m)	$R_m - \bar{R}_m$	$(R_m - \bar{R}_m)^2$
1993/94	226.03	-	-	-
1994/95	195.48	-13.52%	-13.52-9.48= -23.19	537.78
1995/96	185.61	-5.05%	-5.05-9.48= -14.72	216.68
1996/97	176.31	-5.01%	-5.01-9.48= -14.68	215.50
1997/98	163.35	-7.35%	-7.35-9.48= -17.02	289.68
1998/99	216.92	32.79%	32.79-9.48= 23.12	534.53
1999/00	360.70	66.28%	66.28-9.48= 56.61	3204.69
2000/01	348.43	-3.40%	-3.40-9.48= -13.07	170.82
2001/02	227.54	-34.70%	-34.70-9.48= -44.37	1968.70
2002/03	204.86	-9.97%	-9.97-9.48= -19.64	385.73
2003/04	222.04	8.39%	8.39-9.48= -1.28	1.64
2004/05	286.67	29.11%	29.11-9.48= 19.44	377.91
2005/06	386.83	34.94%	34.94-9.48= 25.27	638.57
2006/07	683.95	76.83%	76.83-9.48= 67.16	4510.46
2007/08	963.36	40.85%	40.85-9.48= 31.18	972.19
2008/09	749.10	-22.24%	-22.24-9.48= -31.91	1018.25
2009/10	477.73	-36.23%	-36.23-9.48= -45.91	2107.73
		\bar{R}_m =151.72%		$(\bar{R}_m - \bar{R}_m)^2 =$ 17150.86

$$\text{Average market return (} \bar{R}_m \text{)} = \frac{\sum R_m}{N} = \frac{151.72\%}{16} = 9.48\%$$

$$\text{Standard Deviation } (\Xi_m) = \sqrt{\frac{(R_m - \bar{R}_m)^2}{n}} = \sqrt{\frac{17150.86}{16}} = 32.74\%$$

$$\begin{aligned} \text{Coefficient of Variation (CV)} &= \Xi_m / \bar{R}_m \\ &= 32.74\% / 9.48\% \\ &= 3.45 \end{aligned}$$

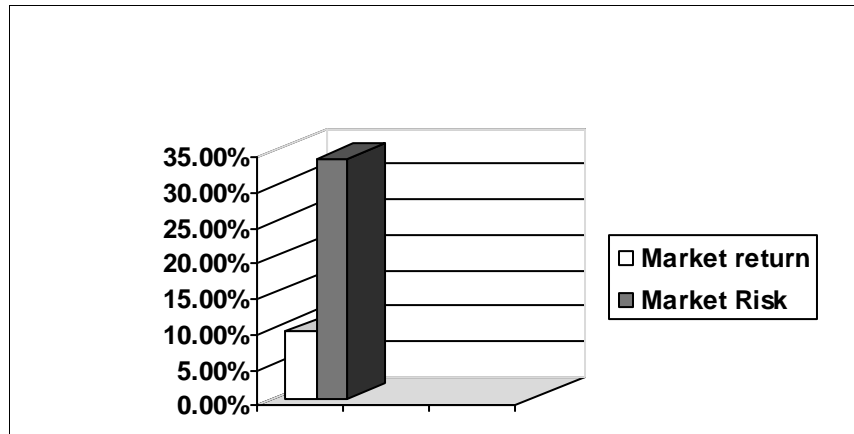
The above results are summarized in Table 4.1.13 as follows;

Table 4.1.13
Average market return and market risk

Market return	Market Risk	Coefficient of variation(CV)
9.48%	32.74%	3.45

Average market return is only 9.48%, which represent the overall stock listed in NEPSE average return. The market risk measured in standard deviation is 32.74% and measured in coefficient of variation (CV) is 3.45. The market risk is far greater than the market return available in Nepal. The CV is the product of market risk dividing by market return, which refers the amount of market risk rewarded by per unit of market return. Coefficient of variation can depict exact position of risk per unit of return. The value of CV of 3.45 indicates those investors have to bear 3.45% of market risk for rising of only 1% market return. This indicates the wealth of investor is unsecured in stock market of Nepal due to high involvement of market risk than market return available in Nepal. The market return and market risk are presented in figure 4.1.16

Figure 4.1.16
Market risk and Market return



4.2 Presentation and Analysis of Primary Data

This section concerns with the presentation and analysis of primary data collected through questionnaires. The opinions and views expressed by the officials of NRB, SEBON, NEPSE, NBL and individual / corporate investors are first presented in tables and then analyzed using percentage and depicted in graphs. Out of 60 questionnaires distributed, only 55 (91.67%) were obtained.

4.2.1 Satisfaction from the return associated in common stock investment

Regarding the satisfaction with regards to the benefits (return) associated on the investment in common stocks of listed companies, the respondents were asked whether they are satisfied or not. The responses regarding this are presented in Table 4.2.1

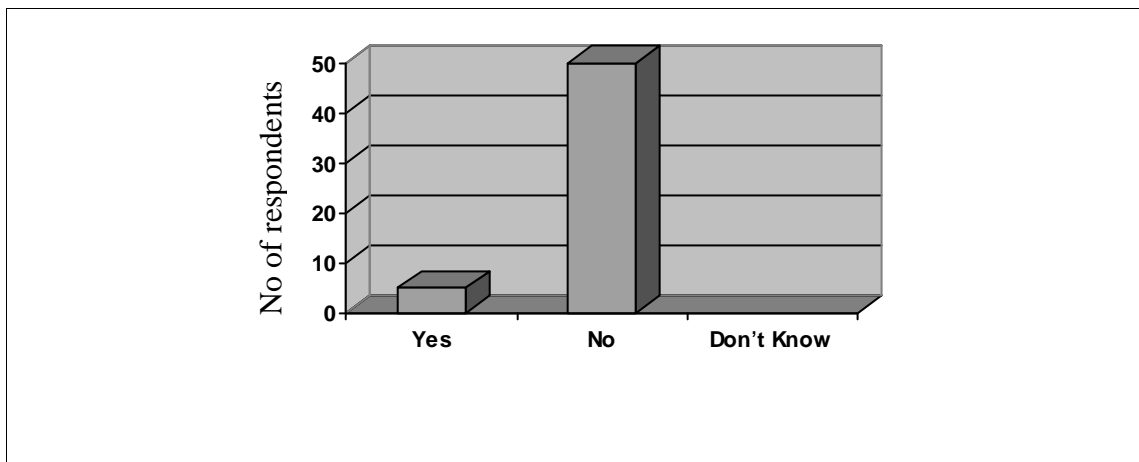
Table 4.2.1
Satisfaction in Common Stock Investment

S. No.	Research Variable	Nos.	%
1	Yes	5	9.1%
2	No	50	90.9%
3	Don't Know	-	-
	Total	55	100.00 %

(Source: Field Survey: 2010/11)

From Table 4.2.1, it has been observed that out of 55 respondents, only 9.1% respondents replied that they are satisfied with the benefit of the common stocks of listed companies where as 90.9 % respondents replied that they are not satisfied with it. This indicates that majority of the investors of common stocks of the listed companies are not satisfied with the return on the common stock investment claiming that the average return from the common stock investment mainly through price appreciation is highest amongst the available alternatives irrespective of the theoretical risks associated in it. The response has been depicted in Figure 4.2.1

