

CHAPTER -I

INTRODUCTION

1.1 Background of the Study

In general, only a piece of paper of paper represents the investor's rights to certain prospects or property and the certain conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights is called a security. It may be transferred to another investor, and with it will go all its rights and conditions. Thus, every thing from a pawn ticket to a share of GM common stock is a security. Hereafter the term security will be used to refer to 'a legal representation of the right to receive prospective future benefits under stated conditions' (Sharpe, Alexander and Bailey, 2003: 9).

Security markets are mechanisms created to facilitate the exchange of financial assets. Therefore, the market exists in order to bring together the buyers and sellers of security (Bhattarai, 2004: 2).

The security market can be primary and secondary. Primary markets are markets, in which corporation raise a new capital. Basically, primary markets are concerned with the accumulation of funds. On the other hand, secondary markets are the markets, in which the existing, already outstanding, securities are traded among investors. Nepal Stock Exchange (NEPSE) is an example of a Nepalese secondary market, which is the only one organized stock exchange of Nepal till date.

Stock Exchanges are the organized market for buying and selling financial instruments known as securities, which include stocks, bonds/debentures, convertibles, warrants, options, rights etc. Most stock exchanges have specific locations where the trades are completed. For the stock of a company to be listed the company must satisfy certain requirements.

Stock exchange transactions involve the activities of brokers and dealers. These individuals facilitates the buying and selling of financial assets. Brokers execute trades on behalf of clients and receive commissions and fees in exchange for matching buyers and sellers. On the other hand, dealers buy and sell from their own portfolios (inventories of securities). Dealers earn income by selling a financial instrument at a price that is greater than the price the dealer paid for the instrument. Some exchange participants perform both roles. These dealers – brokers sometimes act purely as a client’s agent and at other times buy and sell for their own inventory of financial assets.

It is obvious that, Corporations issue new securities, is known as the primary market, usually with the help of investment bankers. The investment bank acquires the initial issue of the new securities from the corporation at a negotiated price and then makes the securities available for its clients and other investors in an initial public offering (IPO). In this primary market, corporations receive the proceeds of security sales. After this initial offering the securities are bought and sold in the secondary market. The corporation is not usually involved in the trading of its stock in the secondary market. Stock exchanges essentially function as secondary markets. By providing investors the opportunities to trade financial instruments, the stock exchanges support the performance of the primary markets. This arrangement makes it easier for corporations to raise the funds that they need to build and expand their businesses.

New York Stock Exchange (NYSE), Tokyo Stock Exchange (TSE), American Stock Exchange (AMEX), and Bombay Stock Exchange (BSE) etc. are the examples of organized stock exchanges. Nepal Stock Exchange (NEPSE) is an example of organized stock exchange and this is the only one stock exchange of Nepal (Bhattarai, 2004: 16).

It is very much essential to have sound knowledge about the “Present condition of security trading system at NEPSE” to an investor to invest in any security of the company. Investors are required to analyze different factors and follow certain procedures before making any investment decision. Lack of the adequate and proper knowledge of present condition of trading system at NEPSE, many investors are in dilemma whether investment is fruitful or not in the viewpoint of money and time. This study will help the current and potential investors to make the right investment decisions in a right manner and time.

1.1.1 Introduction to Nepal Stock Exchange Limited (NEPSE)

Nepal stock exchange (NEPSE) is a non-profit organization, operating under Securities Exchange Act, 2006. It is located at Singha Durbar Plaza, Kathmandu, Nepal. The former Securities Exchange Center (SEC) was converted into NEPSE under the program initiated to reform the capital market. The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the company act in 1964, the first issuance of government Bond in 1964 and the establishment of Securities Exchange Center Ltd. (SEC) in 1976 were other significant development relating to capital markets (www.nepalstock.com).

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

Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act 2006.

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

The shareholders of the NEPSE are Nepal Rastra Bank (NRB), Government of Nepal (GON), Nepal Industrial Development Corporation (NIDC) and licensed members.

NEPSE has its own board of directors (BOD), which will govern, direct, control and monitor NEPSE, it constitutes of members representing different sectors as per securities Act 2006. At present, the BOD constitutes 2 members including a chairman from Nepal Government, 2 members from Nepal Rastra Bank, 1 from NIDC. Moreover, BOD will nominate one member as an expert in capital market. General Manager of NEPSE will serve as a director on the BOD (www.nepalstock.com).

