

CHAPTER - I

INTRODUCTION

1.1 Background of the study

Nepal is a popularly known as the land locked under developed country where financial market is still in infant stage. The political instability of the country is pushing the nation backward. In such situation each and every sector of the country affected negatively and not operating freely and as smoothly as it should be. If we compare the financial sector with others sector it is found less affected by the unfavorable situation of the country. Increasing number of new branches of the private commercial and development bank all over the nation sign the development of the financial as well as capital market sector which is of course good news for investors. Even though financial sector has also so many problems which should be find out and try to solve permanently.

For the overall development of the country, each and every sector must be developed properly. Its economy is known as progressive economy. To progress economically, all sector of the economy should contribute significantly. For this capital market can play the vital role. In the capital market various types of financial instruments are issued and traded. Mainly these instruments are equity, government debt, corporate debt, preference share etc.

Equity financing is inevitable sources, which may not be profitable if fully depending on it. Thus, debt financing is another economical source of long term financing. Funds require for expanding business as well as conducting project might be finance cheaply and easily by issuing corporate bond/debenture securities.

The debt securities market is that type of market in which financial instrument (mainly bonds) dealing in outstanding debts are bought and sold. In other words debt market simply refers to the demand and supply pattern as well as trading mechanism of debt securities. Basically the issuing agencies and debt securities holders are the main parties

involved in this mechanism. The debt market can be classified into two ways: the primary market and secondary market. New issues are made in primary market whereas outstanding issues are traded in the secondary market.

Nepalese capital market as well as debt securities market has not reached its maturity stage. We can say the history of debt securities market was started from the year 1962 A.D. when the government issued the debt securities for the first time. After that period the government has been issued the debt securities regularly to meet its financing needs. While talking about the corporate debt securities, the debt of Bottlers Nepal Ltd. is the early debt securities. For transaction of debt security, the 'Security Exchange Center' was involved. Later, when it was converted into 'Nepal Stock Exchange', the transaction of government debt securities has not been done through 'Nepal Stock Exchange'.

Government and corporate bodies both can go into the debt securities market for required debt capital. So we can categorize the Nepalese debt securities market as: Corporate Debt Securities Market and Government Debt Securities Market.

The market that deals on securities issued by government in order to collect fund to meet its financial needs with promises to pay a certain percent of interest at certain period of time with predetermined maturity period is known as government securities market. In Nepal, Nepal Rastra Bank has been actively issuing various government securities with the main aims of tackling the deficit budget and to collect small and scattered funds from general public. These securities are as follows:

1. Treasure Bills
2. Development Bond
3. National Saving bond
4. Special Bond
5. Public Saving Card

The market that deals on the debt securities issued by the corporation is known as the corporate debt securities market. In this market, various kinds of variable income debt

securities and fixed income debt securities are traded. Securities whose returns vary year to year or quarter to quarter are called variable income debt securities. The other types of debt securities on the basis of cash flow received are fixed income debt securities. Typically, these debt securities promise the investor that he or she will receive certain specified cash flow at certain specified times in future. Moreover, these are the securities on which the borrower agrees to pay regular fixed amount of income and repay principal at a specified date. Fixed income securities include Government, Municipal and Corporate bond, saving deposit, commercial papers, certificate of deposit etc. In case of Nepal, the most common and important debt security is bond. A corporate bond is a long term contract between a borrower (issuer of bond) and a lender (purchaser of bond) under which the issuer agrees to make payments of interest and principal on the stated date to the holders of the bond. Bonds can be classified into different types on the basis of issuing institution; bonds may be Corporate and Government. On the basis of maturity, bonds may be redeemable and perpetual. And on the basis of interest payment, bonds may be coupon and zero coupon bonds. Basically, corporate bonds come in five main varieties:

1. Insecure bond (Debenture)
2. Subordinate debenture
3. Mortgage bond
4. Equipment obligation/ trust certificate
5. Income bond
6. Equity linked debt

Corporate debt securities market is very new and initial stage in Nepal. Firstly Bottlers Nepal issued debenture of Rs. 5 millions in fiscal year 1986/87 and was redeemed at maturity. The interest rate was 18% annually. Similarly, after 6 years, Jyoti Spinning Mills Ltd. had issued 14% bond worth Rs. 20 millions in the fiscal year 1992/93. In the fiscal year 1997/98, another manufacturing company, Shree Ram sugar Mills Ltd. has also issued debenture worth Rs. 93 millions, which had convertible in nature having 14% interest rate and was also redeemed in fiscal year 2001/02. In 2001/02, Himalayan Bank Ltd. has issued Rs. 360 millions debenture, which is lunched by the name Himalayan Bond 2009. It has coupon rate of 8.5% and it was listed on security board of Nepal. Nearly one and half year

after Himalayan Bank Bond, another commercial bank, Nepal Investment Bank Ltd. has issued Rs. 300 millions Nepal Investment Bank Bond 2010 with 7.5% coupon interest and semiannually payments. In the fiscal year 2007/08 Nepal Electricity Corporation, Kumari Bank Ltd ,Himalayan Bank Ltd ,Nepal Investment Bank Ltd ,Nabil Bank Ltd have issued debenture worth Rs. 2950 millions with different coupon interest rate.

To develop corporate bond/debenture market in Nepal, the main contributions are as follows: Securities board of Nepal (SEBON), Commercial Banks, Nepal Rastra Bank (NRB), Finance Companies, Private Organizations, Government, Nepal Stock Exchange (NEPSE), Brokers, Investors and concerned bodies etc. for the growth of corporate securities market of any country requires: systematic development in industrial sector, development in share market, positive attitude of general as well as industrial investor, adequate rules and regulation system, availability of secondary market of debenture, cooperative response of control mechanism, and adequate infrastructure facilities etc. Development of corporate securities market is essential for the rapid economic growth of country like Nepal. But the accelerating pace of growth and development of Nepalese corporate debt securities market has faced many problems. Thus these problems should be well recognized and competitive strength of Nepalese corporate debt securities market should be developed to cope with the existing difficulties and forecasted problems. Therefore this study is of national importance because the study on the problems and prospects are the emerging questions of the nation.

1.2 Significance of the study:

This study is concerned with the development of the debt securities market. It tries to bring forefront the deficiencies and the potential of Nepalese corporate debt market. It is universal truth that development of the debt market is essential for the improvement of the economics status of the nation through industrialization.

This study will make clear about the corporate debt securities market and its present conditions and problems. Therefore this study is significant because the problem and prospects of corporate debt securities market are the emerging questions for all the related parties.

1.3 Statement of the problems

Nepal is a non industrialized, agro-base and developing nation, the growth of capital market is essential for industrialization. The major obstacles to industrialization are the obstacles of debt market development in Nepal. In Nepalese capital lack of investor and issuer awareness is main obstacles for the development of debt market. The industrial as well as individual investors are interested to put their excess fund in bank deposit rather than debt securities, even there exist capital market which pays more interest than bank deposit whether it is because of liquidity problem or security problem or other legal and institutional problem, will be answered by this research. If the market is design as investors oriented, it will help to demand debt securities in the capital market.

Debt securities are taken as less risky securities. In Nepal, there is lack of appropriate investment opportunities, due to which investor can not found suitable securities to invest their funds. So, debt securities are appropriate investment sector to the potential investor. But the investors have not given much concerned towards debt securities. Most of the government securities are hold by institutional investors rather than individual investors.

In corporate sector, there is only few issuance of debenture. The issuance of debenture is comparatively less costly for company, with requires long term capital. However they are willing to issue only equity share, why? Cost of capital can reduced through the issues of debenture. Similarly, gain the benefit of leverage, effect of tax saving, preserve the control position of promoters etc. are the other main advantages for issuer company. Even if so, companies prefer to issue ordinary share, why?

Anyway, there are too much confusion for investors and issuing agencies. Nepalese investors prefer high risk and high return or low risk and low return is next emerging issues with this study. How the public support can be achieved towards debt securities? What are the initial actions to be followed for increase public support? Lack of investors as well as issuer awareness is assumed to be the main issues of the development of debt market in Nepal. The general conclusion that the development of securities market

influenced not by a single factor but number of factors are responsible such as legal provisions, quality of bond, investors, issuing agencies, government, interest rate etc.

1.4 Objectives of the study:

The main objectives of this study are to find out the status of corporate debt market and to observe the problem and prospects of it. The basic objectives can be further elaborated as:-

- J To find the actual status of corporate debt securities market of Nepal.
- J To find out the problems that affect development of corporate debt securities market in Nepal.
- J To identify the future prospect of corporate debt securities market of Nepal.
- J To provide suggestions, ideas and recommendations based on the analysis of the data.

1.5 Limitation of the study:

Each and every research has more or less limitations.

The topic 'Status of Debt Securities Market in Nepal' will cover the area of all kinds of government debt and corporate debt issued by the different sector. The study may leave the other issues, which are indirectly related with debt securities market. However the research has the following limitations:

- J The study is covered the period from 1997/98 to 2007/8
- J The study focuses only on corporate debt securities market of Nepal.
- J The primary data may have some extent errors due to many technical reasons, it may not be so.
- J The study is based on the prevailing legal and institutional provisions.

1.6 Organization of the study:

The study has been organized into five chapters; each devoted to some aspects of the study of debt securities market Nepal. Initially viva-voce sheet, declaration, acknowledgement

and contents along with the list of tables and figures are given. The expected output of this study will be arranged in the following format:

Chapter 1 Introduction :- This chapter is described the background of the study. It described the different types of debt securities. In this chapter Researcher deals the significant, problem, objectives, limitation and design of the Debt securities.

Chapter 2 Literature Review :- This chapter includes with the review of available relevant studies. It includes the conceptual review of the related books, journals, articles and the published and unpublished research works as well as thesis. It also includes security act.

Chapter 3 Research Methodology :- Research Methodology is the way to solve systematically about the research problem. It may be understood as a science of studying how research is done scientifically. Research methodology is followed to achieve the objective of this research paper. It deals with research design, population and sample of the study, tools for analysis, research methods, research design and techniques of hypothesis.

Chapter 4 Data Presentation and Analysis :- This chapter is the main part of study. It present the data and information collected from primary as well as secondary sources. Based on this chapter, the researcher makes the conclusion and gives suggestion for further improvement.

Chapter 5 Summary, Conclusion and Recommendation: - It presents the major findings and other empirical evidence. This chapter summarizes the overall study and draws conclusion form the study.

Besides this, Bibliography and Appendixes will be attached at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. The reason for a full review of literature is to know the outcomes of the past investigations in areas where similar concepts and methodologies had been used successfully. Thus, it helps in avoiding unintentional replication of previous studies by identifying research problem in which previous works have been conducted. It provides a basis for identifying the areas for future research and extent of past works.

The researcher has reviewed various books, journals, newspaper, policy researches and past studies so far available related to the subject matter. The studies are categorized in two parts. First, conceptual framework, which includes concepts of corporate debt securities market reviewed from books. Second part is review of related studies. It includes the review of journals, newspapers, and related past studies. All the reviewed literatures have been presented orderly as follows.

2.1 Conceptual Framework

2.1.1 Debt Securities Market

Market is a place where transactions like buying and selling takes place. Among the different types of market, financial market is one of the important market, where trading of financial assets are held. Financial market can be divided into two types- money market and capital market. Money market means market of short-term debt securities where as capital market is the market of long-term debt and equity shares. "Financial market used to mobilize funds. Investors can mobilize their funds to their own projects directly. They also invest their money through financial markets or financial intermediaries. (Pradhan ,1992,24-26).

Efficient market help to mobilize the financial assets and provide efficient channel to productive invest. Financial markets facilitate the saving and investment process by making it more efficient (Thygerson, 1993:7). Efficient bond markets are characterized by

a competitive market structure, low transaction cost, low level of fragmentation, safe market infrastructure and a high level of heterogeneity among market participants (The World Bank, 2001:4). They provide much needed information prices and volume of transaction (Campbell et.al,2001:9). Debt securities market provides a variety of securities for investment purpose.

Stock and Bonds (corporate and government) are traded in primary as well as secondary markets. Primary market is for initially issued securities. Similarly, secondary market is for trading debt and equity securities after they are originally sold or issued.

Debt securities market is a very good source to collect fund as a long-term, intermediate as well as short term. Further more we can make it more clear by dividing in to two parts: Government debt securities market and corporate debt securities market.

Government debt securities market:

The market that deals on securities issued by government in order to collect fund from the public to meet its financial need is known as Government debt securities market. Government mainly uses two source to raise the funds; internal and external. Internally, the government can borrow from individuals, commercial banks, financial institutions, charitable trusts and the central bank in the country. Externally, the government can borrow from individuals, banks, international financial institutions and foreign government (Paul, 1999:112-120). In case of borrowing from individuals, when individuals purchase government bonds they are diverting funds from private use to government use. In such a case, there is a little direct effect in curtailing either consumption or business investment. In other words, individuals may be able to subscribe the government bonds either through curtailment of current consumption or through diversion of funds meant for one's own business or diverting funds into government bonds from securities (Lekhi,2000:342-357). Generally, sale of government bond to individuals should not curtail either consumption or business expansion. To a great extent, these bonds will be absorbed out of the funds that would have been lying idle or would have been used to buy other securities.

Government securities are issued in various maturities; short-term long term and intermediate term and also issues saving bonds to individual investors. It should come as no surprise that the government relies heavily on debt financing. Revenues seldom cover expenses and new securities must be sold to obtain needed funds. Moreover, new debt must be issued in order to get the necessary funds to pay off old debt that comes due. (Sharpe, W. F., 1987, 157)

In Nepal, Nepal Rastra Bank has been actively issuing various government securities with the main aims of tackling the deficit budget and to collect small and scattered funds from general public. The systematic debt market began after enforcement of Public Debt Act 1960AD. To raise funds from the local market government use both short term and long term debt instruments. Treasury bills are the main short term debt instruments of the government of Nepal. Besides treasure bills, there are other debt instruments of the government that are useful in raising the long term debt for the government. These debt instruments are as follows:

i. Treasury Bills :

Treasury bills are the short term money market instrument of the government. It normally matures in 91 days while some mature in 364 days. Treasury bills are sold to the bidders in the order that one who bids with the expectation of low interest rate. Government initiated the process of selling treasury bills since 2018. Till 2064/65, Nepal Government has Rs 85033.0 million liability on treasury bills (Rstra Rin Khabar Patra, 2065 Aswin).

ii. Development Bond :

This type of bond is issued to perform the development works. It is a kind of long term government bond. It matures normally in five years or more. It can be used as collateral if holders need to take loan. It has fixed and minimum interest rate. The income from these bonds is taxable which are paid on semiannual basis. Government initiated the process of selling development bonds since 2020. Till 2064/65, Nepal Government has Rs 21735.4 million liability on development bond (Rastra Rin Khabar Patra, 2065 Aswin).

iii. National Saving Bond :

It is also a long term bond and it normally bears maturity period of five years. It has fixed interest rate payable semiannually. These bonds are normally tax free bonds and having high interest rate. Government initiated the process of selling national saving bond since 2040. Till 2064/65, Nepal Government has Rs 4131.3 million liability on national saving bond (Rstra Rin Khabar Patra, 2065 Aswin).

iv. Special Bond :

It is issued on special occasion when government falls sort of funds. The government issues special bonds to those parties to whom the government has to make payments. Instead of paying cash, the government issues special bonds as a substitute of cash repayment and extends the period of payments. The holder of this bond can use it as collateral to fulfill their funds need. Government initiated the process of selling special bond since 2023. Till 2064/65, Nepal Government has Rs 339.4 million liability on special bond (Rstra Rin khabar Patra, 2065 Aswin).

v. Public Saving Card :

It is also a long term debt instrument of government which normally matures in five years. It is also called Citizen Saving Bond. It is difference from other long term bond that it can not be used as collateral. It has also fixed interest rate and payable semiannually. It can be purchased only by Nepalese citizens and it is taxable. Government initiated the process of selling public saving card since 2059. Till 2062/63, Nepal Government has Rs 16788.79 lakhs liability on public shaving card (Rastra Rin khabar Patra, 2063 Aswin).

Corporate Debt Securities Market

Business firms issue many types of bonds. The basic classification includes collateralized (secured) and uncollateralized (unsecured), senior and junior, callable and non callable and convertible bonds (Thygerson, K.J., 1993, 63) Firms can obtain long term debt financing privately or through public offering. Private debt includes several types of debt that consist of direct loans from banks and institutions. While public offering debt includes insurances of bonds and debentures. (Wood, J.C. and Kodapakkam, Vol. 20, No. 3 (1991) , 50).