Figure 4.2.1
Satisfaction in Common Stock Investment



4.2.2 Timely and Correct Information Availability

Regarding the timely and correct information availability from NEPSE and SEBON related to the investment in common stocks of listed companies, the respondents were asked whether they have got correct and timely information from them and the responses regarding this are presented in Table 4.2.2

Table 4.2.2

Timely and Correct Information availability

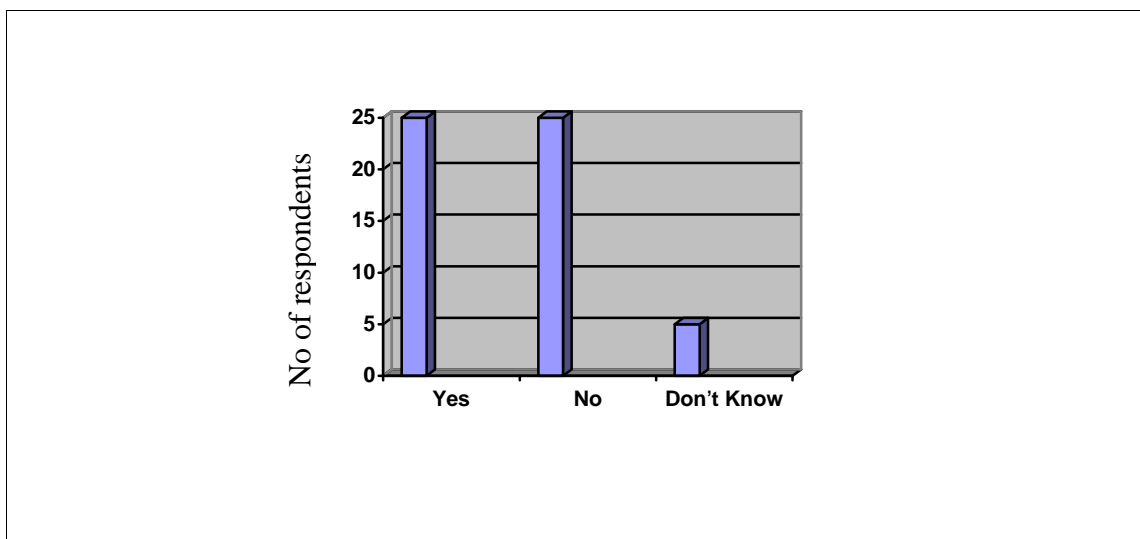
S. No.	Research Variable	Nos.	%
1	Yes	25	45.45%
2	No	25	45.45%
3	Don't Know	5	9.10%
	Total	55	100.00 %

(Source: Field Survey: 2010/11)

From Table 4.2.2, it is observed that the number of people getting timely and correct information are 25 and not getting are also 25 both indicating 45.45%. Likewise, 9.10% of respondents also replied that they don't care about the information from NEPSE and/or SEBON. The respondents that replied that they are not getting timely information have been depicted in Figure 4.2.2.

Figure 4.2.2

Timely and Correct Information Availability



4.2.3 Reason to own the shares of listed companies

In order to know why the individual investors own the shares of listed companies, the respondents were asked to choose the options. The responses are given in Table 4.2.3.

Table 4.2.3
Reason to own shares of listed companies

S. No.	Research Variable	Marks*	Rank
1	Capital Gain / Price Appreciation	$5 \times 55 + 4 \times 0 + 3 \times 0 + 2 \times 0 + 1 \times 0 = 275$	I
2	Regular Dividend	$5 \times 0 + 4 \times 5 + 3 \times 50 + 2 \times 0 + 1 \times 0 = 170$	III
3	Marketability / Liquidity	$5 \times 5 + 4 \times 50 + 3 \times 5 + 2 \times 0 + 1 \times 0 = 240$	II
4	Social Status	$5 \times 0 + 4 \times 0 + 3 \times 0 + 2 \times 35 + 1 \times 20 = 90$	IV
5	No other alternatives available	$5 \times 0 + 4 \times 0 + 3 \times 0 + 2 \times 20 + 1 \times 35 = 75$	V

(Source: Field Survey: 2010/11)

* 5 x nos. of respondents assigning 5 + 4 x nos. of respondents assigning 4 + 3 x nos. of respondents assigning 3 + 2 x nos. of respondents assigning 2 + 1 x nos. of respondents assigning 1.

From Table 4.2.3, it has been observed that the main objective of owning shares of listed companies is capital gain / price appreciation. Likewise, 2nd and 3rd objective is marketability / liquidity and regular dividends respectively. Social status and unavailability of other alternatives was given less priority by the respondents

4.2.4 Satisfaction from Growth Trend of NEPSE

Respondents were asked whether they are satisfied with the growth trend of NEPSE or not, the responses are presented in Table 4.2.4.

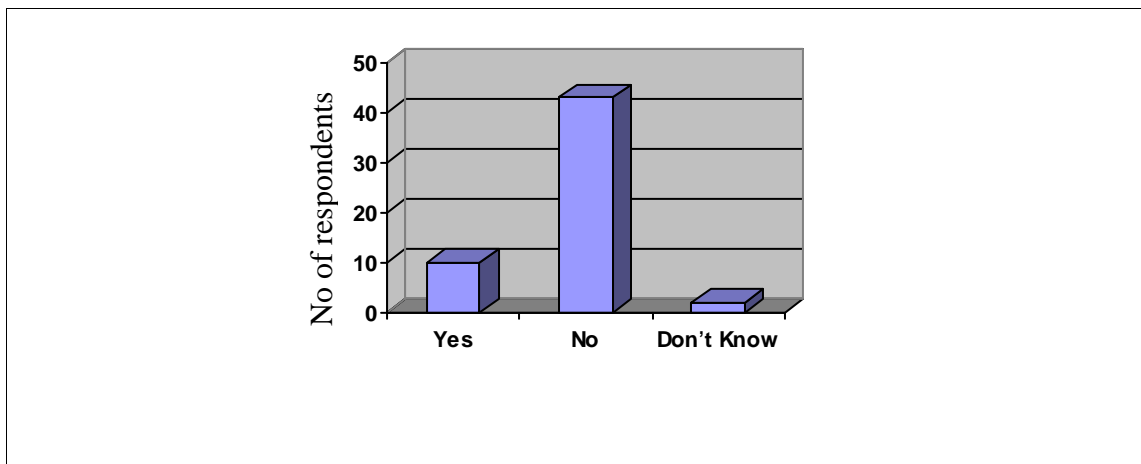
Table 4.2.4
Satisfaction from Growth Trend of NEPSE

S. No.	Research Variable	Nos.	%
1	Yes	10	18.18%
2	No	43	78.18%
3	Don't Know	2	3.64%
	Total	55	100.00 %

(Source: Field Survey: 2010/11)

From Table 4.2.4, it is observed that 78.18% respondents are not satisfied with the growth trend of stock market of Nepal while only 18.18% showed their satisfaction. Even 2 respondents that reflect only 3.64% of total respondents replied that they are not aware about the growth of stock market. The responses are depicted in Figure 4.2.3