The capital structure of NEPSE is as follows:

Table 1.1
Capital Structure of NEPSE

S. No.	Shareholder	Amount	Percentage (%)
1.	Government of Nepal (GON)	20,48,00,000	58.67%
2.	Nepal Rastra Bank (NRB)	12,08,00,000	34.60%
3.	NIDC Capital Market	2,14,00,000	6.12%
4.	License Member (Broker)	21,00,000	0.62%
	Total	34,91,00,000	100%

Source: Ghimire and Bhattarai, 2065: 36

Members of NEPSE are permitted to act as intermediaries to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers and 2 market makers, who

operate on the trading floor as per the Securities Exchange Act 2006, rules and bye-laws.

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

Presently, there are 11 sales and issue manager and 1 dealer (secondary market). The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done with in another three months by paying 25% penalty (www.nepalstock.com).

1.1.1.1 Securities Available for Trading

NEPSE facilitates trading in the following instruments

A. Shares

- Equity Shares
- Preference Shares

B. Debentures

C. Government Bonds

D. Mutual Funds

1.1.1.2 Listing Companies

Presently, 163 companies have listed their securities to make them eligible for trading till date. Out of this “A” Group classified companies are 94 (**Appendix-2**). Criteria for the classification of the listed companies as per listing Bye - laws 2053.

1. The paid up capital of the company must be at least Rs. 20 million.
2. The number of common shareholders must be at least 1000.

3. The company must have made public floatation as per bye-laws 9 (ka) sub byelaws (4).
4. The company must be in profit since last three years.
5. The book value per share must not be less than its paid up value.
6. Submission of the financial statement within six months from the closure of the fiscal year.

1.1.1.3 Listing Information

Trading on the floor of the NEPSE is restricted to listed corporate securities and government bonds. At present, 163 companies have listed their securities to make them eligible for trading. Besides this, NCM Mutual Fund enlisted its units to make them eligible to trade in the floor.

1.1.1.4 Process to Obtain Membership

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

1.1.1.5 Listing and Annual Fee to be Submitted

Table 1.2

Listing and Annual fees for Shares

S. No.	Issued Capital	Listing Fee	Annual Fee As Per issued Capital
1.	Up to Rs. 10 million	0.20% or minimum 15,000	Rs. 15,000
2.	Rs. 10 million to Rs. 50 million	0.15% or minimum 45,000	Rs. 25,000
3.	Rs. 50 million to Rs. 100 million	0.10% or minimum 75,000	Rs. 35,000
4.	Above Rs. 100 million	0.075% or minimum 100,000	Rs. 50,000

Source: www.nepalstock.com

Table 1.2 show the listing and Annual fees for shares. Up to Rs. 10 million listing fee is 0.20% or minimum Rs.15, 000 so annual fees as per issued capital is Rs. 15,000. From Rs. 10 million to Rs. 50 million, listing fee is 0.15% or minimum Rs. 45,000 so annual fee as per issued capital Rs.25,000. From Rs. 50 million to Rs.100 million, listing fee is 0.10% or minimum Rs.75, 000 so annual fees as per issued capital Rs. 35,000. Above Rs. 100 million listing fee is 0.075% or minimum Rs. 100,000 so annual fee as per issued capital is Rs. 50,000.

Table 1.3

Table Listing and Annual fees for Debentures and Mutual Funds

S.No	Issued Capital	Listing Fee	Annual Fee As Per issued Capital
1.	Up to Rs. 10 million	0.20% or minimum 15,000	Rs. 15,000
2.	Rs. 10 million to Rs. 50 million	0.15% or minimum 45,000	Rs. 25,000
3.	Rs. 50 million to Rs. 100 million	0.10% or minimum 75,000	Rs. 35,000
4.	Above Rs. 100 million	0.075% or minimum 100,000	Rs. 50,000

Source: www.nepalstock.com

Table 1.3 shows the listing and annual fees for debentures and mutual funds. Up to Rs. 10 million issued capital, listing fee is 0.20% or minimum Rs. 15,000. So annual fee as per issued is Rs. 15,000. From Rs. 10 million to Rs. 50 million issued capital, listing fee is 0.15% or minimum Rs. 45,000. So annual fee as per issued is Rs.25,000. From Rs, 50 million to Rs. 100 million issued capital, listing fee is 0.10% or minimum Rs. 75,000. So, annual fee as per issued is Rs, 35,000. Above Rs. 100 million issued capital, listing fee is 0.075% or minimum Rs. 100,000 . So. Annual fee as per issued capital is Rs. 50,000.

1.2 Statement of the Problem

Nepalese economy is at underdeveloped stage. There is a lack of investment opportunities, so the investors cannot find suitable sector to invest their funds. As a result, they are bound to put most of their savings into bank.