Long term bonds have been issued for centuries and they remain extremely common financial instruments. It is natural to suppose that bonds have been popular; they meet the needs of an investor clientele. The holders of a company's long term debt, of course are creditors. Generally, they can not exercise control over the company and do not have a voice in management. In liquidation claim of debt holders is before that of preferred and common stock holders. (Vanhorne.,2000) Corporate debt securities market has to be developed according to the same way with the other components of capital market within country.

In meeting its need for long time finance, the firm has a choice between debt and equity source one of the most important debt financial securities is bond. "A corporate bond is a security representing a long term promise to pay a certain sum of money at a certain time over the course of the loan with the fixed rate of interest payable to the holder of the bond". (Hampton, T.T., 1973 , 328)

The market in which the securities issued by different corporations are traded is known to be the Corporate Debt Securities Market. These kinds of corporation may be business houses, manufacturing concerns, trading houses, hotels, banks etc. These corporation wish to borrow money from public on a long term basis so as to fulfill their financial needs and it usually does so by issuing or selling securities that are generally called bonds.

To be successful, private debt market not only need a disclosure system, a credit-rating system, and bankruptcy laws but also authorities should also avoid possible crowding out and statutory restrictions that hinder the development of corporate bond market.

2.1.2 Types of Corporate Debt Financing

There are various types of corporate debt financing that are useful in raising necessary fund. In case of Nepal, the only corporate debt security prevails is bond. Company issued bond, with backed and without backed by assets. On the basis of securities, these bonds are secured bonds and insecure bonds or debentures. The other type of corporate bond is subordinated bond, which have a lower priority claim to the firm's assets at the time of

bankruptcy. Corporate bond may have many other features like call, convertibility, attachment of warrants, etc. The interest income from corporate bond is taxable income. Besides bond, there are other types of corporate debt financing which are discussed below. In case of Nepal, bonds are issued without the pledge of any kinds of assets. Therefore these bonds/ debentures are unsecured bonds. Moreover, in all these debentures in the event of liquidation or bankruptcy, debenture holders are to be considered only after the depositors have been fully satisfied. Meaning that, the bondholder will get the amount after payment is made to the depositors.

1. Debentures:

The term debenture usually applies to the unsecured bonds of a corporation. Although the debentures holders are protected by the restrictions imposed in the indenture.

2. Subordinate debentures:

Sub-ordinate debenture represents debt that ranks behind debt senior to these debentures with respect to claim on assets. Because of the nature of the claim, a straight subordinated debenture issues has to provide a yield higher than a regular issue in order to attract the investors.

3. Mortgage bond:

A mortgage bond issue is secured by a lien on specific assets of the corporation usually fixed assets. If corporation defaults in any of the provisions of the bond indenture, the trustee, on behalf of the bondholders, has the power to foreclose and trustee takes over the property and sell it, unseeing the proceeds to pay bonds.

4. Income bond:

A company is obligated to pay interest on an income bond only when it is earned. If the company does not generate the earning, interest may be cumulative. However the cumulative obligation usually is limited to no more than three years.

5. Equity-linked debt:

This debt instrument is given an option on common stock with debt plus warrants. The debt holder has an option to purchase the common stock of the company and continues to hold the debt instruments.

6. Equipment Trust Certificates

Although equipment trust financing is a form of lease financing, the certificates themselves represent an intermediate to long term fixed income investment. This method of financing is used by railroads to finance the acquisition of rolling stock.

Weston and Copeland classified debts in two categories. They are secured debt and unsecured debt. The priority of claims, right to issue additional securities and scope of lien are the secured long-term debt and debentures, sub-ordinate debentures, income bonds and floating rate notes are unsecured type of bonds. Mortgages, which have senior claims over assets and earnings, are called senior mortgages. In other words 1st mortgages that has first claim over assets are called priority claims. Second and third mortgages are the junior mortgages or a claims. Under the right to issue additional securities, there are closed-end mortgage and open-end mortgage. At the closed-end mortgage, company cannot sell additional bond, beyond those already issued. It provides security to the bond buyer. If the bond indenture is silent about mortgage, it is open-end mortgage. It gives the company, right to issue additional bond. At the time of liquidation, net proceed received from the sales is divided proportionally. More specifically, open-end mortgage has the limited open-end mortgage with the provision of certain percent additional bond issue. If the bond is issued with the lien granted on certain property, is called scope of the lien. Firms use unsecured debts by different reasons. Financial strength and weakness is the main reason of using the unsecured type of debt. Similarly, tax considerations and uncertainty of future earnings have given rise to special firms of unsecured financing. Debenture is an unsecured debt, which provides no lien on specific property as security for the obligation. Therefore debenture holders are creditors whose claim is protected by property if they are not pledged. From viewpoint of issuer, debenture issuing is the using of unsecured property for subsequent financing. A firm with strong credit position can issue debenture, so they does

not need specific security. However, the credit position of the company may be so weak that it has no alternative to the use of debentures; all its property may already be encumbered. Subordinated debentures, income bonds and floating rate notes are the forms of debts that do not require specific security. (Fred, Weston; Copeland, 1992, 963-969)

2.1.3 Main Characteristics of Bonds

Debt is anything owed, especially a sum of money that one person owes to another. Debt securities do not have the same contractual features. Although all bonds have some common features, which are:

-) **Par value:** The par value is stated face value of the bond generally assume a par value of Rs. 1000. The par value generally represents the amount of the firms borrows and promises to repay on the maturity date.
-) **Coupon Interest rate:** coupon is specified amount of interest paid each period, generally each six months. This payment, which is fixed at the time the bond is issued, remains in force during the life of the bond. Typically at the time a bond is issued, its coupon payment is set at a level that will enable the bond to be issued at or near its par value. In case of zero coupon bond, a bond that pays no annual interest but it is sold at discount below par, this providing compensation to investors in the form of capital appreciation.
-) **Market Interest Rate:** Market interest rate is the interest rate different from the interest rate of the issuer of the bond. The market interest rate yield changes continuously because of internal as well as external sources. The internal sources are the sources of the bond issuer itself. The internal factor causes the price of the bond and yield change frequently with the price change. The external sources on the demand and supply of fund, inform as well as other macroeconomic factors that cause prices and yield of the bonds.
-) **Maturity Period:** Maturity period is the years remaining for a bond to mature. Bonds generally have a specified maturity period on which the

par value must be repaid. It is fixed at the time of issue of the bond and maturity period decreases as we move toward the maturity of the bond.

) **Collateral:** The type of collateral is important for bonds that have probability of default. The investors must be cautious about the assets that are pledged as collateral in the event of default of regular payment of interest and principal. Variation in collateral lead to several types of bonds (Cheney and Moses, 10th:332)

) **Call provision:** At the time of bond issue, the issuer may have put a convent in its indenture that the bond can be called at any time before maturity when the company feels necessary. Most corporate bonds contain a call provision, which gives the issuing corporation the right to call the bonds for redemption. The call provision generally states that the company must pay the bond holders an amount greater than the par value if they are called. The additional sum is termed as a call premium

) **Sinking Funds:** It is a bond contract that requires the issuer to retire a portion of the bond issue each year. A sinking fund is money taken from a corporation earning that is used to redeem bonds periodically, before maturity a specified in the indenture company it can be used the required number of bonds on the open market.

) **Indenture:** it is a legal agreement between an issuer of bonds and the bondholder stating the time period for repayment, amount of interest paid, if the bond is convertible (and if so, at what price or what ratio), and the amount of money that is to be repaid. The indenture contains the terms and conditions of the bond issue.

) **Trustee:** Trustee is an agent of a bond issuer who handles the administrative aspects of a loan and ensures that the borrower complies with the terms of the bond indenture. The bond trustee is responsible for the collection and investment of loan and the registration, transfer and payment of bonds.

) **Other features:** Several other features are convertible bond (a bond that is exchangeable, at the holder, for common stock of the issuing firm),

warrant (a long-term option to buy a stated number of shares of common stock at a specified price,) income bond (a bond that pay interest only it earned) and indexed bond (a bond that has interest payments based on a inflation index so as to protect the holder from inflation).

2.1.4 Introduction of NEPSE and Its Trading Procedures

The Nepal Stock Exchange (NEPSE) is a market for securities which gives every body access to a number of different opportunities for capital investment. The function of stock exchange is to provide equal opportunities for many buyers and sellers of securities as possible.

In Nepal securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before its conversion into Nepal Stock Exchange, it was only capital market institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal government, under a program initiated to reform capital markets converted Securities Exchange Center in to Nepal Stock Exchange in 1993. NEPSE is a non-profit organization operating under Securities Exchange Act, 1983. it opened its trading floor on 13th January, 1994. NEPSE is the centralized and visible institution where already issued securities are bought and sold for investment and speculative purpose. It provides facilities of trading of listed financial securities.

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 members, market intermediaries, such as brokers, market makers etc. One of the most important role performed by a stock exchange is to maintain active trading i.e., it facilitates the immediate buying and selling of securities by the investors and provides liquidity to the assets. Moreover, it also facilitates the price discovery process, which is possible through the demand and supply of securities from the investors. Besides that, it aids new financing indirectly by providing facility to resell the securities.

There are two basic types of trading system:- Order driven and Quote driven. The quotes which drive the trading process may be the bid and offer prices specifies investors orders or they may be the spread, quote by market makers. The first is called an order driven market and the second is a quote driven market. The traditional quote display mechanism is a chalk board at a trading post on a stock exchange floor. Three functions are commonly thought as constituting the securities trading process: display and comparison of buy and sell quotes, order matching, and order execution. However the process starts from the order collection and maintenance of client records. NEPSE has adopted an “ open out – cry “ system. It means transaction securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market makers quote their bid and offer price on their own board before the floor starts. Once the bid and offer prices match, contracts between the buying and selling brokers or between the brokers and market makers are conducted on the floor.

The brokers will get the brokerage commission on equity transactions ranges from 1% to 1.5% depending on the traded amount. As per the rule the rate of brokerage commission on debenture ranges from 0.15% to 0.75%, which is presented in the table shown below.

Table 2.1
Commission on Corporate Bond Transaction

Traded Amount	Rate of Commission
Up to 1,00,000	0.75%
Rs. 1,00,001 to Rs. 5,00,000	0.60%
Rs. 5,00,001 to Rs. 10,00,000	0.45%
Rs. 10,00,001 to Rs. 50,00,000	0.30%
Above Rs. 50,00,000	0.15%

Source: NEPSE Annual Report 2007/08

2.1.5 Buying and selling rules of Securities

Buying securities with view of generating capital profit is very important investing decision. In bear market, securities prices fall down so that it should buy securities. But bull market refers to that market where securities prices maximum occurs. It should sell securities in bull market.

There is also alternative approach regarding buying and selling of securities, considering expected and required rate of return. When expected rate of return is greater than required rate of return, securities are under priced. Hence buying decision of securities is preferred. If expected rate of return is less than required rate of return, securities are overpriced. Hence, it should sell. When expected rate of return and required rate of return are equal, there is appropriate pricing of securities. Thus, no trading of securities is preferred.

Table 2.2
Buying and Selling Rules of Securities

Conditions	Pricing	Decision
Required rate of return > Expected rate of return	Overpriced	Sell
Required rate of return < Expected rate of return	Under priced	Buy
Required rate of return = Expected rate of return	Exactly priced	No Trading

2.1.6 Bond Valuation

Bonds are long term debt instrument used by business houses and governments to raise large sum of money, typically from diverse group of lenders. Investing in the bonds requires computation of their value to identify the mis-pricing and the construction of portfolio. The value of bond is sum of present value of the periodical interest payments and the par value that is due at the end of bond life. The following basic model is used to value of bond:

$$V_b = \sum_{t=1}^n \frac{I_t}{1+k^t} + \frac{MV}{1+k^n}$$

Where

V_b = Present value of bond

I_t = Interest payment during 't' periods

k = Market interest rate

MV = Maturity value or face value

t = time periods

n = no. of time periods

Alternatively,

$$V_b = I \times (PVIFA_{k, n}) + M (PVIF_{k, n})$$

Where,

I = Coupon interest in rupees

$PVIFA$ = Present value interest factor of an annuity

$PVIF$ = Present value interest factor

M = Maturity value of principal

Semi-annual coupon bond:

Under a semi annual coupon bond, interest is paid semiannually i.e. in every six month. To value each bonds the following procedures are followed:

$$V_b = I/2 \times (PVIFA_{k/2, n \times 2}) + M (PVIF_{k/2, n \times 2})$$

Callable Bond

A callable bond is not much different from ordinary bond except that the issuer keeps the right to redeem it at a specified date or any time before the maturity, its valuation model presented as:

$$V_b = \sum_{t=1}^n \frac{I_t}{1+k^t} + \frac{CP}{1+k^m}$$

Where,

m = no. of periods to call

CP = Call price

Alternatively

$$V_b = I \times (PVIFA_{k, n}) + CP (PVIF_{k, n})$$

Where,

n = number of period to call

CP = Call price

Discount (Zero Coupon) Bond

It is a bond that has a certain maturity period but does not pay any coupon interest during its maturity after the issuance, but it is used on discount (less than par value) and repays a face value at its maturity. The difference between a face value and an initial selling price becomes the return to the investor. Its value is calculated as under:

$$V_b = M \times (PVIF_{k, n})$$

Perpetual Bond

It is a bond that has no maturity period (infinite period) but pays periodic interest (coupon).

Its value is calculated as under:

$$V_b = \frac{I}{K}$$

Where,

I = Interest payment each year

K = Market Interest rate

2.1.7 Yield to Maturity (YTM):

The yield to maturity is the discount rate that equates the present value of the bond's expected future cash flows with the current market price of the bond. The YTM can be calculated by using following equation:

- By approximation formula method:

$$YTM \approx \frac{\text{Interest} \Gamma \frac{\text{Face value} - \text{Purchase Price}}{\text{Years to maturity}}}{\frac{\text{Face value} \Gamma 2 + \text{Purchase price}}{3}}$$

- By trial and error method:

-

$$\text{Market price of debt} = \frac{\text{Interest}}{(1 + YTM)^t} \Gamma \frac{\text{Maturity Value}}{(1 + YTM)^n}$$

Where,

n = Years to maturity/ No. of time periods

t = time periods

2.2 Review of Related Studies

2.2.1 Review of Financial Journals

Rabindar Bhattarai in his article "Debentures are welcome" in 2004 has stated "Bond market in Nepal is very lean. Very few companies have issued bond in the market. However, since last few year, some positive signals can be seen in the Nepali capital market. Though the government bonds are not available in the stock exchange floor, corporate bonds are being made available". According to him, due to over subscription in recently issued corporate bonds, it can be predicted that more of corporate bonds will be expected to issue in the future, particularly from the banks to meet their higher capital requirement under NRB directives. (Bhattaria, New Business Age, 2004)

Naresh Shakya in his article "Recent Development of domestic Debt Market in Nepal" has summarized that the domestic debt market in Nepal is undeveloped. There is a paucity of debt instruments, which makes market primitive. The prevailing mechanisms for trading government debt securities are inefficient and unreliable as the authorities regulate the prices. These weaknesses enormously hamper not only the debt management practices but also monetary management process in Nepal. Debt manger should therefore have an

interest in developing market for government debt securities. The issuance of scrip less securities, initiation of auctioning of long term government debt securities, implementation of market based pricing mechanism and issue of varied securities like insurance bonds, pension bonds, provident fund bonds, municipalities bonds and other special bonds would be the major achievements for strengthening the debt market in Nepal. Launching of awareness program on market mechanism, pricing method, types of instruments issued and timing of issue could also help the developing of domestic government debt securities market in Nepal. Transparency in the debt management practice could also be explored by publishing the domestic debt database on the regular basis and also made public from the NRB website. (Shakya, 2062,20-30.)

John Caks present a paper “Corporate debt decision: A new analytical framework” in 1978. in this paper, a new approach has been provided that avoids the problem caused by using yields to maturity as discount rates. It demonstrates that “interest saving “ is not a valid reason to refund bonds, the tax deductibility of interest payments implies high coupon bonds shouldn’t be refunded, and that it is only the special tax subsidies/ penalties granted to firms repurchasing their own bonds that justifies the corporate practice refunding high coupon bonds and not confined to analysis of bond refunding. It allows for a straight forward solution to the “optimal coupon” problem and it has interesting implication regarding convertible and callable bonds as financing instruments.