Figure 4.2.3
Satisfaction from Growth Trend of Stock Market



4.2.5 Satisfaction from Trading System of NEPSE

The investors were asked whether the present trading system of NEPSE is satisfactory or not. The view of the respondent are fifty-fifty. The responses are presented in Table 4.2.5

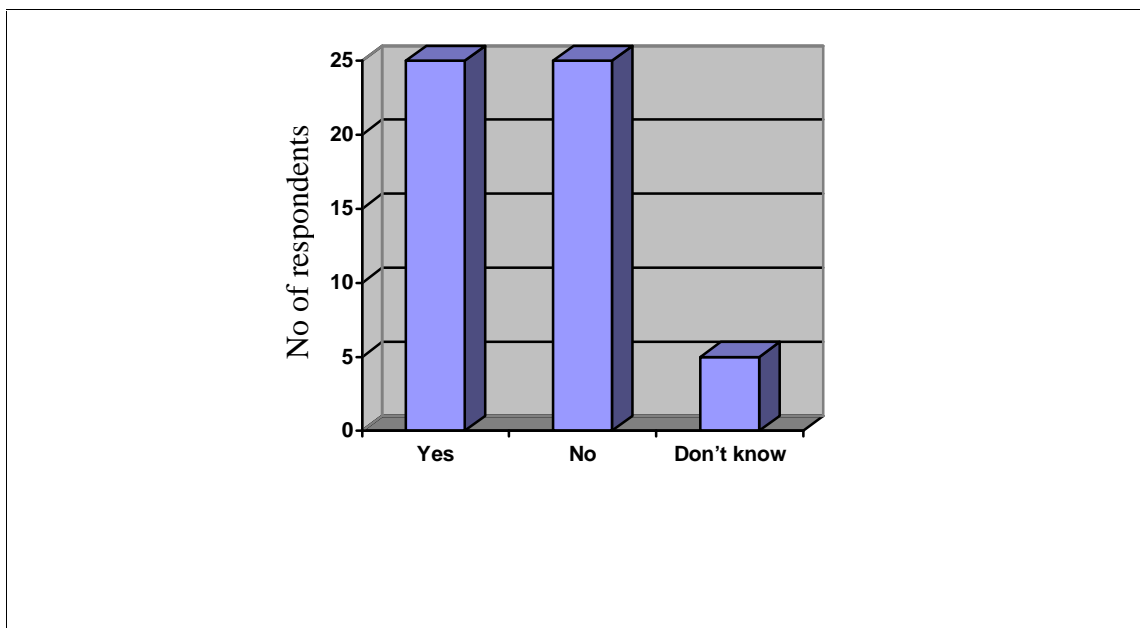
Table 4.2.5
Satisfaction from Trading System of NEPSE

S. No.	Research Variable	Nos.	%
1	Yes	25	45.45%
2	No	25	45.45%
3	Don't know	5	9.09%
	Total	55	100%

(Source: Field Survey: 2010/11)

According to the responses presented in Table 4.2.5, it has been observed that 45.45% respondents replied that they are satisfied with the current trading system of NEPSE. They revealed that adopting of automated trading system by replacing open out cry system is satisfactory trading system of NEPSE. The same percentage, 45.45%, of Respondents have claimed they are not satisfied with the trading system of NEPSE even they have adopted automated system NEPSE due to not gaining yet the expertise in automated trading system. Only 5 respondents (9.09%) have replied that they are not aware of trading system of NEPSE. The no. of responses are depicted in Figure 4.2.4

Figure 4.2.4
Satisfaction from Trading System of NEPSE



4.2.6 Centralization of Stock Market and its effect

The investors were asked whether the centralization of stock market i.e. the only stock market – NEPSE being in Kathmandu has effect in low level of participation of general public in capital market. Their responses are presented in Table 4.2.6

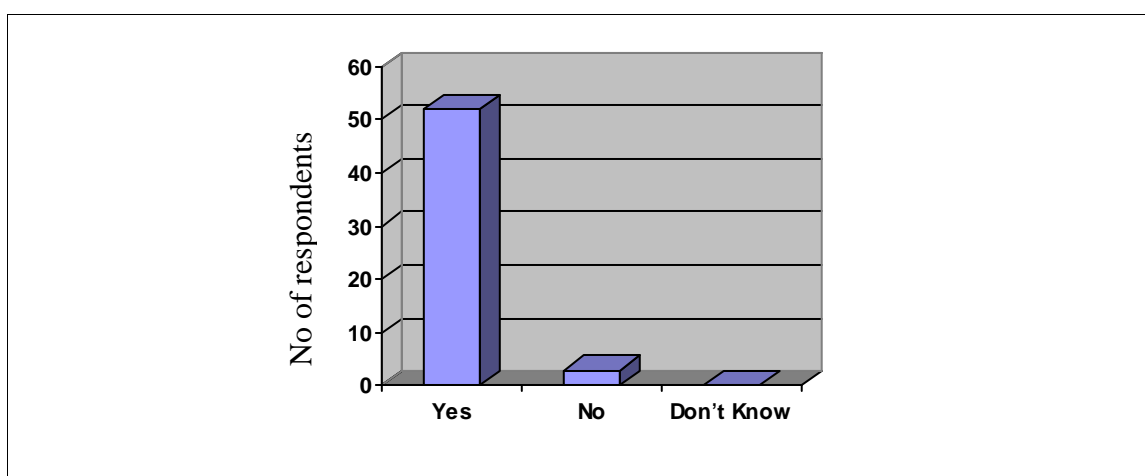
Table 4.2.6
Centralization of stock market and its effect

S. No.	Research Variable	Nos.	%
1	Yes	52	94.55%
2	No	3	5.45%
3	Don't Know	0	0.00%
	Total	55	100.00 %

(Source: Field Survey: 2010/11)

From Table 4.2.6, it has been observed that majority of the respondents believe that there is low level of participation in capital market mainly due to centralized transaction of stock market. If there were other secondary market in other parts of the country, the public involvement would increase and the stock market would have benefited more. The no. of responses are depicted in Figure 4.2.6.

Figure 4.2.6
Centralization of stock market and its effect



4.2.7 Development and Introduction of New Investment Alternatives

The investors were asked whether the development and introduction of new investment alternatives will help NEPSE grow. The responses are presented in Table 4.2.7

Table 4.2.7

Development and introduction of new investment alternatives

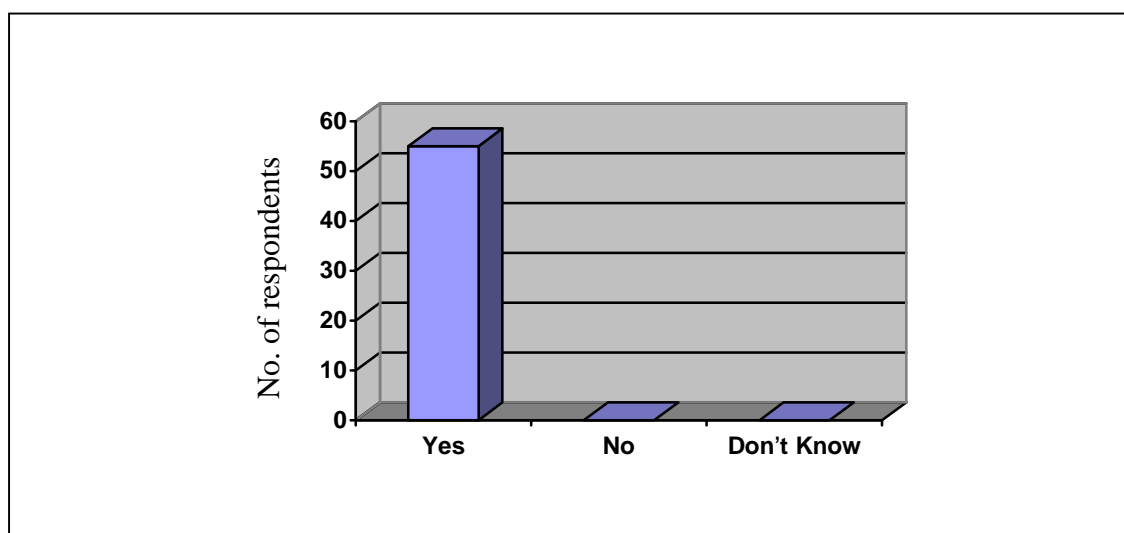
S. No.	Research Variable	Nos.	%
1	Yes	55	100.00%
2	No	0	0.00%
3	Don't Know	0	0.00%
	Total	55	100.00 %

(Source: Field Survey: 2010/11)

From Table 4.2.7, It has been observed that total number of 55 respondents representing 100% respondent believe that there is need of development and introduction of new investment alternatives for the growth of NEPSE. No one has replied that there is no need of introduction and development of investment alternative for NEPSE growth. New and more investment alternative, greater the chance for advancement of NEPSE. The no. of responses are depicted in Figure 4.2.7.

Figure 4.2.7

Development and introduction of new investment alternatives



4.2.8 Major players in Stock Market Growth

The respondents were asked to rank the options that can play the important role in the growth of stock market as indicated in the questionnaire. The responses are presented in Table 4.2.8.

Table 4.2.8
Major players in stock market growth

S. No.	Research Variable	Marks	Ranking
1	Government	$5 \times 23 + 4 \times 21 + 3 \times 11 = 232$	II
2	Stock Brokers	$5 \times 1 + 4 \times 19 + 3 \times 35 = 186$	III
3	Investors	$2 \times 55 = 110$	IV
4	SEBO N / NEPSE	$5 \times 31 + 4 \times 15 + 3 \times 9 = 242$	I
5	Above All	$1 \times 55 = 55$	V

(Source: Field Survey: 2010/11)

As presented in Table 4.2.8, it is observed that the most important role should be played by SEBON and NEPSE. The respondents ranked the Government, Stock Brokers and Investors as II, III and IV as an important player for the growth of stock market.

4.2.9 Sufficiency of Prevalent Laws / Regulations

The respondents were asked whether the prevalent laws / regulations are sufficient for the growth of stock market. The responses are presented in Table 4.2.9

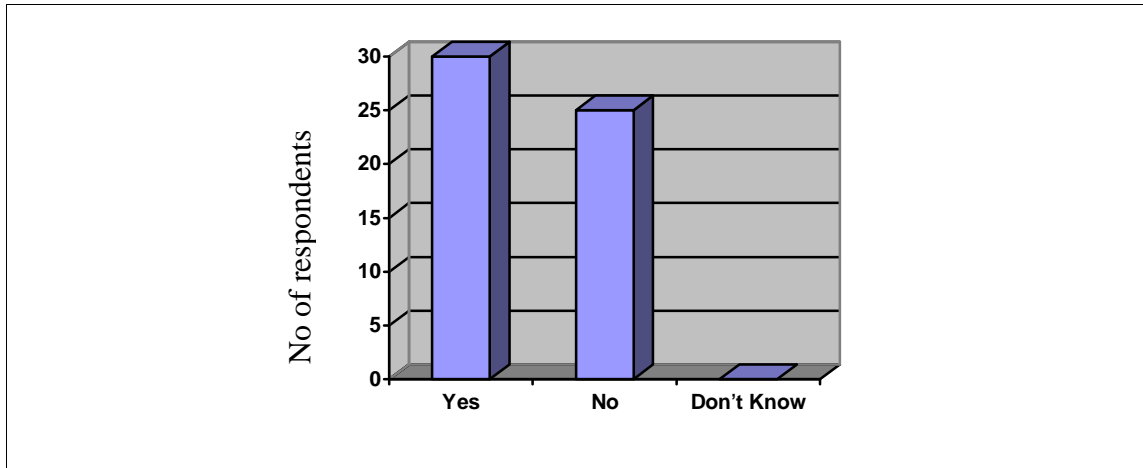
Table 4.2.9
Whether the prevalent laws are sufficient

S. No.	Research Variable	Nos.	%
1	Yes	30	54.55%
2	No	25	45.45%
3	Don't Know	0	0.00%
	Total	55	100.00 %

(Source: Field Survey: 2010/11)

It is observed from Table 4.2.9 that around half of the respondents think that the prevalent laws are sufficient for the growth of the stock market where as remaining are of the opinion that the laws are not sufficient. The no. of responses are depicted in Figure 4.2.9

Figure 4.2.9
Whether the prevalent laws are sufficient



4.2.10 Opening of Stock Market for Foreign Investors

The investors were asked whether the opening of stock market for foreign investors will enhance the growth of stock market of Nepal. The responses in this regard are presented in Table 4.2.10

Table 4.2.10
Opening of stock market for foreign investors

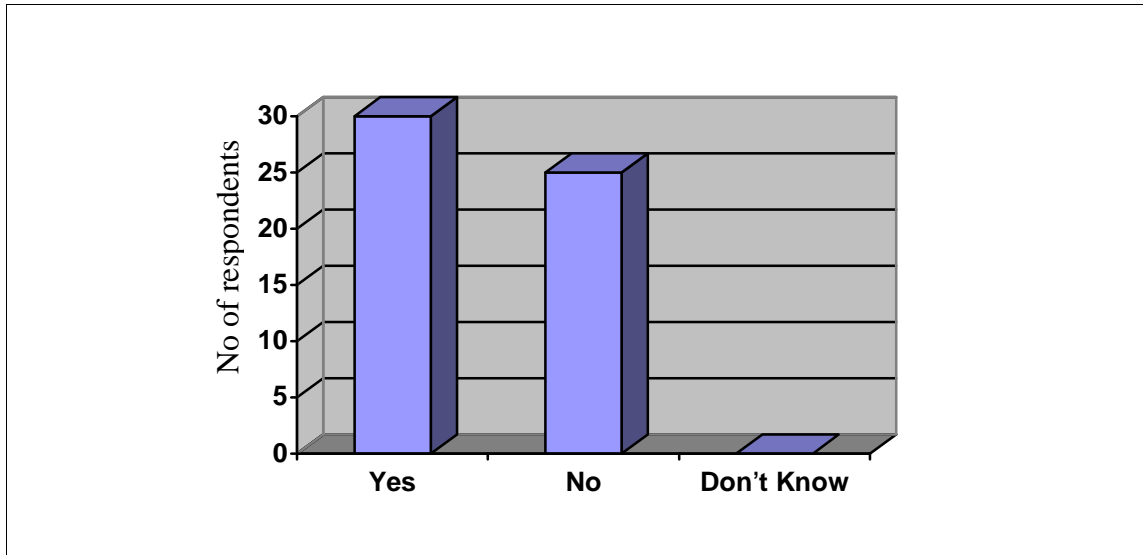
S. No.	Research Variable	Nos.	%
1	Yes	30	54.55%
2	No	25	45.45%
3	Don't Know	0	0.00%
	Total	55	100.00 %

(Source: Field Survey: 2010/11)

From Table 4.2.10, it is observed that 54.55% respondents are of the opinion that opening of stock market for foreign investors will help enhance the stock market of

Nepal whereas 45.45% respondents are of the opinion that this will not improve the growth of NEPSE. The no. of responses are depicted in Figure 4.2.10.