Unless otherwise noted, he has considered only non callable bonds with no special features such as convertibility into common shares etc. He further restricts his analysis by assuming all bonds will mature N periods hence he assume that the capital markets are efficient and will not consider speculative motives for bond transactions. He ignores transactions costs, although recognizing their importance in any practical application of his analysis. Throughout the following analysis, the total market value of its securities. Since he has constrained the market value of debt to be constant, maximizing the value of equity maximizes the value of the firms.

2.2.2 Review of Thesis

Review of previous related unpublished Thesis will help the researcher to formulate a satisfactory structure for the project. It has reviewed different thesis and dissertation prepared by master degree and other students. Some important reviewed thesis and their recommendations are as follows:

Sadikshya Acharya (2007), on her thesis “Problems and Prospects of Corporate Debt Securities Market in Nepal” has concluded that, due to less participation of individual investors in both the primary issues and secondary issues of corporate bonds/ debentures, corporate debt securities market could not be able to thrive as expected. Investors are more interested to invest on common stocks rather than on corporate bonds/ debentures. Further more she stated that the continuous decreasing interest rate, few issuance of corporate debt securities, lack of credit rating agency, no opportunity of capital appreciation, lack of knowledge on corporate bonds are the major reasons of investors poorer responses towards corporate debt securities market. She forecast on her study that corporate debt securities market will not achieve its growth, unless and until investors feel free to choose the corporate debt securities. In another words, corporations should take initiation on the issue of more corporate debt securities with different attributes and features. In Nepal, investments are made on impulse rather than through market study or credit ratings.

She added that most of the investors are diverting their investments on other sectors like real estates which have easy and quick return and also like to hoard in the form of ornaments and jewelries. This creates problem in the development of the economy and adversely affect the economic activities.

Acharya has also found some prospects that the growing investment industry (group of activities related to invest, such as insurance, banking, brokerage etc.), increasing trend of corporate debentures issues, declining interest rate of deposits of commercial banks, over subscriptions rate, growing participation of banking sector in issuing debentures are the good signals for development of corporate debt market.

Safala Thapa (2006) has made a study on "Recent Position, Problems and Growth Prospects of Debt Securities Market in Nepal". She concluded that government debt securities are dominant securities in Nepalese debt market. The Nepalese debt securities market is characterized by as an infant stage but sluggish growth, future of this market is not at all gloomy. She has found many problems associated with it such as tin market condition of debt securities, insufficient legal provisions, lack of sufficient information disclosure, volatile market interest rate etc. The study reveals various indicators of this market which can promise a prosperous future to this market if all stakeholders are willing to make serious efforts regarding the promotion of the securities has been increasing satisfactory. Declining interest rate on bank deposit also showed the future potentiality of debt securities market. (Thapa,, An Unpublished Master's Degree Thesis, T.U., 2006)

Bhim Pokharel (2006) on his thesis "Issues and Prospects of corporate Bond Market Growth in Nepal" has concluded that the Nepalese debenture market is characterized by as an infant with sluggish growth, future of this market is not at all gloomy. His study reveals various indicators of this market which can promise a prosperous future to this market if all of its stakeholders, especially government, are willing to make serious effort regarding the promotion of the market. He has concluded that the future growth of corporate bond seems satisfactory. The allotments of debentures are made through negotiations. There is no any free competition between institution investors in case of application and allotment of debentures. Over subscription of debenture issued by banking sectors indicates the positive attitude of investors towards corporate debenture. Information disclosure status of financial institutions also promises the potentiality of this sector to issue debenture in future. Valuation and duration show the opportunity of secondary transaction of them. However, problems associated to issuer, investors and intermediates of debenture market need to be solved first for the rapid growth and development of bond market. (Pokharel, An unpublished Master's Degree Thesis, T.U., 2006).

Sudip Amatya (2005), conducted a study on "present status of Nepalese Debt Securities Market". He found various issues related to debt securities market. From the analysis, it is found that major portion of securities market is covered by debt securities, most of them

are government debt securities. Corporate debt securities are not being issued regularly and only small portion of securities market is covered by it. In his study, he focused on participation of individual investors in purchasing debt securities. He recommended that issued debentures should be listed in NEPSE in order to provide secondary market. But he failed to give precise and clear positions and problems of Nepalese debt securities market.

S.M. Bhattarai (2003) has summarized in his thesis titled "Problem and prospects of Debt Market Growth n Nepal" that Nepalese debt market is still at underdeveloped stage. Government bond market is slightly at maturity stage as compared with corporate debt securities market. In recent years many factors shows that it starts to take speed to grow. His research comes into conclusion that there are numbers of problem due to which the debt securities market of Nepal is not growing smoothly. Mainly these problems are lack of public awareness, limited supply of quality bonds, investors increasing attraction towards common stock which provides higher return at high level of risk and difficult process of issuing debenture. The main factors which indicate the prospects are as inventors attraction towards liquid assets like debt instruments, desire to invest on corporate bond and debenture etc these factors indicate the growth prospects of Nepalese debt securities market. (Bhattarai, An Unpublished Master Degree Thesis, T.U., (2003).

Indra Tribikram Pahari (2002) had undertaken a study on "Problems and Prospects of Debt Market Growth in Nepal" aims at analyzing the structure of securities market in Nepal. He opined that the capital market and economic development are synonymous for much poverty stricken developed countries. With respect to motives for issuing common stock in place of debentures in Nepal, majority of the investors gave the priority to common stock since they are more marketable than debenture. Another conclusion that the researcher drew fro his study is that the interest rate is affected by inflation and real rate of return. Similarly, investors can not get any premium while bearing risk because interest rate is adversely affected by the risk premium. The characteristics of Nepalese corporate securities are quite good to be a quality bond and valuations are higher than their price. The duration of these bonds is less then their maturity period. Similarly, government

securities are unable to create benchmark yield curve for their own securities as well as corporate bond securities.

Rekha Pant (1999) on her study "Problem and Prospects of Stock Market Growth in Nepal" gives that government should create the right policy and environment for the facilitation of critical mass of financial instruments issuers and investors. In the near term there is an urgent need to develop the money and bond market (both government and corporate bond market) and increase domestic institutional investor's participation in the market. Also there is a need to develop full service securities firms with a capacity to provide loan array of financial services to insure and inventors as well as to develop new market and instruments such as commercial papers, corporate bond and debentures, government bonds etc. Further due to the following reasons the capital market in Nepal has not reach its full potential: unfavorable macroeconomics condition, political, instability, low investors, confidence, weak tax system, slow process of privatization, inadequate institutional investors, base investment of saving in bank despots and government securities lack of improved prospectus to investors, weak legal affairs for markets regulation, lack of money and bond market. These are the problem of debt market growth in Neal similarly with the problem of securities market development in Nepal. (Pant, An Unpublished Master Degree Thesis, T.U. (1999)

In this way, some studies have been conducted by different researcher. Nepal as an underdeveloped nation, industrialization of the nation is the main thing for the development of the notion. To direct the notion towards industrialization, it is necessary that capital market should function well. That capital market should function well. That means its equity and debt markets are well existed and market of corporate sectors is limited existence is a matter of curiosity. Therefore the present study is focused on the problems and prospects debt securities market in Nepal.

CHAPTER –III

RESEARCH METHODOLOGY

Research means to get new things, techniques and to verify existing tools, techniques by hypothesis and other relevant information. Research methodology describes the method and process applied in the entire aspects of the study. It is way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. This chapter aims to familiarize the relevant techniques of data collection, analysis of data using statistical tools and techniques required for preparation of research report and include research design, population and sample of the study source of data and research methods.

3.1 Research Design:

Research design is the overall plan of action and structure and strategy of investigation conceived so as to control variance. This research study attempts to analyze the problems and prospects of corporate debt securities market in Nepal. To fulfill the objectives of this research, it used both primary data as well as secondary data. To conduct the study, descriptive and analytical research approach has been used. Descriptive approach has been utilized mainly for conceptualization of the associated problems of debt securities market in Nepal. Analytical approach is used to examine various related variables of corporate debt securities. Some statistical tools such as time series analysis and chi-square test for testing hypothesis are used to analyze and come to conclusion.

3.2 Population and Sample of the Study:

The study is conducted to trace out the problems and prospects of corporate debt securities market in Nepal. So, it is concerned within the Nepalese capital market and its peripherals. The population of this study comprised all the listed company which is the potential issuance companies of debenture. They are 142 in number in fiscal year 2007/08. All the holders of debt securities, government bodies, concerned staff and experts, the brokerage firms and market makers are also considering as the population of this study.

Table 3.1
Population and Samples of the Study

Population	Samples
All Governing Bodies	NRB, NEPSE, SEBO/N, CRO
All Listed Companies	25 Listed Companies

To show the prospects of corporate debt market growth in Nepal, 25 listed companies are taken as sample from various sectors using judgmental sampling. 142 companies are listed in NEPSE in fiscal year 2007/08. Thus in percentage 17.61% population has been taken as samples. Likewise, for the purpose of primary data collection the survey investigation of a list of individual investors included corporate debt holders as well as government debt holders are taken total 35 using random sampling. Again, 40 brokers, market markers and other experts mainly staff of NRB, SEBO and NEPSE have been taken as samples for questionnaire survey. To analyze the position of debt securities market in Nepalese securities market, the issuance of securities from fiscal year 1997/98 to 2007/08 are taken as sample.

3.3 Source of Data:

Data is the fact, information, views etc collected systematically and presented formally for the purpose of reaching in the suitable decision. Data is necessary for conducting the research work because without the data we can not prove the reliability as well as can not support the research strongly. So, primary as well as secondary data are used in this study as sources of data.

A set of questionnaire is developed in order to collect the primary data. These are allocated to the respective samples and collected after some times. The main sources of primary data are following:

-) Listed companies
-) Individual investors
-) Brokers and market markers
-) Other experts

Secondary data for this study are data published by the governing bodies, publications of the capital market related studies, trading reports, annual reports, past studies made that are already available in the market. Similarly, the past studies of the professionals as well as non professional researchers are followed to create the wide idea for the study. The main sources of secondary data are pointed out as follows:

-) Various reports of NEPSE including annual report
-) Annual report of SEBO and other publications
-) Various quarterly bulletins of NRB and other various economic reports and publications.
-) Past researchers and other publications of the concerned bodies.
-) Academic and non academic books
-) Prevailing laws and by laws

3.4 Data Analysis Tools:

Since, data analysis is based on explanation and statistical analysis and interpretation. The analysis of the data is limited with in the boundary of the process employed and availability of the data. Separate techniques are utilized in order to analyze the data statistically and present them more systematically. Hypothesis testing, trend (time series) analysis, diagrammatical presentation etc analysis has been done in order to represent the reliability of data. Percentage analysis is also used to analyze the data. The following parameters are used for analysis of primary data:

- a. Standard Deviation:** It has been used as a measure of dispersion in order to measure the size of deviation from the average. It is used as a measure of deviation from their means.

$$\text{S. D. (u)} = \sqrt{\frac{\sum f_i(x - \bar{x})^2}{n}}$$

- b. Coefficient of Variation:** it is relative measure of dispersion based on standard deviation. In order to compare the validity between different ranks provided by the respondents. Coefficient of variation is used as a useful method. It is a number

expressed in percentage. It is a product of standard deviation divided by their respective weighted average mean multiply by 100. a distribution having more c.v. is considered more variable of more heterogeneous or less consistent opinion of the respondents.

$$C. V. = (u^2) = \frac{u}{x} | 100\%$$

3.4.1 Research Hypothesis:

A hypothesis helps the researcher in proceeding further and finding solution of the problem, which he or she wants to study. Without the hypothesis, the effectiveness of the research is not possible. In this study, the chi-square test of hypothesis is used. The chi-square test is an important test among the several tests of significance developed by statisticians. For the test 25 listed companies, 35 individual investors and 40 brokers, market makers and other experts are taken as sample.

In this study, chi-square value is compared in order to test whether there is significant difference between expected and observed opinion. The expected frequencies are calculated by applying the formula:

$$\text{Expected frequency is } X \frac{\text{Row total} \times \text{column total}}{\text{Grand Total}}$$

And the calculated values of χ^2 were calculated by the following formula:

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where,

χ^2 = Value of Chi-square

O = Observed frequency

E = Expected frequency

3.4.2 Time Series Analysis:

To examine the trend of government securities as well as corporate debt, time series analysis has been used. With the help of this model, the forecasted amount is calculated for next four years.

The equation of trend line is as below:

$$Y = a+bx$$

Where,

Y = total forecasted value

a = minimum value

b = Change rate per period

x = difference between actual time and assumed time.

CHAPTER - IV

DATA ANALYSIS AND PRESENTATION

This chapter will analyze appropriate data and facts to find out the research problem. Collecting the data is the connecting link to the research work of the researcher with the world of reality. But the gathering the data is meaning less unless the data will be presented and analyzed properly to change it from raw to an understandable presentation. The analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences. This chapter is divided in two main sections: - Presentation and Analysis of secondary data and primary data.

4.1 Presentation and Analysis of Secondary Data:

4.1.1. Debt Securities Market in Nepalese Securities Market

Securities market is the back-bone of capital market. Development of a well functioning securities market will encourage the entrepreneur to collect the long term capital by mobilizing the individual and institutional saving either directly or indirectly. A matured securities market offers a wide range of opportunities for corporate bodies. Not only the corporate sectors, government can also issue government securities to finance the massive investment required for the major infrastructure projects, utilities and housing. Types of securities available in Nepal are limited as compared to the developed nations.

The table 4.1 shows that, 90.27 percent of total approved is for government securities, next to government securities is equity share, which represent 0.75 percent of total approved, right share occupies 4.95 percent, debenture occupies 2.39 percent, where bonus share and additional sales occupies very small figure of 1.48 percent. Hence, government securities dominate the other securities.

The securities wise issue approval during the period 2007/08 can be shown in the following table.

Table – 4.1: Percentage Issues of Various Securities

(Rs in Million)

S.N.	Securities	Approval Amount (in Rs)	Percentage
1	Equity shares	924.80	0.75
2	Right shares	6087.1	4.95
3	Debentures	2950	2.39
4	Bonus share	1825.50	1.48
5	Government securities	111239.1	90.43
Total		123026.5	100

Source: SEBO/N Annual Report 2007/08

The above data can be presented in the figure as follows.

Figure 4.1: Percentage Issue of Different Securities in the Year 2007/08



In the figure 4.1 we can observe that excluding Government securities, right shares dominate the corporate sectors securities market. Government securities and corporate equity shares were issued regularly over the time. But other types of securities were not issued regularly over the time. Limited issues are made of debentures and not any issues of preference shares. However, primary motivations for a company to use debt capital in its business activities are the low cost.

There are number of reasons for a dismal state of corporate debt securities market in Nepal. First, the population of corporate bodies which can sell debentures in the market is small. Second, listed companies shows that a significant number of them belong to banking, insurance and finance companies (out of 142, they are 88) which can mobilize public money in their own ways and hence need not issue debentures to raise debt funds. Third, out of remaining companies, most of them are incurring heavy loss and hence are not in a position of raise funds from the market. Fourth, Nepalese organizations heavily rely on bank loan instead of using loan from debt instrument and securities used only as owner type, i.e. equity shares.

4.1.2 Trend of Issuing Debentures:

In purpose to fulfill the companies' financial requirements, different corporations are issuing different kinds if securities to collect the required fund. Government and corporate bodies have issued bond and debentures in short term and long term basis. In the contest of corporate bodies, Bottlers Nepal Limited, Jyoti Spinning Mills, Shree Ram Sugar Mills, Himalayan Bank Limited, Everest Bank Limited, Nepal Investment Bank Limited, and Bank of Kathmandu have issued debentures in previous year. Recently 5 corporate bodies raised their fund by issuing debenture such as Nabil, Kumari, Nepal Investment, Himalaya Bank and Nepal Electricity Authority. Out of them, some have been already redeemed; some are still exist in the market.

4.1.2.1 Debenture Issue

The practice of debenture issue in Nepalese securities market is not a new practice. But saying that it has not been so log period, the funds are raised by issuing debentures. Before 1997/98 Bottlers Nepal Limited and Jyoti Spinning Mills issued debenture which were undersubscribed and are redeemed before the study period. The year wise issuance of debenture is presented in the following tables.

In the year 1997/98 only one debenture issuance is occurred that was of Shree Ram Sugar Mills Limited and which was heavily undersubscribed, which is shown in the following table.

Table -4.2: Debenture Issue in FY 1997/98

(Rs. In Million)

S.N.	Name of the Company	Amount	Issue date	Maturity Period	Coupon Rate	Subscription (Times)
1	Shree Ram Sugar Mills Ltd.	93	20/11/1997	4 Yrs	14 %	0.18

Source: SEBO/N, Annual report 2007/08

After 1997/98, three year not any debenture was issued. Himalayan Bank Limited issued debenture in the year 2001/02. In this issue the investors have shown their interest more. If we observe the data shown in the table 4.3, the subscription times is 1.12 and thus this issue is oversubscribed which is really score the new record and break the trend of undersubscribed in the corporate debt securities market. Because the previous issuance of debenture have not ever been oversubscribed.

Table – 4.3: Debenture Issue in FY 2001/02

(Rs. In Million)

S.N.	Name of the Company	Amount	Issue date	Maturity Period	Coupon Rate	Subscription (Times)
1	Himalayan Bank Ltd.	360	18/06/2002	7 Yrs	8.5 %	1.12

Source: SEBO/N, Annual report 2007/08

With no any debenture issuance during 1 year period, in the year 2003/04 Nepal Investment bank Limited issued debenture in the primary market. In this issuance the investors have not shown more interest in this issuance even though it is equally subscribed.

Table – 4.4: Debenture Issue in FY 2003/04

(Rs. In Million)

S.N.	Name of the Company	Amount	Issue date	Maturity Period	Coupon Rate	Subscription (Times)
1	Nepal Investment Bank Ltd.	300	03/11/2003	7 Yrs	7.5 %	1.02

Source: SEBO/N, Annual report 2007/08

In the year 2004/05 only one corporate firm dare to collect the required fund by issuing debenture that is Everest Bank Ltd. Even the less coupon interest rate this issue got equal subscription. This means the trend of investing on debenture is increasing which is good signal for the corporate debt securities market.

Table – 4.5: Debenture Issue in FY 2004/05

(Rs. In Million)

S.N.	Name of the Company	Amount	Issue date	Maturity Period	Coupon Rate	Subscription (Times)
1	Everest Bank Ltd.	300	03/11/2003	7 Yrs	6 %	1.00

Source: SEBO/N, Annual report 2007/08

In the year of 2005/06 four company issued debentures among them NIBL has issued debenture second time. In this year Rs. 850 million capitals raised, by issuing the debentures. This is the largest amount collected ever been by issuing debenture in a single year. So we can say that the trend of issuing debenture is also increasing and the oversubscription of almost all issues prove that the investors are also showing their interest to invest on such securities.

Table – 4.6: Debenture Issue in FY 2005/06

(Rs. In Million)

S.N.	Name of the Company	Amount	Issue date	Maturity Period	Coupon Rate	Subscription (Times)
1	Bank of Kathmandu Ltd.	200	22/09/2005	7 Yrs	6 %	1.33
2	Nepal investment Bank Ltd.	250	09/06/2006	7 Yrs	6 %	1
3	Nepal Industrial and Commercial Bank Ltd.	200	12/06/2006	7 Yrs	6 %	1
4	Nepal SBI Bank Ltd.	200	04/07/2006	7 Yrs	6 %	1.01

Source: SEBO/N, Annual report 2007/08

Similarly in the year 2006/07 only one company issued debenture which is presented in the table 4.7.

Table – 4.7: Debenture Issue in FY 2006/07

(Rs. In Million)

S.N.	Name of the Company	Amount	Issue date	Maturity Period	Coupon Rate	Subscription (Times)
1	Nepal Investment Bank Ltd.	250	12/06/2007	7 Yrs	6.25 %	1

Source: SEBO/N, Annual report 2007/08

In the year 2007/08 the five corporate bodies raised fund by issuing debentures. In total debenture amounting to 2950 million are issued. This issue made the debenture marked wide in the securities market. The detail of debenture issue in the fiscal year 2007/08 is presented in table 4.8.

Table – 4.8: Debenture Issue in FY 2007/08

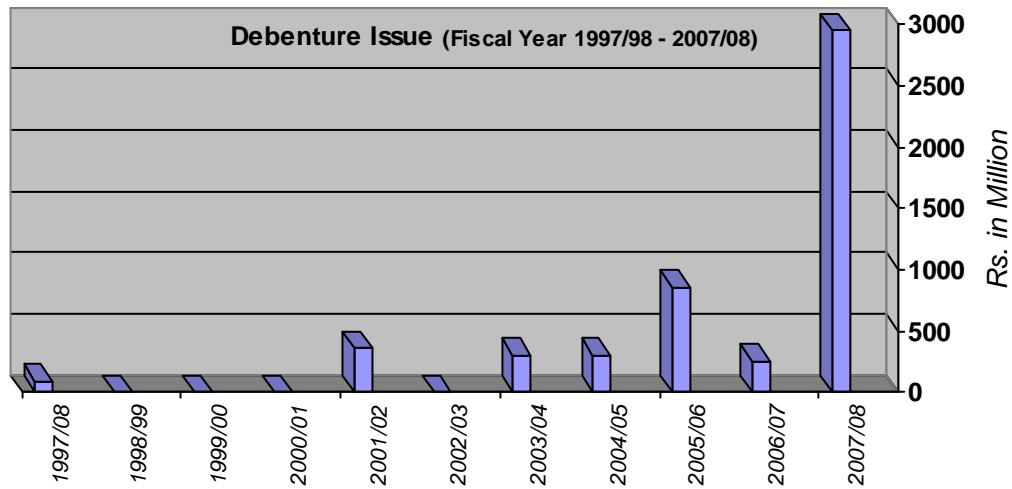
(Rs. In Million)

S.N.	Name of the Company	Amount	Issue date	Maturity Period	Coupon Rate	Subscription (Times)
1	Nepal Electricity Authority	1500	14/02/2008	5 Yrs	7.75 %	1.11
2	Kumari Bank Ltd.	400	15/05/2008	5 Yrs	8 %	1.01
3	Himalayan Bank Ltd.	500	22/6/2008	7 Yrs	8 %	1
4	Nepal Investment Bank Ltd.	250	26/6/2008	7 Yrs	8 %	1
5	Nabil Bank Ltd.	300	15/7/2008	10 Yrs	8.5 %	1

Source: SEBO/N, Annual report 2007/08

From the above data we can say that in the previous year in Nepalese Securities Market there were a few issuance of debenture occurred. Because public also had no interest on the debenture that is proved by the subscription times. In the early time most of the issuance has to face the problem of under subscription. But in the resent year not any organization has to face such a irritating problem of under subscription rather in some issuance public shows their keen interest and over subscribed. Such as in NEA got the subscription time 1.11 which is really good signals for the corporate debt securities market.

Figure 4.2 : Trend of Debenture Issue



Analyzing the Figure 4.2 in the year of 1997/98 debentures amounting only Rs. 83 million were issued to the public. Then after regular three years no any corporate bodies issued debenture. In 2001/02 breaking the trend of not issuing debentures HBL issued debentures amounting Rs. 360 million. In the year 2002/03 also not any debenture issue made. But from the year 2003/04 up to now corporate organizations are issued debentures to collect their required fund. In the year 2007/08 the bar goes very high, means the largest amount in the history of debenture issue collected by issuing debentures that is amounting to Rs. 2950 million. So the trend of issuing debenture is going upward. We can expect that more and more debentures will be issued in the future by the corporate organizations with having varieties of features and investors will get chance to investment their amount by choosing appropriate option among different securities.

4.1.2.2 Total Securities issue

In the securities market in Nepal most of the issues are shares. Rarely can we find the debenture issue in the market. Thus to know the actual status of the debenture in the securities market we have to do comparative analysis with the share market.

Proportions of the amount of debentures issued by different corporate bodies out of total issued amount of securities from the fiscal year 1997/98 to 2007/08 are as follows:

Table 4.9: Portion of Debenture issue out of total securities amount

(Rs. in millions)

Fiscal year	Total issued securities		Debenture issued			Total no. of issue
	Issued amount	Cumulative amount	Issued amount	Cumulative amount	% issue in cumulative	
Up to 097	-	1224.55	-	25	2.04	-
1997/98	462.36	1686.91	93	118	7%	12
1998/99	258.00	1944.91	-	118	6.07 %	5
1999/00	326.86	2271.77	-	118	5.19 %	9
2000/01	410.49	2682.26	-	118	4.4 %	9
2001/02	1441.33	4123.59	360	478	11.59 %	16
2002/03	556.54	4680.13	-	478	10.21%	17
2003/04	1027.50	5707.63	300	778	13.63 %	16
2004/05	1626.82	7334.45	300	1078	14.70 %	12
2005/06	3443.28	10777.73	850	1928	17.89 %	29
2006/07	2995.5	13773.2	250	2178	15.81 %	34
2007/08	10668.20	244441.43	2950	5128	20.98 %	64
Total	-	-	-	-	-	223

Source: SEBO/N, Annual Report 2007/08.

If we observe the above table, up to fiscal year 1997/98 total securities issued amount is 1224.55 among them debenture issue amount is 25 million. In the fiscal year 1986/87 Bottlers Nepal Limited Issued 18% debenture amounting Rs.5 million for first time and it was oversubscribed. And in the year 1993/94 Joti Spinning Mills Limited issued 14% debenture amounted to Rs.20 million. In the fiscal year 1997/98 SRSM issued debenture amounted to Rs. 93 millions, which covers only 7% on total issued amount. After then three years, no any debenture was issued. In the fiscal year 2001/02 HBL issued debenture, so the percentage of debenture issued covered in total issue increased to 11.59%. Similarly, in the last three years of the study period, NIBL issued debentures amounted to Rs. 300 millions in 2003/04. Hence the percentage of the debenture issue on total issue amount increased to 13.63% and EBL issued debentures amounted to Rs. 300 millions then the percentage of issuing debentures increased to 14.70%. In this fiscal year 2007/08 Nepal Electricity Authority, Kumari Bank

Ltd, Himalyan Bank Ltd, Nepal Investment Bank Ltd ,and Nabil Bank Ltd have issued debenture amounted to Rs. 2950 millions, so the percentage of debentures issue on total issued amount increased to 20.98%.

All the corporations issue various securities to collect the needed fund. During the study period from the fiscal year 1997/98 to 2007/08, there are made 225 issues, out of them only 14 issues are made through debentures. Before the study period there were only 2 issues of debenture made. Concluding the all above mentioned, it is clearly shown that the issuance of debentures is in increasing trend and from this trend the researcher expects that it will also increase in future. It can be shown the bright prospects of the corporate debenture market in Nepal.

4.1.3 Key Characteristics of Nepalese Corporate Debt Securities:

Bonds, unlike common stocks, can have many unique and important characteristics. Though corporations, municipalities and governmental units, however, issue many different types of debt instruments, each having its own characteristics. In Nepal debt securities are not popular. The enterprises depend upon banks for any debt that they want to employ in business. There are only fourteen issuances of debentures in Nepal from 1997/98 to 2007/2008 out of 223 issues of securities. In 1997/98 SRSM issued debentures for for Rs 93 millions followed by Himalayan Bank Limited in 2001/02 for Rs 360 millions. Similarly, Nepal Investment Bank and Everest Bank Limited have also issued debenture for Rs 300 millions each in 2003/04 and 2004/05 respectively. Similarly NICB, BOK, NIBL and SBI issued their debenture in the year 2005/06. In 2006/07 only one bank issued debenture that is NIBL. In the fiscal year 2007/08 Nepal Electricity Corporation, Kumari Bank Ltd, Himalyan Bank Ltd, Nepal Investment Bank Ltd ,and Nabil Bank Ltd have also issued debentures worth Rs 2950 millions. Before 1997/98 bottlers Nepal and Jyoti group issued debentures, the record of these issues have not maintained because they are already matured before the observation period taken for the study. Some of most important characteristics of debentures of SRSM, HBL, NIBL, EBL, BOKL, NIC, SBI, NICB, NEA, KBL and NBL as corporate debt securities can be presented in the table 4.10.

Table 4.10: Key characteristics of Nepalese corporate debentures

S.N	Characteristics	SRSM	HBL1	NIBL1	EBL	NIBL2	BOKL	NICBL
1	Par value	Rs.1000	Rs.1000	Rs.1000	Rs.1000	Rs.1000	Rs.1000	Rs.1000
	Issue Date	20/11/1997	18/06/02	3/11/03	20/04/05	9/06/06	22/09/05	12/06/06
2	No. of debentures	93000	360000	300000	300000	250000	200000	200000
3	Coupon rate	14%	8.5%	7.5%	6%	6%	6%	6%
4	Maturity period	4 yrs.	7 yrs.	7 yrs.	7 yrs.	7yrs.	7yrs.	7yrs.
5	Nature of interest payment	Semi-annually	Semi-annually	Semi-annually	Semi-annually	Semi-annually	Semi-annually	Semi-annually
6	Provision of sinking fund (each year)	-	Rs.51.429 millions	Rs.43 millions	Rs.60 million (from 3rd year to 7th year)	Rs.35.751 million	Rs.28.571 millions	Rs.40 millions (from 3rd year to 7th year)
7	Provision of trustee	Nepal bank limited	-	-	-	AFCL	-	NIDC
8	Convertible: Conversion ratio Conversion price	10 equity shares Rs. 100 each equity share	- -	- -	- -	- -	- -	- -
9	Nature of business	Manufacturing and processing	Banking	Banking	Banking	Banking	Banking	Banking
10	Subscription	Under subscribed	Over subscribed	Equally subscribed	Equally subscribed	Equally subscribed	Over subscribed	Equally subscribed
11	Purpose of issuing debenture	Expansion of production capacity	To fulfill for supplementary capital	To fulfill for supplementary capital	To fulfill for supplementary capital	To fulfill for supplementary capital	To fulfill for supplementary capital	To fulfill for supplementary capital
12	Nature of placement	Public offering	Private placement and public offering	Private placement and public offering	Private placement and public offering	Private placement and public offering	Private placement and public offering	Private placement and public offering
13	Flotation cost	0.50% of total collected amount	0.54% of total collected amount	0.13% of total collected amount	0.092% of total collected amount	0.08% of total collected amount	0.15% of total collected amount	0.0775% of total collected amount
14	Name of issue manager	NIDC	NMB	AFCL	CIT	AFCL	NMB	AFCL

Source: Prospectus of debentures and Annual Reports of NEPSE

Table 4.10 (contd.): Key characteristics of Nepalese corporate debentures

S.N	Characteristics	SBI	NIBL3	NEA	KBL	HBL2	NIBL4	NBL
1.	Par value	Rs.1000	Rs. 1000	Rs. 1000	Rs. 1000	Rs. 1000	Rs. 1000	Rs. 1000
	Issue Date	4/07/06	12/06/07	14/02/08	15/05/08	22/06/08	26/06/08	15/07/08
2.	No. of debentures	200000	250000	1500000	400000	500000	250000	300000
3.	Coupon rate	6%	6.25%	7.75%	8%	8%	8%	8.5%
4.	Maturity period	7yrs.	7yrs.	5yrs	5yrs	7yrs	7yrs	10yrs
5.	Nature of interest payment	Semi-annually	Semi-annually	Semi-annually	Semi-annually	Semi-annually	Semi-annually	Semi-annually
6.	Provision of sinking fund (each year)	Rs.28.571 million	35.715 million	Rs.300 million	Rs.80 million	Rs.71.429 million	Rs. 35.715 million	Rs.30 million
7.	Provision of trustee	CIT	AFCL	NMB	NMB	ADBL	ADBL	NIDC
8.	Convertible: Conversion ratio Conversion price	- -	- -	- -	- -	- -	- -	- -
9.	Nature of business	Banking	Banking	Manufacturing	Banking	Banking	Banking	Banking
10.	Subscription	Over subscribed	Equally Subscribed	Over Subscribed	Over Subscribed	Equally subscribed	Equally subscribed	Equally subscribed
11.	Purpose of issuing debenture	To fulfill for supplementary capital	To fulfill for supplementary capital	Expansion of production capacity	To fulfill for supplementary capital	To fulfill for supplementary capital	To fulfill for supplementary capital	To fulfill for supplementary capital
12.	Nature of placement	Private placement and public offering	Private placement and public offering	Public offering	Private placement and public offering	Private placement and public offering	Private placement and public offering	Private placement and public offering
13.	Flotation cost	0.14% of total collected amount	0.09% of total collected amount	0.095% of total collected amount	0.075% of total collected amount	0.08% of total collected amount	0.07% of total collected amount	0.08% of total collected amount
14.	Name of issue manager	CIT	AFCL	NMB	NMB	ADBL	ADBL	NIDC

Sources: Debenture Prospects and Annual Report of NEPSE

Note: **AFCL** (Ace Finance Company Limited) has changed its name to **ADBL** (Ace Development Bank Limited)

Par Value: The par value or the principal amount of a bond indicates the amount of the money that must be repaid at maturity. All firms' debentures par value is Rs. 1000.