Figure 4.2.10
Opening of stock market for foreign investors



4.2.11 Effect of international business environment

In order to know whether change in international business environment has effect in Nepal's stock market; the respondents were asked the same question. The responses in this regard is given in Table 4.2.11

Table 4.2.11
Effect of international business environment

S. No.	Research Variable	Nos.	%
1	Yes	2	3.64%
2	No	53	96.36%
3	Don't Know	0	0.00%
	Total	55	100.00 %

(Source: Field Survey: 2010/11)

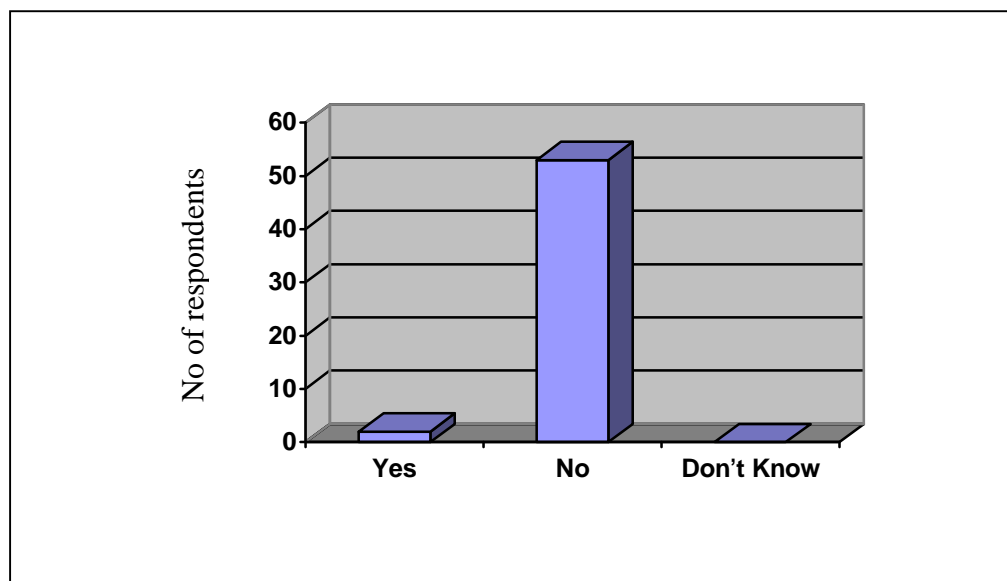
According to Table 4.2.11, 96.36% respondents were of the opinion that there is no effect in the stock market of Nepal from the change in business scenario in

international arena. Nepal's stock market movement and growth is not related to the external factors.

Very few (3.64%) respondents consider that change in international business environment has an effect in the stock market transaction / growth. The no. of responses are depicted in Figure 4.2.11.

Figure 4.2.11

The effect of international business environment



4.2.12 Degree of relationship between stock market and country's economic growth

In order to know what degree of relationship exists between the stock market growth and economic growth of Nepal that the investors are feeling, investors were asked what kind of relationship do they think is there between the stock market and economic growth of Nepal. The responses of them are presented in Table 4.2.12

Table 4.2.12

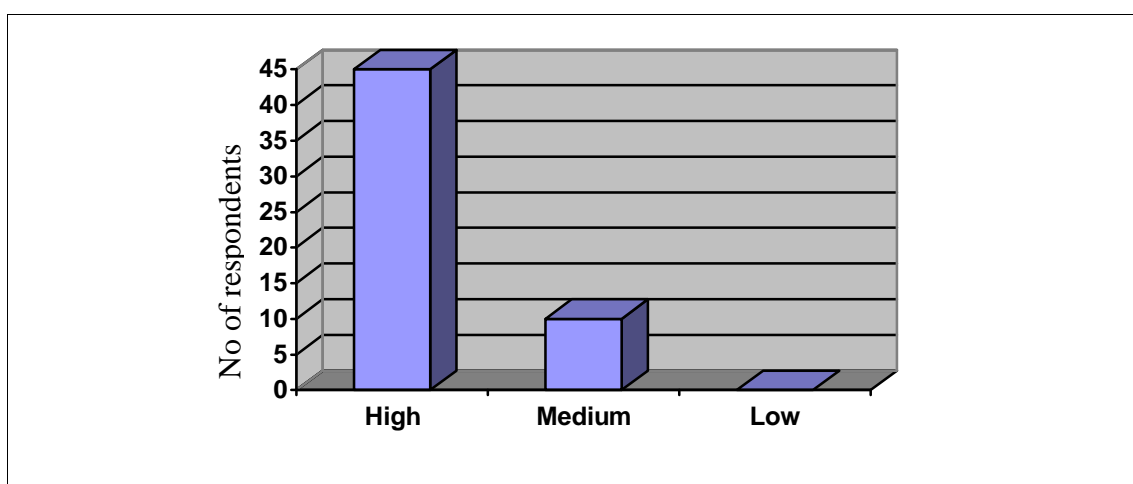
Degree of relationship between stock market and country's economic growth

S. No.	Research Variable	Nos.	%
1	High	45	81.82%
2	Medium	10	18.18%
3	Low	0	0.00%
	Total	55	100.00 %

(Source: Field Survey: 2010/11)

From Table 4.2.12, it can be observed that majority of the respondents i.e. 81.82% are of the opinion that there is high degree of relationship between stock market and country's economic growth. Very few respondents think that there is moderate / medium degree of relationship between stock market growth and country's overall economic growth. The responses are depicted in Figure 4.2.12

Figure 4.2.12
Degree of relationship between stock market growth and overall economic growth



4.2.13 Problems for the growth of stock market of Nepal

The respondents were asked to give their views regarding the problems for the growth of stock market of Nepal. The major problems due to which the growth of stock market is lacking are summarized as;

- Lack of investment related knowledge / skills with the investors
- Lack of political stability and certainties.
- Lack of coordination between the stock market operation and regulatory authorities
- Centralized stock market
- Government owned stock market i.e. NEPSE being government owned entity
- Restriction to foreign investors
- Lack of mutual funds
- Absence of corporate investors

- Lack of Rating Agencies
- Trading and operation system is not transparent.
- Lack of product diversification.
- Weak and inadequate laws and regulation
- Poor information system and delay in providing company's financial status.
- The process of transferring of ownership of shares is lousy and time consuming.
- Lack of professional investment analyst and brokers
- Slow growth rate of industrial sectors and small size and unlimited sectors.
- Lack of Economic stability

4.2.14 Prospects of stock market growth of Nepal

Capital plays a vital role in the economic development of a country. Being capital deficient country, Nepal has to make endeavour to mobilize available capital market efficient. Stock market can be growing with the development of production sectors activities. Stock market can become an effective medium for capital formulation by prudent and expanded operation. Stock markets provide mobility of scattered saving. Investors with limited capital fund could also participate in the industrial development process of country through their investment opportunities in the stock market. If Nepal Government allows the foreign investors / companies participate in Nepal's capital market, more development is possible.