Coupon Interest Rate: The coupon is established at the time of bond issue and represents the nominal interest rate that will be paid. The coupon interest rates were 14%, 8.5% and 7.5% for SRSM, HBL and NIBL respectively and 6% for next five issues of debentures. The interest rate of debentures is increased in the year of 2007/08. In the issuance of the year 2007/08 the interest rate is in between 7.75% to 8.5%.

Maturity Period: All debentures or bonds, with the exception of perpetual bond, have a maturity date. The maturity period of SRSM is 4 yrs. Maturity date for the debenture for NEA and KBL maturity period is 5 yrs, similarly for debenture of NBL is 10yrs and for remaining debentures maturity period is 7 yrs. It provides the essential information that is necessary to calculate the term to maturity at the date of issue or at any time during the life of the bond.

Sinking Fund: Period payment of the debt is possible if the bond issue is a sinking fund issue. For redemption of the debentures all banks have generated the sinking fund provision by transferring the required amount appropriation account.

The Trustee: A company-issuing bond to the public designates a qualified trustee to represent the interests of the bondholders. Nepal Bank Limited used to mediate as a trustee for the bondholders of SRSM. Similarly CIT, ADBL, NIDC are also trustee for the debentures of SBI, NIC and NIBL debentures respectively. The latest issued debentures have provision of Trustee to the issue manager itself.

Convertible: SRSM's debenture was fully convertible and redeemable. Even convertibility depends upon the desire of the investors. The conversion ratio is set at 10 shares per bond while conversion price is set Rs. 100 per share. Test debentures are not convertible.

4.1.4 Forecasting of Corporate Debentures in Nepal:

We can forecast the trend of issuing debenture by analyzing the previous data using the tools of time series analysis. In the Nepalese contest, the corporate bodies have issued various kinds of securities to raise capital. Out of them debenture is a kind of securities used by some companies. Bottlers Nepal Limited, SRSM, HBL, NIBL, EBL, BOKL, NIC and SBI bank, NEA, Kumari Bank, Himalayan Bank and Nabil Bank have issued debentures. The debenture of Bottlers Nepal limited has already been matured before the observed period.

Table 4.11: Time series analysis of Nepalese Corporate Debenture market

(Amount in Millions)

Year	Amount of corporate debenture (y)	Deviation from 2002/2003 (x)	x ²	xy
1997/98	93	-5	25	-465
1998/99	0	-4	16	0
1999/00	0	-3	9	0
2000/01	0	-2	4	0
2001/02	360	-1	1	-360
2002/03	0	0	0	0
2003/04	300	1	1	300
2004/05	300	2	4	600
2005/06	850	3	9	2550
2006/07	250	4	16	1000
2007/08	2950	5	25	14750
Total	5103	0	110	18375

The equation of trend line is $y = a+bx$

$$a = \frac{\sum y}{N} = \frac{5103}{11} = 463.9$$

$$b = \frac{\phi XY}{\phi X^2} \times \frac{18375}{110} = 167.05$$

Where,

a = Constant (Intercept) of Regression Line

b = Co-efficient (Slope) of Regression Line

Forecasted value of corporate debenture:

The above equation is used to forecast the amount of corporate bond and debenture for the fiscal year 2008/09, 2009/10, 2010/11 and 2011/12. Here the amount of debentures issued by corporate bodies for four years has been estimated below using the trend line equation.

Where for the year

2008/09, x = 6	2010/11, x = 8
2009/10, x = 7	2011/12, x = 9

The forecasted amount of corporate debenture issue for 2008/09:

$$Y_{2008/09} = 463.9 + 167.05 \times 6$$

$$= \text{Rs.}1466.2 \text{ millions}$$

The forecasted amount of corporate debenture issue for 2009/10:

$$Y_{2009/10} = 463.9 + 167.05 \times 7 = \text{Rs.}1633.25 \text{ millions}$$

The forecasted amount of corporate debenture issue for 2010/11:

$$Y_{2010/11} = 463.9 + 167.05 \times 8 = \text{Rs.}1800.3 \text{ millions}$$

The forecasted amount of corporate debenture issue for 2011/12:

$$Y_{2011/12} = 463.9 + 167.05 \times 9 = \text{Rs.}1967.35 \text{ millions}$$

Table 4.12: Forecasted total amount of corporate debenture from year 2008/09 to 2011/12

(Rs. in millions)

Year	Forecasted Amount
2008/09	1466.2
2009/10	1633.25
2010/11	1800.3
2011/12	1967.35

The above Table-4.12 forecasted value of the corporate debenture can also be presented in figure as follows:

Figure 4.3 : Trend Line of Forecasted amount of Debenture Issue

(Rs. in Million)

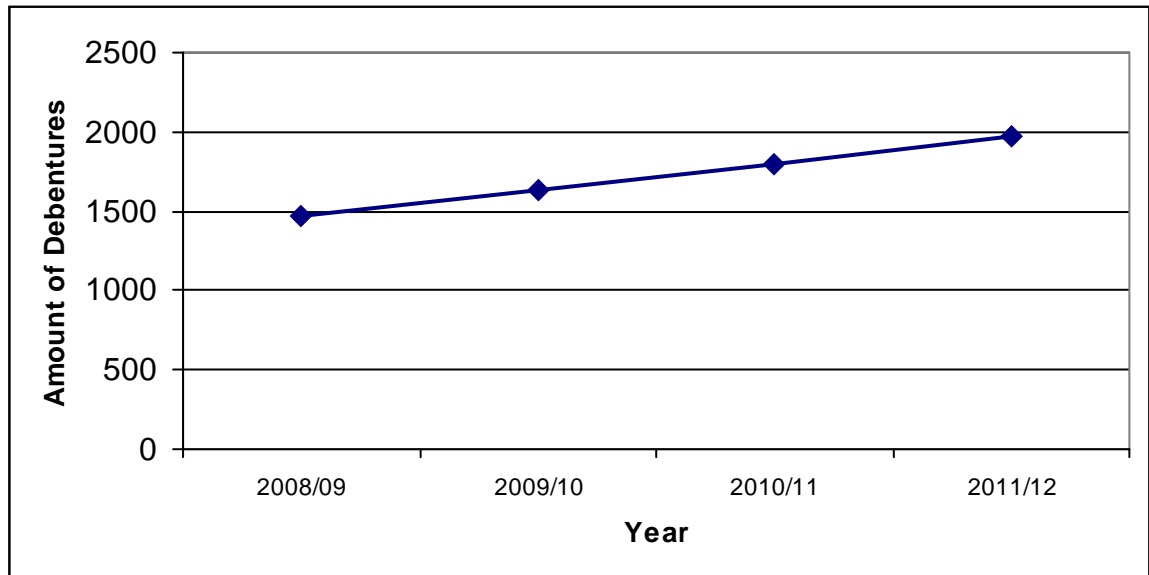


Figure 4.3 shows the forecasted amount of corporate debenture is an increasing trend. The trend line is up warding form left to right side.

4.2 Presentation and Analysis of Primary Data:

For the purpose of presentation and analysis of primary data, a set of questionnaires of 11 questions has been prepared. These questionnaires deal with study of opinions of 100 respondents regarding the major problem faced by the debt securities market of Nepal. Out of total respondents, 25 represent the listed companies, 35 belong to individual investors and 40 belong to brokers, market makers and other experts mainly the staff of NRB, NEPSE and SEBO.

4.2.1 Analysis of Questionnaire Relating to Corporate Debt Market in Nepal

This study is related to the debt corporate securities market and mainly focus to find out the problem and prospects of the corporate debt securities market in Nepal. This study is based on questionnaire survey of the opinion of 100 respondents. The classification of the respondents into companies, investors and experts has been made to analyze the differences in opinion with respect to major aspects of corporate debt securities market in Nepal. These aspects include identifying the influencing factor in determining the growth of corporate debt securities market, priority for major investment alternatives, reason for unpopularity of debentures, identifying the need of bond rating agency in Nepal, recognizing the need of trustee in representing the interest of the bondholder, finding the future prospects and finding that is there any problem faced by corporate debenture in securities market in Nepal. The Performa structured questionnaire and details responses obtained are presented in appendix I and II.

In order to access whether the difference in the opinion of listed companies, individual investors and issue managers/brokers & experts as to the major aspects of corporate debt market in Nepal is significant, chi-square value is computed and result are presented after testing of hypothesis.

Q.No.1 The best option financing for raising long-term fund

The first question given to the respondents is to choose the appropriate source of financing for raising long-term fund. in their overall rank for raising long-term fund by using different options such as common stock, preferred stock, corporate debenture, Government debt and others, majority of respondents gave their first priority to option 'a' (Common stock), second priority to option 'd' (Government debt), third priority to option 'c' (Corporate debenture), similarly for option 'b' (Preference share) they gave fourth priority it means last priority among the given options and non of the respondents shows any interest to the option 'e'(others).- (appendix-II)

Table 4.13: Choice of securities for raising long-term fund by all respondents

Options	L.C.	Ind. Inv.	B./M.M/Experts	Total	Percentage
a.	11	23	17	51	51%
b.	2	2	0	4	4%
c.	5	4	7	16	16%
d.	7	6	16	29	29%
e.	0	0	0	0	0%
Total	25	35	40	100	100%

Source: Appendix-II

After analyzing the data received by all respondents on the question number one choice of securities for collecting the required long term fund, table 4.14 shows that out of total respondents (i.e.100) 52% gave their first priority to the common stock, 29% gave their first priority to Government bond, 16% respondents gave their first priority to corporate debenture, only 4% gave their first priority to preference share and no one gave their first priority to any other choices. Thus the majority of the respondents show their first choice to common stock.

Alternatively we can analyze the tabulated data sector wise. The option 'a' (common stock) 44% of the total listed companies, 65.71% individual investors and 42.5% from brokers/issue managers/experts gave their first priority. The less interest shown

to option 'b' preference share only 8% listed company and 5.7% individual investors shows their interest as a first choice to this option but B/IM/E show no interest to this option. The practice of issuing common stock is very popular in the Nepalese capital market because majority of the investors are familiar with this security from the very beginning. It can be said that common stock market has dominated Nepalese capital market due to the poor practice of issuing other investment alternatives. Most of the corporate are following the tradition of issuing common stock rather than new practice of issuing different options such as preferred stock, debenture etc. Due to lack of information about other investment alternatives investors are also showing their interest to the common share only.

Q.No.2 Reasons for slow growth of corporate debt securities market

In the overall rank of the respondents regarding the slow growth of Nepalese corporate debt securities market most of the respondents gave their first priority to the option 'a' (lack of investors awareness towards debt securities), they gave their second priority to option 'd' (Insufficient supply of debt securities), similarly third priority to option 'c' (Lack of proper legal provision), fourth priority to option 'b' (Lack of capital gain opportunity), last priority to option 'e' (Poor practice of information disclosure by private organization). In this question majority of the respondent pointed out that the lack of investor's awareness towards debt securities as the reason for slow growth of Nepalese corporate debt market.

Table 4.14: Opinion of Reason for slow growth of Nepalese corporate debt securities market

Options	L.C.	Ind. Inv.	B./M.M/Experts	Total	Percentage
a.	12	18	13	43	43%
b.	2	4	5	11	11%
c.	5	5	8	18	18%
d.	5	6	8	19	19%
e.	1	2	6	9	9%
Total	25	35	40	100	100%

Source: Appendix-II

After analyzing the data received by all respondents on reason for slow growth of Nepalese corporate debt security market table 4.14 shows that out of total (100) 43% respondents vote for the option 'a'. That means majority of the respondents assume that the reason for slow growth of Nepalese corporate debt securities market is lack of investors awareness towards debt securities, 19% respondents argue that reason is insufficient supply of debt securities, 18% respondents have faith that the slow growth is due to lack of proper legal provision, remaining 11% conclude their views that lack of capital gain opportunity is the main reason for slow growth of corporate debt securities. Lastly the minority 9% gave their priority to poor practice of information disclosure by private organizations as a reason for slow growth.

If we calculate the sector wise weight to each option, the majority of listed companies group gave their first priority to the option 'a' their percentage is 48%. Similarly from second group that is individual investors, 51.42% respondents agree with the 48% of listed company. 32.5% of Broker/IM/Experts also believe that the reason for slow growth of Nepalese corporate debt market is lack of investors' awareness towards debt securities. This shows that the important factor for growth of corporate debt securities market is investors' awareness.

To make the corporate debt market rapid growth, first investors are to be well aware towards the debt securities. If company doesn't issue the debenture the investors does not get any chance to know about this security. Thus we can conclude that only private organization can lead the corporate debt market to the rapid growth by making aware the investors about such securities by providing them with different features. Than only investors get chance to know about corporate debt securities and after getting information obviously they will attract to such securities and corporate debt securities market will rise slowly.

Q.No.3 Reason for using bank loan instead of issuing debenture by Nepalese organizations

In the overall ranks on reason for using bank loan instead of issuing debenture by Nepalese corporate organizations, the respondents gave their first priority to the option 'a' (Bank loan is easy to available), second priority to option 'b' (Issuing debenture is a lengthy and difficult process), third priority to option 'c' (Cost of bank loan is less than cost of debenture), and last and fourth priority to option 'e' (others).

Table 4.15: Opinion of Reason using bank loan instead of issuing debenture by Nepalese organizations

Options	L.C.	Ind. Inv.	B./M.M/Experts	Total	Percentage
a.	13	18	21	52	52%
b.	7	8	16	31	31%
c.	3	6	3	12	12%
d.	2	3	0	5	5%
Total	25	35	40	100	100%

Source: Appendix-II

After analyzing the data received by all respondents on priority of reasons for using bank loan instead of issuing debenture by Nepalese corporate organizations, the table 4.15 shows that out of total respondents (100) 52% respondents gave their priority to bank loan is easy available as the reason for using bank loan instead of issuing debentures. 31% respondents believe that the issuing debenture is a lengthy and difficult process so the Nepalese corporate organization use bank loan instead of issuing debenture. Similarly 12% respondents argue that corporate organizations use bank loan instead of issuing debenture because cost of bank loan is less than cost of debenture. Only 5% respondents gave their first priority to others option.

In addition, each group's response on reason for using bank loan instead of issuing debenture is analyzed. Majority of listed company, 52% respondents gave their first

priority to the option 'a'. Similarly 51.42% respondents of individual investors and 52.5% respondents from the group of B/IM/Experts also gave their first priority to the bank loan is easy to available as the reason for using bank loan instead of issuing debentures. Another major percentage is for the option 'b' from the group of B/IM/Experts, 40% of respondents from this group gave their first priority to issuing debenture is a lengthy and difficult process as the answer for the question asked to them 'why does the Nepalese organizations refer bank loan instead of issuing debentures?'. Finally from the data it is clear that the most of the respondents believe that the Nepalese organizations are using the bank loan instead of issuing debenture because bank loan is easily available in the market. But in fact bank loan is suitable for only short term loan, for long term requirement its better to issue of debentures instead of using bank loan.

Q.No.4 Reason for less practice of debenture by corporate organizations

In the overall ranks on reason for less practice of debenture by corporate organizations, the respondents gave their first priority to the option 'b' (Lack of sound debt market in Nepal), second priority to option 'd' (Ineffective rules and regulations as well as lengthy process), third priority to option 'a' (credit oriented transaction have dominated debenture market), fourth priority to option 'c' (Political instability), and last priority to option 'e' (Increase in finance risk).