Presently, stock exchange facilities are available only in Kathmandu valley. Hence, there is a prospect of opening branches of stock exchange and expanding its facilities in other region of the country and there may be different trade able investment instruments. There is a scope of developing a fair efficient and transparent securities with the improved corporate governance there by improving compliance practices, listed companies, diversified securities market instrument as per the preference of different investors. Large numbers of institutional investors; more informed market can be developed; increased liquidity & high investor awareness.

Nepal is heading towards complete peace and constitution creation. In the days of political disturbances, the stock market could not fast grow but there is a possibility

that Nepal's business environment is likely to boost up in the days to come so that the capital market / stock market will also boost up.

4.3 Major Findings of the Study

The following are the major findings from the analysis of secondary data:

- Shares of commercial bank group in total market capitalization in FY 2009/10 was 54.74% where as the lowest was of trading companies with only 0.43% shares.
- As we analyze the seventeen years history of NEPSE from FY 1993/94, the market capitalization before FY 2005/06 was no more than NRs.100,000million, now it has reached to NRs 376871.37 in FY 2009/10.
- Finance companies (35.22%) have the dominance among the listed companies in NEPSE and then after Development Banks (22.74%)have the 2nd place in the number of listed companies as of Mid July 2010.Hotels and Trading companies (2.27%) are the least represented companies in NEPSE.
- Number of listed companies in NEPSE has increased over the years. It increased from 66 in FY 1993/94 to 176 in FY 2009/10.
- Number of traded companies has reached to 198 at the end of mid july 2010 from 38 at the establishment of NEPSE 1993.This is the 421% overall grow from base period to FY 2009/10.The average of 24.74% per year growth of traded company is found as we analyze the past 17,s history of NEPSE.
- NEPSE took around 13 years From Rs.2182 million paid up value in FY 1993/94 to reach NRs.20008.6 in FY 2005/06, now it has reached to Rs 79356.73 in FY 2009/10 within four years past of FY 2005/06.This is around Rs.60,000 million increment in paid up values of securities within last four years of NEPSE.
- The market days per year was only 121 in FY 1993/94 out of available of 365 days in a year. The market days per year was 225 in FY 2009/10.The days in other year have been found of more than 225 days.
- Annual turnover among the various groups of listed companies was the highest of commercial banks with 60.72% shares of total turnover. Likewise, the lowest turnover amongst the group of listed companies was of hotels with

only 0.08% shares of total turnover. Annual turnover of the commercial banks stood at NRs. 7196.24 in FY 2009/10.

- Total paid up capital of total number of listed companies has reached to NRs. 79356.73 Million in FYE 2009/10 against NRs.61140.39 in FY 2008/09 Million reflecting 29.80% growth over the paid up capital of listed companies previous year.
- The paid up capital of commercial banks group is the highest with 41.46% shares and that of trading companies group is the lowest with 0.13% shares. After the commercial banks, the stake is taken by finance companies and development banks with 14.45 % and 12.46% respectively.
- Total paid up capital of listed companies has grown significantly over the years. Total paid up value in FY 1993/94 was only NRs. 2182.2 Million, which has now reached to NRs. 79356.73 Million by FY 2009/10 reflecting 36.36 times growth against the initial year's paid up value.
- The volume of shares in FY 2009/10 is only decreasing by 13.83%, but the value in turnover decreased by 45.53% in FY 2009/10 over FY 2008/09. The difference in decreased rate between turnover value and volume is due to sharp decline in price of each common stock.
- The transaction of securities in stock market of Nepal has tremendously increased over the years. While NEPSE opened its floor for secondary market operation in 1993, the annual turnover of the securities was only 993,000 units and equivalent to NRs. 441.6 Million, which has reached to 26,320,500 units of securities with equivalent amount of NRs. 11851.11 Million indicating around 26.83 times increase from the base year.
- Securities Board of Nepal has so far approved 385 companies for the issuance of securities with total value of NRs. 49511 Million. The trend of issue approval has in sharp rise.
- Number of companies approved for the issuance of securities is found to be average of 20.25, which can not be taken as satisfactory. The highest number of companies approved for issue of securities was only 64 in FY 2007/08 and 2008/09. The no of companies approved in FY 2009/10 is 61.
- Average growth of NEPSE Index over the last 17 years is only 9.68%. As compared to stock market of developing and developed countries, Nepal's stock index is in the infant stage so far

- The growth trend of stock market was really started since FY 2005/06, but this growth trend just challenged by The FY 2009/10. Overall indicator has shown that they are steeply declined in FY 2009/10 than FY 2007/08 and FY 2008/09. One of the major indicator of stock market, NEPSE index, reached to 477.63 in FY 2009/10 From 963.36 in FY 2007/08. This might be bad signal for growth of stock market in upcoming year.
- The highest and lowest NEPSE index was 963.36 point and 163.35 recorded in FY 2007/08 and FY 1997/98 respectively. The NEPSE index was recorded to 477.63 point in FY 2009/10.
- In 1993/94, market capitalization was only 7.24% of gross domestic product and it has now reached to 31.87 in FY 2009/10. Contribution of stock market in the GDP had been increasing over the years up to FY 2008/09. The contribution is now decreased to 31.87% in FY 2009/10 from 53.43% in FY 2008/09.
- The market coefficient of variation (CV) is found of 3.49. The calculated CV indicates that the investor have to bear 3.49% of market risk for rising only 1% return from overall available stock market in Nepal.
- The common stock market indicator like market capitalization, turnover, paid up values, NEPSE index was unexpectedly raised after 2005/06 and it has just stopped in FY 2009/10. The FY 2009/10 have been affected by political instability and global economic crisis so on.
- Out of eight sector of listed companies' category, the financial institutions including four sectors as Commercial Banks, Finance Companies, Insurance Companies and Development Banks have dominance of common stock market in Nepal. They have captured more than 70% of stock market in Nepal. Few hydropower companies in recent year are added as a good investment alternative in others sector to contribute in the stock market of Nepal.

Major findings from the analysis of primary data are summarized as follows:

- Majority of the respondents are not satisfied with the average rate of return associated with the investment in common stock of listed companies.
- The view of respondents regarding the timely and correct information to be provided by the listed companies is fifty-fifty.
- The main reason the investors make investment in common stock of listed companies is the capital gain / price appreciation. Likewise, liquidity and regular dividend is the second and third preference in making investment in common stocks.
- The view of the respondents is fifty fifty with the growth trend of NEPSE.
- The opinion of respondents on the present trading system of NEPSE is fifty-fifty.
- Low level of involvement of general public in the stock market transaction is due to centralized and only one stock market in Nepal.
- More availability of investment alternatives will help NEPSE grow further.
- According to investor's perception, the major actor that can help the stock market move in forward direction is the secondary market and its regulator i.e. NEPSE and SEBON themselves. Government's role comes after their role. Stock brokers are also responsible.
- According to the investors, prevalent laws / regulations to regulate / direct the growth of stock market of Nepal are insufficient and inadequate.
- Opening of stock market for foreigners will boost the growth of stock market of Nepal.
- Change in international business environment has nothing to do with the change in Nepal's stock market movement / growth according to the perception of the investors / respondents.
- There is a high degree of relationship between the stock market and country's economic growth.
- Stock exchange should expand its facilities and open its branches in different region of the country.
- Stock market is suffering from various problems but there are immense prospects.

CHAPTER - V

SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

The basic purpose of the study is to get over all picture of problems and prospects of stock market growth in Nepal. Stock market development in Nepal started in 1976 when the government established Securities Exchange Center to provide and develop market for securities, both the government bond and corporate securities. In 1993, Securities Board was established with the objectives to regulate, supervise and monitor the securities market. Similarly, the Securities Exchange Center was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. NEPSE, now, is adopting automated trading system, where the investors are allowed to deal in securities through licensed brokers and online system.

Stock market is the backbone of investment sector of the country. Government can also develop the economy as a whole by developing the capital / stock market. Despite the increase in the number of listed companies, their market capitalization and their annual turnover, the securities market has yet to make its presence felt in the overall economy of the country. The securities market is highly dominated by government bonds.

The study is based on both secondary and primary data analysis. The required secondary data are collected from annual report of SEBON, NEPSE and their websites. Survey of questionnaire from various respondents and interview of officials and investors serves as the primary data for complete analysis of trend of stock market.

Both historical and descriptive research design are carry out this study. The growth of Nepalese stock market is examined on the basis of amount of market capitalization, paid up values, turnover, issue approval, number of listed companies, traded companies, issue approval and NEPSE index. The contribution of stock market is

examined through the year wise market capitalization on the year wise nominal GDP. Market return and market risk are examined through the use of 17 years NEPSE index.

Generally, a large stock market size indicates a developed stock market. The size increases with the increase in the number of listed companies. In Nepal, the number of companies listed with the NEPSE was 66 in FY 1993/94 which increased to 176 in FY 2009/10. The listed companies are in increasing trend except FY 2000/01 and the traded companies are also in the increasing trend except FY 2001/02. Paid up value is in increasing trend since establishment period of NEPSE reflecting no negative growth over the years. Turnover in volume and value are in a fluctuating manner. No of issue approval is not moving consistently. The increasing trend of NEPSE since FY 2002/03 is turned into decreasing trend after FY 2007/08. The contribution of stock market in economy is increasing over the years. The calculated market return is not satisfactory.

Most of the listed companies belong to the banking, finance, and insurance sectors. While only few companies from the trading, hotel, manufacturing, and others sectors are listed, very few companies from power, information technology, and construction sectors have entered the organized stock exchange of the country. This indicates that firms tend to avoid the stock market as an alternative source of long-term capital in Nepal.

From primary data analysis, it is seen that the return available from stock market is not satisfactory. Likewise, the growth trend of NEPSE and regulations also are not satisfactory. Investors invest their money for main objective of earning through capital appreciation. There is no timely and accurate information for rational investment decision. The prevalent laws and regulations are inadequate for the development of stock market development. The main role player for the development of stock market is recognized by the respondents are Sebon and NEPSE.

At presently, general investors have limited opportunities for investing their saving. However, both individuals and institutional are putting most of their saving into bank deposits and bullion market because of present states of securities market. Lacking of

awareness among the general investors about the capital market regarding the risk and return associated with stock market and Stock exchange facility is available only in the Katmandu is draws back for the growth of Nepalese stock market.

5.2 Conclusions

The development of stock market in Nepal so far cannot be considered satisfactory level. The hope of growth trend is step-down in FY 2009/10 than comparing growth trend of last three fiscal year from FY 2006/07 to FY 2008/09. This study in details concluded that the issue approval is fluctuating. Annual turnover and NEPSE index are in fluctuating manner. The market capitalization is not also consistent manner. The market risk is very high than the market returning. Various indicators in average proved that stock market is in developing stage as evidenced from the stock market performance indicators during the last 17 years.

Despite the increase in the number of listed companies, their market capitalization and their annual turnover, the securities market has yet to make its presence felt in the overall economy of the country. Various measure of stock market development indicates that the stock market in Nepal is underdeveloped and has failed to show the impact on the over all national economy. Small market size has made it weak to manipulation and price. Low turnover and value traded shows that stock market in Nepal is highly illiquid. There are illiquid shares except than banking and some finance and insurance companies. Country with liquid market tends to grow faster than countries with illiquid market. Although, it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has a better prospect for the resource mobilization of the country.

From the analysis of prospective of Nepalese stock market, it is seen that increase in no. of listed companies, increasing amount of paid up values, increasing trade of securities of delisted companies in over the counter market and increasing interest and investment from educated as well as business people are the major prospects of

Nepalese stock market. Significant increase in the number of companies registered during the study period also supports this view

Most of the companies that are listed with the exchange belong to banking, finance, and insurance sectors. While only few companies from the trading, hotel, manufacturing, and other sectors are listed with the exchange, not a single company from construction sectors and information technology has entered the organized stock exchange of the country. This indicates that stock market as an alternative source of long-term capital in Nepal.

Stock exchange in other countries has a long history and these stock exchanges faced so many upheavals during this period. But in our country, history of stock exchange is just 17 years, which is in growing stage. Nepal's stock market has witnessed / experienced all the features of a stock exchange. Some of the major problems faced by the Nepal's stock market are concluded as follows.

Centralized stock exchange: Nepal has centralized stock exchange located at Kathmandu due to which the investors outside the Kathmandu valley are not able to make investment in stock market.

Lack of mutual funds: Even in developed countries most of the investors are dependent on the mutual funds for investment in secondary markets. It is only because most of the investors have little knowledge on conducting financial analysis of the listed companies. Mutual funds get regular services of qualified financial analysts and the investments in securities made by them are based on their regular studies of available financial figures and regular watch of the factors affecting the market. An investor may rely more on a mutual fund and may invest in it instead of investing in shares of listed companies that bears higher risk.

In Nepal, presently, there are two mutual funds: one established by NIDC Capital Markets and another by Citizen Investment Trust. Both of these mutual funds are not successful in attracting investment from general public. The rules for establishment of a mutual fund by private sector including banks and finance companies should be favourable and market oriented. They should have direct approach to participate in

primary market and have direct access to the trading floor of NEPSE, like other market makers. The concept of secondary market was developed specially for the promotion of portfolio management of big business houses and big investors. But the concept has completely failed in our country due to restrictions on their direct participation in the market. Market makers, on the outset, had played a safe game to fill up the gap for mutual funds and institutional investors. However, as of today there are no market makers in the floor of NEPSE.

Absence of corporate investors: Corporate investment practice in Nepal has just started with the establishment of some of the investment companies. In Nepal's stock market, only the shares of banks and financial institutions are attractive for investment. However, the companies which have sufficient fund for the investment such as banks and financial institutions have been denied to make investment in other sectors.