Table 4.16: Opinion of respondents in reason for less practice of debentures

Options	L.C.	Ind. Inv.	B./M.M/Experts	Total	Percentage
a.	4	6	8	18	18%
b.	9	13	13	35	35%
c.	4	3	5	12	12%
d.	5	7	12	24	24%
e.	3	6	2	11	11%
Total	25	35	40	100	100%

Source: Appendix-II

After analyzing the data received by all respondents on priority of reasons for less practice of debenture by corporate organizations, table 4.16 shows that out of total respondents (100) 35% respondents gave their priority to lack of sound debt market in Nepal as the reason for less practice of debenture by corporate organizations. Similarly 24% respondents assume that Ineffective rules and regulations as well as lengthy process of debenture issue is discouraging for practicing of debentures. 18% respondents gave their priority to credit oriented market dominated to debenture market as the reason for less practice for debenture. Another 12% respondents said that the political instability is the main reason of less practice of debentures. And the least percentage 11% respondents believe that the less practice of debenture is in fear of increase in finance.

In addition, each group's response on reason for less practice of debenture by corporate organization is analyzed. Majority of listed company, 36% respondents gave their priority to option 'b', similarly 37.14% of individual investors and 32.5% of B/MM/Experts also choose the option 'b' as the reason for less practice of debenture by corporate organizations. Similarly 30% respondents from the group of B/MM/Experts gave their priority on the option 'd'. This shows that the major reason for less practice of debenture by corporate organization is lack of sound debt market in Nepal. And the second major reason for less practice of debenture is ineffective rules and regulations as well as lengthy process.

Q.No.8 Issuance procedure of stock is easier than the debenture issuance procedure.

A question asked to the total number of respondents whether the issuance procedure of stock is easier than the debenture issuance procedure or not. Majority of respondents, 50% replied "No", 42% said "Yes" and remaining 8% replied "Don't know". The difference of respondent's percentage in option 'a' and 'b' is negligible.

Table 4.17: Respondents views regarding the issuance procedure of stock is easier than the debenture issuance procedure

Options	L.C.	Ind. Inv.	B./M.M/Experts	Total	Percentage
a.	7	12	23	42	42%
b.	18	15	17	50	50%
c.	0	8	0	8	8%
Total	25	35	40	100	100%

Source: Appendix-II

After analyzing that data that are received from the total respondents, majority of respondents think that issuance procedure of stock is not easier than the debenture issuance procedure. If we analyze group wise 72% respondents from listed companies don't believe on the statement that issuance procedure of stock is easier than the debenture issuance procedure similarly 42.8% of individual investors and 42.5% of B/MM/Experts are also agreed with the 72% listed companies. But majority of B/MM/Experts, 57.5% from this group argue that the statement is right, means they replied 'yes'. And 22.8% individual investors don't know regarding the issuance procedure. Here the respondents' views equally diverted in to two sides the difference of the frequency in the opinion of respondents are not a wider. It means from the data of the table 4.18 we cannot make the strong decision regarding the issuance procedure of stocks and debentures. But in overall we can say that issuance procedure of stock and debenture are same in view of it's difficultness in issuance.

Q.No.11 Are there any problem facing by corporate debenture in secondary market?

Similarly another one question had been asked to the total respondents regarding the problem facing by the corporate debenture in secondary market, majority of the total respondents (100) i.e. 63% argues that the corporate debenture still facing problem in the secondary market for its trading. And the remaining 37% disagree with the 63% respondents. As a whole table 4.18 shows that the majority of the respondents believe that the corporate debenture is still facing problem in the secondary market.

Table 4.18: Respondents views regarding problem facing by corporate debenture in secondary market

Options	L.C.	Ind. Inv.	B./M.M/Experts	Total	Percentage
a.	18	23	22	63	63%
b.	7	12	18	37	37%
Total	25	35	40	100	100%

Source: Appendix-II

In addition, each group’s response on problem facing by corporate debenture in the secondary market is analyzed. From listed company group 72%, from individual investors group 65.7% and from B/MM/Experts group 55% respondents choose option ‘a’. That means majority of the each group agreed on the statement that the corporate debenture is facing problem in secondary market.

4.2.2 Test of Hypothesis

In order to assess whether the difference in the opinions of the listed companies individual investors and other experts, chi-square test of hypothesis is used. The conducted hypothesis tests are presented below.

Hypothesis 1

In 100 random samples of respondents, it contains the following distribution which was noted on the basis of related fields. The test is to find the future prospects of corporate debt securities market in Nepal. The question asked was “Do you see the future prospects of corporate debt market in Nepal?” The results are summarized in the following table.

Table: 4.19

Hypothesis test regarding the future prospects of corporate debt securities market in Nepal

Opinions	Listed companies	Individual investors	Brokers, market makers and other experts	Total
Yes	20	24	31	75
No	5	11	9	25
Total	25	35	40	100

Source: Field Survey

Hypothesis setting:

Null Hypothesis (H₀) : There is no significant difference between observed and expected frequencies regarding to the future prospect of corporate debt securities market in Nepal.

Alternative Hypothesis (H₁): There is significant difference between observed and expected frequencies regarding to the future prospect of corporate debt securities market in Nepal.

Fixing the level of significance at 5%

Calculation of expected frequencies (E):

$$\begin{aligned} \text{Expected frequency of } R_1C_1 &= \frac{\text{Row Total} \mid \text{Column Total}}{\text{Grand Total}} \\ &= \frac{75 \mid 25}{100} = 18.75 \end{aligned}$$

Similarly,

$$R_1C_2 = 26.25$$

$$R_1C_3 = 30$$

$$R_2C_1 = 6.25$$

$$R_2C_2 = 8.75$$

$$R_2C_3 = 10$$

Test of Chi-square:

Observed frequencies (O)	Expected frequencies (E)	O-E	$\frac{(O - E)^2}{E}$
20	18.75	1.25	0.08333
24	26.25	-2.25	0.19285
31	30	1	0.03333
5	6.25	-1.25	0.25
11	8.75	2.25	0.57857
9	10	-1	0.1
Total			1.23808

$$\text{Calculated value of } \chi^2 = \frac{(O - E)^2}{E} = 1.23808$$

$$\begin{aligned} \text{Degree of freedom (d.f.)} &= (R-1) (C-1) \\ &= (2-1) (3-1) \\ &= 3 \end{aligned}$$

Tabulated value of χ^2 at 5% level of significance for 3 degree of freedom is 7.815.

Decision: Since the tabulated value of χ^2 at 5% level of significance for 3 degree of freedom is greater than calculated value (i.e. $7.815 > 1.23808$), the null hypothesis is accepted which means that there is no significance difference between observed and expected frequencies regarding to the future prospects of debt securities market in Nepal.

Hypothesis 2

In respect of reasons to invest on debt securities, majority of respondents (56%) gave the first priority to its fixed income, second priority (24%) to the less risk involvement and third priority (20%) to the higher interest rate than market interest rate.

Testing of Hypothesis:

To test whether the difference in the opinions of the respondents is significant, chi-square (χ^2) test is employed. In the random samples to 100 respondents following distribution of opinions has been obtained during the field survey.

Table 4.20
Opinion of Respondents Regarding the Reasons of Investors preference to invest on debt securities

Statements	Listed companies	Individual investors	Brokers, market makers and other experts	Total
It provides fixed income	11	23	22	56
It involves less risk	8	7	9	24
It gives higher rate of return than market	6	5	9	20
Total	25	35	40	100

Source: Field Survey

Hypothesis Setting:

Null hypothesis (H_0): There is no significant difference between observed and expected opinion regarding the reasons to invest on debt securities.

Alternative Hypothesis (H_1): There is significant difference between observed and expected opinion regarding the reasons to invest on debt securities.

Fixing the level of significance at 5%

Calculated of expected frequencies (E):

$$\begin{aligned} \text{Expected frequency of } R_1C_1 &= \frac{\text{Row Total} \mid \text{Column Total}}{\text{Grand Total}} \\ &= \frac{56 \mid 25}{100} \\ &= 14 \end{aligned}$$

Similarly,

$$\begin{array}{lll} R_1C_2 = 19.60 & & R_1C_3 = 22.40 \\ R_2C_1 = 6 & R_2C_2 = 8.40 & R_2C_3 = 9.60 \end{array}$$

$$R_3C_1=5$$

$$R_3C_2=7$$

$$R_3C_3=8$$

Test of Chi-square:

Observed frequencies (O)	Expected frequencies (E)	O-E	$\frac{fO ZEA}{E}$
11	14	-3	0.64286
23	19.60	3.40	0.58980
22	22.40	-0.40	0.00714
8	6	2	0.66667
7	8.40	-1.40	0.23333
9	9.60	-0.6	0.0375
6	5	1	0.2
5	7	-2	0.57143
9	8	1	0.125
Total			3.07373

$$\begin{aligned} \text{Calculated value of Chi-square} &= \phi \frac{fO ZEA}{E} \\ &= 3.07373 \end{aligned}$$

$$\begin{aligned} \text{Degree of freedom (d.f.)} &= (R-1)(C-1) \\ &= 4 \end{aligned}$$

Tabulated value of χ^2 at 5% level of significance for 4 degree of freedom is 9.488.

Decision : since tabulated value of χ^2 is greater than calculated value (i.e. $9.488 > 3.0733$), the null hypothesis is accepted which means that there is no significance difference between observed and expected opinions regarding reasons to invest on debt securities.

Hypothesis 3

Out of 100 respondents, 61% of them gave their opinion that banking sectors debenture is most preferable for investment. 20% of them give their opinion in favor of manufacturing sectors debenture. 6% of them show their preference on hotel sector and 13% shows their preference on trading sector. According to them,

efficient management, creative return, promising growth rate and timely disclosure of information are the key incentives behind the confidence in the banking sector.

Testing of Hypothesis

To test whether the opinions of the respondents is significant, chi-square (χ^2) test is employed. In the random samples of 100 respondents, it contains the following distribution which was noted on the basis of related fields.

Table 4.21
Opinion of respondents regarding the preference of sector to invest

Statements	Listed companies	Individual investors	Brokers, market markers and other experts	Total
Banking sector	16	23	22	61
Manufacturing sector	5	7	8	20
Hotel sector	1	3	2	6
Trading sector	3	2	8	13
Total	25	35	40	100

Source: Field Survey

Hypothesis setting:

Null Hypothesis (H_0): There is no significance difference between observed and expected frequencies regarding the preference of sector to invest.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequencies regarding the preference of sector to invest.

Fixing the level of significance of 5%

Calculation of expected frequencies (E):

$$\text{Expected frequency of } R_1C_1 = \frac{\text{Row Total} \mid \text{Comumn Total}}{\text{Grand Total}}$$

$$= \frac{61 | 25}{100}$$

$$= 15.25$$

Similarly,

$$\begin{array}{lll} R_1C_2 = 21.35 & & R_1C_3 = 24.40 \\ R_2C_1 = 5 & R_2C_2 = 7 & R_2C_3 = 8 \\ R_3C_1 = 1.50 & R_3C_2 = 2.10 & R_3C_3 = 2.40 \\ R_4C_1 = 3.25 & R_4C_2 = 4.55 & R_4C_3 = 5.20 \end{array}$$

Test of chi-square:

Observed frequencies (O)	Expected frequencies (E)	O-E	$\frac{(O - E)^2}{E}$
16	15.25	0.75	0.03688
23	21.35	1.65	0.12752
22	24.40	-2.40	0.23607
5	5	0	0
7	7	0	0
8	8	0	0
$\left. \begin{array}{l} 1 \\ 3 \\ 2 \\ 3 \\ 2 \\ 8 \end{array} \right\} 19$	$\left. \begin{array}{l} 1.50 \\ 2.10 \\ 2.40 \\ 3.25 \\ 4.55 \\ 5.20 \end{array} \right\} 19$	0	0
Total			0.40048

$$\text{Calculated value of } \chi^2 = \frac{(O - E)^2}{E} = 0.40048$$

$$\text{Degree of freedom (d.f.)} = (R-1)(C-1) - 5 \text{ [Since 5 d.f. loss due to pooling]}$$

$$= 1$$

Tabulate value of χ^2 at 5% level of significance for 1 degree of freedom is 3.841.

Decision: Since the tabulated value of χ^2 at 5% level of significant for 1 degree of freedom is greater than calculated value (i.e. $3.841 > 0.40048$), the null hypothesis is accepted which means that there is no significant difference between observed and expected frequencies regarding the preference of sector to invest.

Hypothesis 4

Out of 100 respondents, the majority of respondents (70%) agreed on the point that corporate bond rating will be helpful in boosting the confidence of investors toward Nepalese corporate debenture market. They believe that an independent rating agency helps them to analyze the past performance, to forecast the future prospects by using different financial and statistical tools. Only 9% of respondents disagreed about the requirement of rating agency and rest of 21% does not know about the requirement and role of corporate bond rating agency.

Testing of Hypothesis:

To test whether the opinions of the respondents is significant, the chi-square (χ^2) test is employed. In the random samples of 100 respondents, following distribution of opinions has been obtained during the field survey.

Table 4.22

Opinion of Respondents regarding the need of corporate bond rating agency

Statements	Listed companies	Individual investors	Brokers, market makers and other experts	Total
Agree	20	19	31	70
Disagree	2	5	2	9
Don't know	3	11	7	21
Total	25	35	40	100

Source: Field Survey

Hypothesis setting:

Null Hypothesis (H₀): There is no significant difference between observed and expected opinions regarding requirement of corporate bond rating agency to boost the confidence of investors towards Nepalese corporate debenture market.

Alternative hypothesis (H₁): There is significant difference between observed and expected opinions regarding requirement of corporate bond rating agency to boost the confidence of investors towards Nepalese corporate debenture market.

Fixing the level of significance at 5%

Calculation of expected frequencies (E):

$$\begin{aligned} \text{Expected frequency of } R_1C_1 &= \frac{\text{Row Total} \mid \text{Column Total}}{\text{Grand Total}} \\ &= \frac{70 \mid 25}{100} \\ &= 17.50 \end{aligned}$$

Similarly,

	$R_1C_2 = 24.50$	$R_1C_3 = 28$
$R_2C_1 = 2.25$	$R_2C_2 = 3.15$	$R_2C_3 = 3.60$
$R_3C_1 = 5.25$	$R_3C_2 = 7.37$	$R_3C_3 = 8.40$

Test of Chi-square:

Observed frequencies (O)	Expected frequencies (E)	O-E	$\frac{fO - ZE}{E}$
20	17.50	2.50	0.35714
19	24.50	-5.50	1.23450
31	28	3	0.32143
$\left. \begin{array}{l} 2 \\ 5 \\ 2 \\ 3 \end{array} \right\} 12$	$\left. \begin{array}{l} 2.25 \\ 3.15 \\ 3.60 \\ 5.25 \end{array} \right\} 14.25$	-2.25	0.35526
11	7.37	3.63	1.78791
7	8.40	-1.40	0.23333
Total			4.28957

$$\begin{aligned} \text{Calculated value of Chi-square} &= \sum \frac{fO - ZE}{E} \\ &= 4.28957 \end{aligned}$$

$$\begin{aligned} \text{Degree of freedom (d.f.)} &= (R-1)(C-1) - 3 \text{ [Since 3 d.f. loss due to pooling]} \\ &= 1 \end{aligned}$$

Tabulated value of χ^2 at 5% level of significance for 1 degree of freedom is 3.841.

Decision : Since calculated value of χ^2 is greater than tabulated value of χ^2 (i.e. $4.28957 > 3.841$), the null hypothesis is rejected and alternative hypothesis is accepted, which means there is significant difference between observed and expected frequencies regarding the requirement of corporate bond rating agency to boost the confidence of investors towards Nepalese corporate debenture market.

Hypothesis 5

Out of 100 respondents, 57% of them gave their opinion that Trustee is representing the interest of bondholders very effectively. Similarly 36% of them said that it is effective only. 5% of them gave their view as a less effective and remaining 2% agree that the bondholder's interest represented by Trustee is ineffective.

Testing of Hypothesis

To test whether the opinions of the respondents is significant, chi-square (χ^2) test is employed. In the random samples of 100 respondents, it contains the following distribution which was noted on the basis of related fields.