Operating of secondary market for foreigners: In Nepal, foreigners are not allowed to make transactions / investment in stocks in secondary market. Had such provision been made by the government, more investment would have come.

Lack of Rating Agencies: Due to absence of credit rating agencies in Nepal, credible information of the public limited companies could not be available in Nepal.

Lack of regulation over financial information from the listed companies: Investment in stocks through secondary stock market is mainly based on fundamental analysis. To undertake such analysis, one needs the exact and credible financial information of the listed companies but such information is lacking in Nepal. Except commercial / development banks listed in NEPSE, other listed companies have hardly published sufficient financial information for general public.

5.3 Recommendations

From the analysis of secondary as well as primary data, the recommendation for the development of stock market are as follows:

- Increase awareness among the general public about the capital market, regarding nature of risk and return through publications and programs in radios/ FMs/TVs.
- The trading system of NEPSE should be made fully automated by replacing some traditional practice. For this purpose national and international stock experts should be hired to develop the system.
- The possibilities of pooling, insiders trading, and other malpractices should be discouraged through improved corporate governance and initiative strict corrective measure for compliance.
- Nepalese stock market is suffered from rumour based market and inadequate knowledge of investors, unavailability of information, influenced small number of large investors. So, many programmes should be launched by concerned authority.
- There should be efficient coordination and cooperation among securities Board and Nepal Rastra Bank in order to develop the stock market.
- The number of listed companies is not increasing proportionately in other sectors except in financial institution. Government should make sound environment to attract Manufacturing and processing, Hotels, Hydropower Company to come in public and to list their securities in the NEPSE.
- The new hope can be expected from hydropower and tourism related company in coming years. Government should make new and flexible policy to make them corporate body and list their securities in organized stock exchange.
- Concerned companies should disseminate the correct and timely information for the public so that they can make rational decisions. The regulatory authorities such as SEBON and NEPSE should also disseminate the information in order to help the general public make rational decisions.
- The information published by listed companies and/or SEBON and/or NEPSE is inconsistent in terms of time and media. Some information is published through one media and other from other media so that the investors are unable to track the timely information. First time issue is published / informed through the largest selling national newspapers / medias where as information regarding right issue, bonus shares and other are published in national newspapers that are least sold in the market. The listed companies should avoid such in-transparent system of information dissemination and the

regulatory authorities should monitor such activities so as to make available the information easily accessible to the investors.

- Securities Board Nepal (SEBON) should regulate NEPSE and other financial institutions adequately, appropriately and effectively. Evaluation and inspection of work done by stock member is essential.
- In the context of liberalized economy and the presence of private sector corporations, NEPSE should be privatized so as to function independently, efficiently, and effectively. Regional securities exchange centres should also be established in order to bring the thousands of investors who are out of access of present stock market.
- Approval process should be efficient and effective to make it easy and hassle free. One window policy should be adopted.
- The government should give priority to establish an independent rating agency.
- Government should open secondary market for foreign investors.
- Broker must be professional and development of institutional investors is essential.
- Government should decentralize the secondary market over the major city of country for investment from outside of capital.
- From the researcher view point, there is essence of political stability to boost up the economy activities of every nation. The stable government should be stabilized for prosperous rise of economy activities and stock market by maintaining vast political disturbances in Nepal.

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WebPages

<http://www.nepalstock.com>

<http://www.nrb.org.np>

<http://www.sebonp.com>

Appendix-I

Research Questionnaire

Dear Sir / Madam

I hereby request you to fill up the attached questionnaire in order to collect the precious facts, views and opinions from your side, which will be helpful for facilitating the research for the partial fulfillment of the requirement of the MBS degree. The research topic is “**The Trend and The Growth of Common Stock Market in Nepal**”. The trend of common stock has only been considered for the study purpose. The views and opinion expressed in this questionnaire will only be used for the research purpose and kept confidential.

Your kind cooperation will be helpful to complete this research successfully.

Thank you!

Raju Gnawali

Researcher

Masters of Business Studies (MBS)

Shanker Dev Campus, T.U.

Name :

Designation :

Date :

----- X ----- X -----

Please place (✓) mark on the correct bracket and express your opinion where necessary

----- X ----- X -----

1. The return associated in common stock investment is satisfactory in Nepal. Do you agree?

a) Yes	<input type="checkbox"/>
b) No	<input type="checkbox"/>
c) Don't know	<input type="checkbox"/>

2. Rank the following opinion about

Why you own the shares of listed companies? Make a list by assigning (1) up to (5) rank as a most important to lower important as your objective.

a. Capital gain / price appreciation	<input type="checkbox"/>
b. Regular dividend	<input type="checkbox"/>
c. Market ability / liquidity	<input type="checkbox"/>
d. Social status	<input type="checkbox"/>
e. No other alternative available	<input type="checkbox"/>

3. The NEPSE and SEBON provide the timely and correct information to the investors. Do you agree?

a) Yes	<input type="checkbox"/>
b) No	<input type="checkbox"/>
c) Don't know	<input type="checkbox"/>

4. Are you satisfied with the growth trend of NEPSE?

a) Yes	<input type="checkbox"/>
b) No	<input type="checkbox"/>
c) Don't know	<input type="checkbox"/>

5. The new trading system of NEPSE is satisfactory. Do you agree?

a) Yes	<input type="checkbox"/>
b) No	<input type="checkbox"/>
c) Don't know	<input type="checkbox"/>

6. Does the centralization of stock market, NEPSE being in Kathmandu, affects in low level participation of general public in capital market ?

a) Yes	<input type="checkbox"/>
b) No	<input type="checkbox"/>
c) Don't know	<input type="checkbox"/>

7. The development and introduction of new alternative will help to boost the stock market of Nepal. Do you agree?

a) Yes	<input type="checkbox"/>
b) No	<input type="checkbox"/>
c) Don't know	<input type="checkbox"/>

8. Rank the following option as a major player in stock market growth in Nepal? Make a list by assigning (1) up to (5) rank from a most important to lower important as your objectives.

1. Government	<input type="checkbox"/>
2. Stock Brokers	<input type="checkbox"/>
3. Investors	<input type="checkbox"/>
4. SEBON / NEPSE	<input type="checkbox"/>
5. Above all	<input type="checkbox"/>

9. The prevalent laws and regulations are sufficient for growth of stock market in Nepal. Do you agree?

a) Yes	<input type="checkbox"/>
b) No	<input type="checkbox"/>
c) Don't know	<input type="checkbox"/>

10. The opening of stock market for foreigners leads to grow of stock market in Nepal. Do you agree?

a) Yes	<input type="checkbox"/>
b) No	<input type="checkbox"/>
c) Don't know	<input type="checkbox"/>

11. Is the involvement of international business environment effect the stock market of Nepal?

a) Yes	<input type="checkbox"/>
b) No	<input type="checkbox"/>
c) Don't know	<input type="checkbox"/>

12. What is the degree of relationship between stock market and country's economic growth?

a. High	<input type="checkbox"/>
b. Medium	<input type="checkbox"/>
c. Low	<input type="checkbox"/>

13. What are the problems for the stock market of Nepal?

14. What are the prospects of stock market growth of Nepal?