Table 4.23
Opinion of respondents regarding the role of Trustee in representing the interest of bondholders

Statements	Listed companies	Individual investors	Brokers, market markers and other experts	Total
Very effective	14	20	23	57
Effective	8	12	16	36
Less effective	2	2	1	5
Ineffective	1	1	0	2
Total	25	35	40	100

Source: Field Survey

Hypothesis setting:

Null Hypothesis (H_0): There is no significance difference between observed and expected frequencies regarding to the role of Trustee in representing the interest of bondholders.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequencies.

Fixing the level of significance of 5%

Calculation of expected frequencies (E):

$$\begin{aligned} \text{Expected frequency of } R_1C_1 &= \frac{\text{Row Total} \mid \text{Comumn Total}}{\text{Grand Total}} \\ &= \frac{57 \mid 25}{100} \\ &= 14.25 \end{aligned}$$

Similarly,

$$\begin{array}{lll} R_1C_2 = 19.95 & & R_1C_3 = 22.8 \\ R_2C_1 = 9 & R_2C_2 = 12.6 & R_2C_3 = 14.4 \\ R_3C_1 = 1.25 & R_3C_2 = 1.75 & R_3C_3 = 2 \\ R_4C_1 = 0.5 & R_4C_2 = 0.7 & R_4C_3 = 0.8 \end{array}$$

Test of chi-square:

Observed frequencies (O)	Expected frequencies (E)	O-E	$\frac{(O - E)^2}{E}$
14	14.25	-0.25	0.00438
20	19.95	0.05	0.000125
23	22.8	0.2	0.00175
8	9	-1	0.11111
12	12.6	-0.6	0.02857
16	14.4	1.6	0.17778
$\left. \begin{array}{l} 2 \\ 2 \\ 1 \\ 1 \\ 1 \\ 1 \\ 0 \end{array} \right\} 7$	$\left. \begin{array}{l} 1.25 \\ 1.75 \\ 2 \\ 0.5 \\ 0.7 \\ 0.8 \end{array} \right\} 7$	0	0
Total			0.323715

$$\text{Calculated value of } \chi^2 = \frac{(O - E)^2}{E} = 0.323715$$

Degree of freedom (d.f.) = (R-1)(C-1)-5 [Since 5 d.f. loss due to pooling]

$$= 1$$

Tabulate value of χ^2 at 5% level of significance for 1 degree of freedom is 3.841.

Decision: Since the tabulated value of χ^2 at 5% level of significant for 1 degree of freedom is greater than calculated value (i.e. $3.841 > 0.323715$), the null hypothesis is accepted which means that there is no significant difference between observed and expected frequencies regarding the preference of sector to invest.

4.3 Problems in Corporate Debt Securities Market in Nepal

If we go through the history of Nepal's securities market, it is still infant stage, the regulatory system established to systematize the securities trading still has deficiencies. According to the respondents, not only the investors, also the service providers are found to be irrational and concerned with the short term gains. In this scenario, market cannot expect perfect behavior from all the market participants. The major problems seen in the system are duality and ambiguities in the regulations, inadequate legal provision to administer the debenture market, lack of adequate market infrastructure, lack of clear demarcation of roles of trustee, lack of professionalism in the market participants. Another existing problem is the lack of institutional investors in the debenture market. The structure of the market is very unbalanced with very high weightage of banks and financial institutions. From the analysis of the responses, without a strong industrial and business sector, these financial institutions become weak, which results in less issue of corporate debt securities. SEBO/N is the regulatory body and NEPSE the only market for debenture trading in Nepal. One of the primary functions of both these institutions is to develop the debenture market in country. But except carrying out the regular function, neither of these institutions has been able to play role of catalyst in the promotion of debenture market.

The other important aspect is that both of these institutions are neglecting the trading mechanism of debenture. Even if the debenture of all the seven banks have been listed in NEPSE, but the trading of five banks is not possible which means it does not

provide an avenue for entry and exit which is not a healthy sign for the development of debenture market. Moreover debenture-holders are suffering from lack of liquidity since they can not earn the benefit of price appreciation. For this amendment is made in section 24, according to which the first quoted price of the bonds or debentures of a day have to be 0.2 percent plus or minus the closing price of the previous day but this price fluctuation limit could not support the bonds or debentures trading mechanism. This may be due to the less participation of investors since there is less demand for debentures there is a less chance for the debenture holders to reap the benefit of capital gain.

To make the debenture market more competitive and strong, Company Ordinance 2005 has made provision of appointing a trustee for issuing debenture. However, the institutions providing trustee services are limited and the regulatory mechanism is yet to clearly emerge. The stagnant economy led by political instability and violence in the country has been the major reason for the pessimism in the market. Security problem has created the huge problem on industrial development. This is why there are very few issuances of debenture from manufacturing sectors. Even the individual investors could not boost up their confidence due to the anarchies and economic chaos prevails in the country.

Inability of investors to analyze risk and return has created the problem on corporate debt securities market growth. Investor being inclined only towards short term gains is the major problem in debenture market. Lack of timely information, non-existence of conducive financial and investment policies are regarded as the main problem. Problems on growth of debt market have been created by fundamental institutional weakness. They are limited human resource, inadequate information technology, overstaffing, inadequate attention to prudent risk management, and poorly functioning governance structure i.e. boards, committees, policies and procedures.

Absence of an over the counter market, benchmark credit rating agency, centralized capital market, poor investor's response, no opportunity of capital gain, small debt

market, reluctance of investors towards corporate debenture, lack of awareness among investors, non-existence of effective corporate culture with good governance in private sector and absence of trust indenture act have hindered the development of corporate debenture market in Nepal.

There is still lack of agencies, which enables widespread saving of people into productive avenues and provides the liquidity. Inability of covering wider geographical sectors of nation, while issuing corporate debt securities is another problem of development of corporate debenture market. The tax policy is affecting the development of corporate debenture market. Generally, income from interest is regarded as non taxable income but in the context of Nepal, there is no tax exemption in the interest income this may affect the debenture market by increasing transaction cost and creating a disincentive for investment in the corporate debt securities market.

Since the corporate debenture market could not speed up as desired, many of the corporate debt securities are absent. Debt securities like Convertibles, Warrants, Commercial paper have not been initiated yet because of the lack of legal provisions, inadequate control and regulatory mechanism. Till date NEPSE, SEBO/N, NRB, CRO have not initiated towards the development of such practices in Nepal. Perhaps the most important point to affect seriously the debenture market in the long run is the directives no. 8, point no. 5, which states that the finance companies cannot invest in the shares and debentures of any bank or other financial institutions. If it is the crossholding, the purpose can be fulfilled by another already existing provision under which no finance company is allowed to invest more than 10% of its paid capital in the form of investment in any other financial institutions. This totally non-relevant may affect the growth of corporate debenture market.

As the investment increase, so does the size of the capital market. But the overall investment scenario is not much encouraging. The society is under the grip of social and economic tension, law and order situation is worsening, regular strikes are on the

rise. Above all the chains of political events have been counterproductive to the investors to come forward.

4.4 Prospects of Corporate Debt Securities Market in Nepal.

There may be some cause and effect relationship as it seems that investors have started showing sensitivity towards the corporate debenture market. The oversubscription trend of corporate debentures shows that participation of investors is increasing. Many individuals and institutions are interested in investing in the debenture because of the sound track record of the issuing companies and its future prospects. As a result the issue were oversubscribed heavily. Nepal presents a massive opportunity for debt market growth. If the companies brought the suitable corporate debt instruments with different features which can be used as a sweetener to attract potential number of investors then there is high prospect of corporate debt securities market.

Countries with well developed capital market also have well-developed banking system and non-banking financial intermediaries (like: finance companies, mutual funds, investment companies, brokerage houses etc.). In case of Nepal these preconditions are growing gradually, it shows that there are high prospects of debt market growth in Nepal in coming days. Well-constructed portfolio help in reducing the risk associated with investment. Nepalese investors are now searching the good and better portfolio mix debt instrument is necessary. Presently, corporate debt market is limited in Nepal. But the preference of investors to reduce the risk market and prepare the good portfolio, debt securities will come widely.

Present liberalization and privatization move of government will improve the economic growth and financial condition of the nation. Now, Company Act, alternative incentives system in the industrial enterprises act will provide the suitable environment for the growth of the corporate debt securities market as well as capital market in Nepal. A gradual process of development of the nation and continued economic growth helps to grow debt market gradually. To industrialize the nation

more and more capital is needed, the equity market only will not be able to supply the capital. Therefore, there is higher prospect of debt market growth along with the industrialization.

Developing people's awareness towards the capital market, saving and investment will help to grow debt market properly. World's equity market is bearish in nature, therefore it is moving towards the debt security. Nepal is also expected to follow the world trend there by showing the prospect of debt market growth. Using debt securities for expansion of the corporations gives the executive of corporations concerned for the control of the company. Most of the corporate bodies are on expansion path and there is also growing trend of debt market in other neighboring countries and Asian nations. It shows that there is high prospect of debt market growth in Nepal.

Countries on which there are better developed banks and financial intermediaries the corporate debt securities market is developed automatically. In Nepal the development of banking sector is increasing which shows that debt market will grow gradually. Many academician and researchers are involved in tracing out the capital market and corporate debt securities market situation. Their findings, recommendations and suggestions will help in proper development and growth of debt market in Nepal.

4.5 Major Findings:

Analysis of variables (primary and secondary data) relating to Nepalese corporate debt market helps to draw some major findings relating to problem and prospects of corporate debenture market.

4.5.1 Major Findings through Secondary Data

) During the study period from year 1997/98 to 2007/08, only fourteen issues are made through debentures. The characteristics of Nepalese corporate debenture indicate that the interest provided on debenture is continuously

decreasing which may be the main reason for showing poorer response by investors. However the recent issues are found to provide relatively higher interest. But issuing trend of debentures is increasing and being regular form year 2003/04. In the year 2007/08 five organizations issued debenture amounting to Rs.2950 millions. This issue of debenture obviously pushing up the debenture market in the securities market. The forecasted amount of issuing debentures is also an increasing trend, which is good sign for bright prospects of corporate debentures market in Nepal.

) In the Nepalese securities market common stock has the highest coverage in total amount of public issue. It is the most widely used corporate security. Similarly, preference share is a least used instruments in Nepalese financial market. It means that capital market of Nepal is heavily dependent upon the equity instruments. Till the year 2007/08 out of total securities issues only 20.68% capital raised through the issue of debenture. Issuance of just four types of securities i.e. common stock, preference shares, debenture and mutual fund unit scheme reveal the fact that our capital market is really very poor on the matter of varieties of corporate securities. Securities innovation is lacking in Nepal's capital market.

) From the history of corporate debt securities starts after the issuance of debenture by manufacturing company BNL in FY 1986/87 in Nepal and than JSML and SRSML in 1993/93 and 1997/98 respectively but features of SRSML's debenture was convertible after 4 years par value of each debenture is Rs.1000. Needless to say, investors were not interested towards manufacturing sector's debenture securities as there were heavily under subscription around -0.18 times. But now the trend is little bit changed, the recently issued debenture of manufacturing company i.e. NEAC's debenture is oversubscribed by 1.11 times, which shows that the investors are also interested in the manufacturing company's debentures. But in fact the oversubscription and under subscription of the issues are also dependent on the interest rate, goodwill of the company and many more factors.

-) Most of the debenture issues are not 100% public offering. Especially by the banking sectors not any issues that have the feature of 100% public offering, they were subscribed through private and public offering. But manufacturing sectors have issued the debenture with 100% public offering.
-) It is well-known statement that higher coupon rate always attracts the large number of investors in the book of Van Horn (2002), Alexander (1999), and Donald (2000) but corporate debenture of SRSML were heavily undersubscribed instead of attracting large number of investors although the coupon rate of (14%) of debenture of SRSML was higher than the market interest rate (10.25), very low subscription of SRSML debenture may be due to lack of investors awareness towards debenture securities. On the other hand, the coupon rate of debenture securities of banking sector higher than the market interest rate agreed with the writer's statement by attracting large number of investors. If this result continues, corporate debt securities will attract large number of investors which means more of such bond issues can be expected in the future, particularly from the banks to meet their higher capital requirement under Nepal Rastra Bank directives.
-) After the issuance of SRSML of debenture by these three manufacturing companies, one another manufacturing company issued the debenture amounting Rs.1500 million recently that is NEAC and got the oversubscription i.e. 1.11 times. From the banking sector HBL was the first bank in the case of issuance corporate debenture of amount Rs.360 million in the year 2001/02 and oversubscribed i.e. 1.12 times. After HBL there were seven banks i.e. NIBL, EBL,BOK,NICBL,NSBIBL,KBL and NBL issued corporate debenture in Nepalese capital market. HBL issued debenture 2 time in the year 2001/02 and 2007/08, similarly NIBL issued debenture 4 time in the year of 2003/04, 2005/06, 2006/07 and 2007/08 respectively. Most of the debenture issues were over subscription which infers better future prospects of Nepalese corporate debenture market.

-) All these debentures are not secured by the pledge of any kind of assets therefore the debentures are unsecured bonds. Moreover in all these debentures in the event if liquidation or bankruptcy, debenture holders are to be considered only after the depositors have been fully satisfied. Meaning that, the bondholder will get the amount after payment is made to the depositors.
-) The bonds provide return in the form of coupon payment. In the context of Nepal, it is taxable as ordinary income. There is no tax exemption on the income from coupon interest.
-) Bonds are less attractive to investors during the period of inflation because a rise in the price level reduces the purchasing power of the people who earn fixed income in the form of interest and principal. Similarly, inflation discourages investment which require longer gestation period like debenture. In this way, inflation tends to disturb the qualitative composition of investment.

4.5.2 Major Finding through Primary Data

To fulfill the objectives of problems and prospects of Nepalese corporate debt market in Nepal, following major findings are obtained after analysis of primary data which are collected by questionnaires method from all respondents i.e. listed companies, individual investors and brokers/market makers/experts has been analyzed using chi-square test and other statistical test. Findings are represented as follows:

- In respect of preference for types of securities, respondents gave the first priority to common stock. The informal interview with respondents in this respect reveals that common stock is more marketable than other securities. Not only the investors but also the listed companies, brokers/market makers/experts' majority preference are also significant high in favor of common stocks. They also suggest making strengthen the secondary market of debt securities in order to provide marketability for debt securities and to

attract more investors towards debt securities. Majority of the companies used common stocks for raising long-term fund, as it is already popular to investors and easily subscribe. This may be the major issue of Nepalese corporate debenture market. This indicates that if other instruments with superior quality are also practiced for raising long-term fund, they may have good prospects for oversubscribing. This shows some prospects of better future of corporate debenture market.

- With respect to reason regarding slow growth of debt securities market, respondents gave first priority to lack of investor's awareness and second priority insufficient supply of quality debt securities. Similarly third priority to lack of proper legal provision, forth to lack of capital gain opportunity, and last to poor practice of information disclosure by private organizations. This infers that to gain investors' awareness towards debt securities, public should be informed about corporate debenture and their advantage as more and more public investment is necessary for improving corporate debt market whereas to encourage the listed companies for supplying quality bonds is another major problems of corporate debt market in Nepal. According to them, if quality bonds are available in market, there will be very low chance of under subscription.
- With respect to reason regarding Nepalese organizations prefer bank loan instead of issuing debenture, responds gave first priority to bank loan is easily available and second priority to issuing debenture is difficult process. And other cost of bank loan is less than that of debentures issue. Although the cost of bank loan is less (i.e. saves high flotation costs) in short term, it is higher in long-term (as the lending rate of bank is high). Nepales debenture issuers are not aware of this fact. So if we make them aware about this fact, then some future better prospects of corporate debenture market can be seen.
- With respects to the reason regarding only less practice of debenture by Nepalese corporate organizations as a source of long-term financing, majority of respondents gave their first priority to the lack of sound debt market in

Nepal. Similarly ineffective rules and regulations as well as lengthy process is the second major reasons. Similarly credit oriented transaction have dominated debenture market. In addition political instability and increase in financial risk are other reasons for less practicing of debenture by corporate houses. This shows that such types of rules and regulations should be revised to make it favorable to debenture investors and issuers.

- With respect to reason of investor's performance to invest on debt securities, majority of respondents gave the first priority to it's fixed income, and second priority to less risk involvement. Respondents gave least priority to debenture giving higher interest rate than market interest rate. The result of hypothesis test agrees with this statement too.
- With respects to the future prospects of debt market in Nepal, majority of each group replied “yes”. Out of total respondents 75% agrees that there are good future prospects of debenture market in Nepal. By the analysis of the trend of debenture issuance in the market and the calculation of forecasted debenture issues using time series also prove that the future prospects of debenture market is very positive.
- With respect to opinion regarding the requirement of corporate bond rating agency to boost the confidence of investors towards Nepalese corporate debenture market, the majority of respondents agreed on the point that corporate bond rating will be helpful in boosting the confidence of investors toward Nepalese corporate debenture market. They believe that an independent rating agency helps them to analyze the past performance and to forecast the future prospects by using different financial and statistical tools.
- With respect to preference regarding various sectors' debt securities, the majority of respondents choose banking sector's debenture. Only least percent of respondents stated that they were willing to invest in other sectors debt securities. Least preference on other sector's debt securities create dangerous problem in growth of debt securities market, as these sector's need more debt

capital by issuing debt securities then banking sectors because huge public deposit can be used by bank, therefore they rarely need to issue debenture.

- Regarding the issue procedure of stock, majority of the respondents believe it is not easier than the issue procedure of debenture. Some individual respondents choose the option 'don't know'. That means all of the individual investors even not aware about issuance procedure of the securities. In overall the respondents agrees the issue procedure of both securities are equal in view of issuance procedure. But the difference in percentage of both respondents is negligible; it means we can not make any conclude regarding the easiness in the issuance procedure of both securities.
- With respects to opinion regarding the role of trustee, majority of the total respondents choose the option 'very effective' remaining percentage choose 'effective'. Only few respondents from listed companies and individual investors group choose the option 'less effective'. They agreed that the provision of trustee secure the debenture holders right. The debenture holders can complain and give suggestion to the trustee for the interest of their benefit. Finally the result of the hypothesis test agrees with the statement too.
- With respect to problems for corporate debentures in secondary markets n Nepal, majority of the respondents from each group gave their opinion in favor of 'Yes" which discourage the investors in purchasing corporate debt securities.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the final chapter of the study that involves summary, conclusion and recommendations. Summary refers the short form of whole study, conclusion draws from the analysis provides the cause of problems of corporate debt securities market of Nepal. And also point out the prospects of the debt securities market. Recommendation suggests the improvement to be made for the benefit of different sectors and for the growth of debt securities market in Nepal.

5.1 Summary:

In the world of globalization the growth of economic development of country is not possible without capital market because it collects and mobilizes necessary funds to industrialization process. Since debt securities market being significant contributor in capital market development, it should be well developed and well functioned. Capital plays key role in financial market, which can be collected by issuing tradable securities such as common stocks, debentures/bonds, preference shares and warrants as a long term in order to mobilize necessary funds for the economic development of the nation. The securities market is the requisites for the sound development of an economy because it not only provides stable long-term capital for organizations and an effective saving vehicle for the public but also functions as an efficient tool for resources allocation.

The basic purpose of the study is to get overall picture of corporate debt securities market. This study seems to be relevant in this dynamic situation of the securities market. Its specific objectives are: (a) To find out the conditions and positions of corporate debt securities market. (b) To trace out the major problems in the development of corporate debt securities. (c) To identify the key features of Nepalese corporate debt securities market. (d) To identify the future prospects of corporate debt securities market. (e) To provide suggestion and recommendations for systematic growth of Nepalese corporate debt securities market.

The study is based on secondary as well as primary source of information. The trend of corporate debt securities is analyzed using secondary data for the period of 1997/98 to 2007/08. The key features of corporate debt securities, forecasting of future issue of corporate debenture are also analyzed. In the primary data, responses collected from 100 respondents were analyzed to achieve remaining objectives. Out of 100 respondents, 25 were from listed companies, 35 from individual investors and remaining 40 were from the group of brokers, market makers and experts. To test the different opinions of the respondent's chi-square test was used and results were tested at 5% level of significant.

Nepalese corporate debenture market is in developing stage and is clear that Nepalese corporate debenture market is dominant by common stock. Not only government debt securities but also real assets are dominating Nepalese corporate debenture market. The corporate debt market is a key element of capital market. There is no controversy whether this sector should be developed or not. However it is a major sector and once this sector is developed, capital market will be developed as an overall which causes overall economic development of the nation. If someone said their country countries are under-developed, it means they do not have sound corporate debt market. Hence, corporate debenture market in developing countries has been viewed as an effective tool for achieving economic development and reallocation of capital all over the nation.

The history of corporate debt securities in Nepal started with the issuance of debenture By BNL in the Fiscal Year 1986/87 and they (corporate debentures) are limited in its existence i.e. sixteen issued by twelve companies from the period of 1986/87 to 2007/08 which have similar characteristics but out of them four from manufacturing sector and remaining from banking sector. Therefore, for the overall growth of Nepalese capital market, development of corporate debt market is necessity. Very poor practice of corporate debt securities with very similar characteristics is prevailed; this may be due to the lack of issuers and investors' awareness towards corporate debt securities. The insurance board of Nepal has made

a rule that the insurance companies cannot invest more than 10% out of their total in corporate securities but there no limit for government securities. This provision definitely limits the investment on corporate debt securities. However the result of debenture market is prosperous which leads bright future prospects of banking sectors debt securities market in Nepal.

5.2 Conclusion:

Nepalese debt securities market is still at infant sate. Issuance of quality bonds with better characteristic features by better performing corporate houses is the demand of present corporate debenture market. Corporate debt securities market will grow up very soon because there are some positive signals felt by researcher such as declining interest rate on deposit of commercial banks, growing participate of banking sector in issuing debentures. In the recent few issuances most of the issuance got oversubscription. This means it can be predicted that more of such debentures issue can be expected in the future.

Researcher concludes that there are a number of problems due to which debt securities market of Nepal is not growing smoothly. Mainly the problems are investor's increasing attraction towards common stock, lack of public awareness, limited supply of quality bonds, difficult process of issuing debenture, lack of varieties in the feature of debenture, high preference in purchasing banking sector's debentures and low preference in other sectors debentures, political instability, unsystematic government debt securities market, lack of large business organization, insufficient legal provision and few issuances of corporate debt securities in spite of encouraging public response.

The oversubscription on bank's debenture shows some positive signals for the growth of corporate debt market and another important thing is that the government securities are going to trade at NEPSE floor; it means better prospects for the growth

of government debt market, which will encourage the corporate debt market growth. If mentioned problems are cured in time, its growth is widely felt by the researcher.

Again, the researcher found that the Nepalese general investors are so much interested on investing common stock while very few investors are showing interest on corporate debenture. They are less risky and provide fixed income. Likewise companies are also attracting investors by issuing common stock rather than debt securities even though debenture issue is suitable for long-term financing as well as can be less costly source of financing than common stock.

The recent trend of investing on real state and ornaments is also another factor to create obstacle for not only development of corporate debt market but also the whole economic activities. Most of the investors diverting their investment on the other sector like real states which have easy and quick return and also like to hoard in the form of ornaments, and jewelry. Such activities are diverting the capital fund to the unproductive sector which is unfavorable for the economic development of the nation. If corporate houses can attract such investors by issuing the verities of corporate debt securities than such fund can be utilized in the productive sectors.

The researcher also lead to conclusion that there are some prospects of corporate debenture market. The growing investment industry (group of activities related to investment, such as insurance, banking, brokerage etc.), increasing trend of corporate debenture issue, oversubscription rate, growing participation of banking sector in issuing debenture shows the growth prospects of corporate debt securities market. By investing on corporate debentures investors can get higher return than deposit on commercial banks, which also show the growth prospects of corporate debt securities market. On the overall debt securities market, government debt securities market is comparatively developed than corporate debt securities market. Therefore, emphasis should be given to corporate debentures for the overall development of corporate debt securities market.

5.3 Recommendations:

The researcher found so may scattered weaknesses in all area and overall system of Nepalese corporate debt securities market. The researcher desires to give some suggestions to the stakeholders such as government, investors, corporate sectors and institutional mechanism for growth of Nepalese corporate debt securities market.

1. To Government:

Government is responsible to create the favorable investing environment in the nation and has responsibilities in promoting desirable activities and restricting undesirable activities. Government should bring more concrete policy to force or motivate companies towards the issuance of debenture. As development of proper policies attract large number of suppliers of debt securities as well as investors form the nation and abroad, Government should take appropriate step to develop corporate debt securities market reform and growth.

-) Political instability create security problem and create doubt to the investor regarding the desirable return from their investment. So to develop not only corporate debt market but also all the economic activities political stability should be maintained. For that government leader should be sincere and honest.
-) Nepal government should give tax exemption in income for debt securities. By which investors will be attracted towards corporate debt securities and needed funds will be easily available to the corporate houses.
-) Adequate Legal provision should make to protect the right of investors. Not only this but also lengthy process of issuing debentures as well as ineffective rules and regulations should be revised frequently according to market demand.
-) Implementation and monitoring mechanism should make efficient and effective regarding debenture market.

-) To rate the credibility of the debenture and other instruments, Credit Rating Agency (CRA) plays vital role. Thus, for the purpose of rating credit instruments and borrowers, an autonomous and independent credit information and rating centre should be established.
-) Since there is only one stock exchange in the country, which is located in the capital and there is no other alternative, participation of the investors from outside the valley is very low. Therefore, to develop a proper debt market, it should provide the opportunity for investing by the people outside the valley, the regional stock exchange concept brought out by the government in ninth-five year plan should be implemented. Expansion of the stock exchange outside Kathmandu will help to increase the number of investors from out of the valley in securities transaction.

2. To investors:

There are two types of investors in the debt securities market, which are: individual investors and institutional investors. From the field of survey, it has found that majority of investors are not interested towards corporate debt securities. So it is given following suggestions to investors (mainly individual investors):

-) It is found that Nepalese investors are not aware about their investment scheme. Therefore it is suggested that they should be aware about their investment scheme by properly analyzing risk and return.
-) Investors should be aware of their rights so that they use it when needed while inadequacy of laws should be opposed.
-) The first investment principle is “spread the risk”. Bond/Debenture is only the instrument providing fixed income and involves lower risk than the securities that yield variable income.
-) Investors should change the perception towards other sectors debentures (i.e. manufacturing and trading sectors mainly). All

manufacturing and trading companies may not be weak. So that, they should identify strong companies and their debentures issue should be taken positively.

3. To Corporate Sector:

Corporate Sector is an important stakeholder of corporate debt securities market. If they don't issue debentures, growth of corporate debt securities will be impossible.

The researcher gives following suggestions to corporate sector:

-) They should understand market demand and grab the opportunity by issuing debentures with different features to fulfill the cash requirement.
-) Huge portion of issued debentures should be subscribed through public offering rather than private placement. So that more and more investors can purchase it.
-) Issued debentures should be listed in NEPSE in order to provide secondary market operation.
-) Provision of trustee should be made in debenture issue.
-) Companies should give priority to issue secured debenture.
-) True financial condition and future plan should be disclosed at the time of issuance.
-) Price sensitive information should completely disclose.
-) Number of minimum debentures to be purchased should be minimized, so that poor people may also buy it.

4) To Institutional Mechanism

To control and facilitate the securities market the provision of institutional mechanism is required. So the government has made some institutional mechanism i.e. NRB, NEPSE, ROC, SEBO/N etc to look after Nepalese debenture market. It is given following suggestion to the institutional mechanism.

-) In order to make debenture and bond market dynamic and competitive, the stock exchange can make separate arrangement for market making of such securities with permission from the securities board.
-) The recent development in the NEPSE is in fact admirable; NEPSE has started online trading through wide area network (WAN) from its own office. Because of these facilities, brokers can buy or sell securities from their office. But to enter in the access of WAN system, brokers should have fulfill the prescribed necessary infrastructure. NEPSE should continuously monitor the trading of WAN system to prevent the unauthorized activities done using network. Market halt system should be implemented strongly to prevent the hooliganism in the transaction of securities. The WAN system should make advance and entered in to the internet trading system. The current trading hour of NEPSE 12.00 noon to 15.00 should extended to 12.00 noon to 18.00 to facilitate more transactions of securities.
-) Corporate debt securities market is suffering from low investors' participations due to the absence of awareness about debt securities. Thus number of participation is not as desired. SEBO/N should co-operate with NEPSE and launch many investors' awareness programs in different parts of the country where potential small investors live. Therefore, in the course of such awareness campaigns, the service of the brokers should be expanded and this expanded network should be used for more awareness programs.
-) Nepalese capital market lacks many corporate debt securities practices prevalent in the world of financial market. Inefficiency of laws about convertibles, warrants and commercial papers is the main reason for the absence of such practice. NEPSE, SEBO/N, NRB should take initiative for the existence and proper development of such practice.

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Appendix - I
Questionnaire

Dear Respondents

I have been conducting a research on "**Problem and Prospects of Corporate Debt Securities Market in Nepal**" as a requirement of the partial fulfillment of the degree of Master of Business Studies (MBS). In this regard, to seek the views of all stakeholders, a list of questionnaire has been prepared.

I humbly request you to fill up at the best of your knowledge according to the given instructions. Your kind cooperation in this regard will be of great value to me.

Thanking You,
Narendra Pd. Kharel
ShankerDev Campus, T.U.

Respondents Information

Name :.....	Address:
Name of Company :	Date:
Post:	Signature:

Instruction: Please tick () in appropriate options.

1. In your opinion, what types of securities do you generally prefer to invest?
 - a. Common Stock
 - b. Preference share
 - c. Corporate debenture
 - d. Government debt
 - e. Others (Please Specify).....

2. What are the main reasons for slow growth of debt securities market?
 - a. Lack of investors awareness towards debt securities
 - b. Lack of capital gain opportunity
 - c. Lack of proper legal provision
 - d. Insufficient supply of debt securities
 - e. Poor practice of information disclosure by private organization

3. Why do the Nepalese organizations refer bank loan instead of issuing debenture?
 - a. Bank loan is easy to available
 - b. Issuing debenture is a lengthy and difficult process
 - c. Cost of bank loan is less than cost of debenture
 - d. Others (Please Specify)

4. What is the reason for less practice of debenture by corporate organization?
 - a. Credit oriented transaction have dominated debenture market.
 - b. Lack of sound debt market in Nepal.
 - c. Political instability.
 - d. Ineffective rules & regulations as well as lengthy process.
 - e. Increase in financial risk.

5. In your opinion, why do the investors generally prefer to invest on debt securities?
 - a. It provides fixed income
 - b. It gives higher rate of return than market
 - c. It involves less risk

Appendix – II
Sector Wise Number of Responses to Field Survey Based on
Questionnaires

QN	Opinions	Listed Companies	Individual investors	Brokers, Market makers & Experts	Total	Priority Rank
1.	a. Common stock	11	23	17	51	1
	b. Preference share	2	2	0	4	4
	c. Corporate debenture	5	4	7	16	3
	d. Government debt	7	6	16	29	2
	e. Others	0	0	0	0	5
	Total	25	35	40	100	
2.	a. Lack of investors awareness towards debt securities	12	18	13	43	1
	b. Lack of capital gain opportunity	2	4	5	11	4
	c. Lack of proper legal provision	5	5	8	18	3
	d. Insufficient supply of debt securities	5	6	8	19	2
	e. Poor practice of information discloser by private organization	1	2	6	9	5
	Total	25	35	40	100	

3.	a. Bank loan is easy to available	13	18	21	52	1
	b. Issuing debenture is a lengthy and difficult process	7	8	16	31	2
	c. Cost of bank loan is less than cost of debenture	3	6	3	12	3
	d. Others	2	3	0	5	4
	Total	25	35	40	100	
4.	a. Credit oriented transaction have dominated debenture market	4	6	8	18	3
	b. Lack of sound debt market in Nepal	9	13	13	35	1
	c. political instability	4	3	5	12	4
	d. ineffective rules and regulations as well as lengthy process	5	7	12	24	2
	e. increase in financial risk	3	6	2	11	5
	Total	25	35	40	100	
8.	a. Yes	7	12	23	42	2
	b. No	18	15	17	50	1
	c. Don't know	0	8	0	8	3
	Total	25	35	40	100	
11.	a. Yes	18	23	22	63	1

	b. No	7	12	18	37	2
	Total	25	35	40	100	

Source: Based on information contained in questionnaire.

Note: QN indicates question number referred to in the questionnaire and options indicate the choice specified in each quest.