On the other side, investment in securities can be one of the best options for the Nepalese public. If effectively managed investment in securities market becomes the best investment decisions for general public. But it is found that, Nepalese public are less interested to invest in the securities and there is the lack of awareness regarding the investment in securities market. Therefore, we can say that securities market is poorly understood among Nepalese investors, due to which, it cannot attract the interest of potential investors. As a result, Nepalese public seeks investment opportunities in the fields other than securities. Due to this reality, large amount of fund is poured into non-productive sectors. Thus, development of securities market is necessary to divert the funds towards productive sectors. In Nepal, the securities market is facing with many difficulties, due to which it is not developing as expected. Low trading volume, absence of professional brokers, early stage of growth, limited movement of share prices, limited information to investors, price instability in the secondary market, lack of proper investment decisions of the investors etc. are the burning issues in Nepalese securities market. Since the

capital market in Nepal is still in the infancy stage, the securities trading systems of the securities market still has different deficiencies. This leaves scope for anyone to take unfair benefit from the market. In such a situation we cannot expect perfect and fair behavior from all the market participants. The major problems seen in the system are, duality and ambiguities in the regulations, inadequate legal provisions, inadequate market infrastructure, lack of clear demarcation of the regulators, poor corporate cultures, lack of professionalism of the market participants, lack of margin trading system etc.

‘A developed securities market is the medium through which only those firms having good performance can raise capital through primary market. Liquid markets reduce the incentives to investing in long-duration projects because investors can easily sell their stake in the project if they need their savings before the project matures. Moreover, securities markets play a key role in allocation capital to the corporate sector, which has a real effect on the economy in aggregate.

It is obvious that securities markets should be well functioning for the sustainable economic development. The need for securities market development in Nepal has been an accepted reality and efforts are being made to strengthen it. To date, the stock markets in Nepal hasn't attained satisfactory level of maturity in terms of its infrastructure, governance, investor's confidence, and pricing of stock and stability' (**Nepal, 2009: 10**).

Having those various problems as stated above in the NEPSE, this study is, therefore, devoted to examine the present condition of securities trading system in NEPSE. Specifically, the main issues of the study are as follows:

- I. How many companies are listed in NEPSE and how many, out of them, are able to make transactions of their securities?
- II. How NEPSE categorize the companies into different groups under the listing Bye-law (2053)

- III. What are the annual trend behaviors and current situations of turnover, market capitalization, NEPSE index, and the liquidity position of NEPSE?
- IV. What are the current conditions of share price and the turnover (amount traded) of the securities of listed companies in NEPSE?
- V. By following which methods an investor can save his/her time, cost and effort while making transaction of securities?
- VI. What sorts of procedures are required to perform by an investor for the transaction of securities at NEPSE?
- VII. What should be done for the systematic growth of securities market in Nepal?

1.3 Objectives of the Study

The main objective of the research is to portray the existing scenario of the Nepal Stock Exchange (NEPSE) and securities trading system therein.

However, the specific objectives of the study are follows:

- To study and analyze the number of listed companies and traded companies in NEPSE.
- To study the annual trend behaviors and current situations of turnover, market capitalization, NEPSE index and the liquidity position of NEPSE.
- To identify relationship between share price and amount traded of the securities traded in NEPSE.
- To suggest measures for further improvement in order to strengthen the securities trading system in NEPSE.
- To provide real and useful knowledge about present condition of securities trading system in NEPSE.

1.4 Significance of the Study

Although Nepal has gained the experience of securities market for more than three decades, it is still in infancy stage. Till the date, Nepalese securities market is not practicing margin trading and appropriate derivatives market. Due to the slow growth of corporate sector in the country, securities market of

Nepal is not developing as expected. Development of various and dynamic securities market is the pre-requisite for the development of economic condition of the country. Therefore, the development of efficient securities market is very necessary to assist in the development of whole country. Securities transaction system is the main function performed by a securities exchange. A sound trading system should be followed or implemented by a security exchange for the effective and efficient trading of the securities. Since this study mainly focuses on the transaction procedures of securities at Nepal Stock Exchange (NEPSE), it may be useful in assisting the development of securities market in Nepal.

People expect better, quicker, easier and special facilities in securities market at the same time they expect honesty and soundness. The trading system determines the reliability of performance that the securities markets provide. Thus, this study is significant to the general people at one hand, and in other hand, this study can be significant to the regulatory authority of securities market, the securities board of Nepal (SEBON), in order to make the transparent practice, and important financial information, and make them to disclose the actual and appropriate financial situation. This study is significant to the different participants of securities markets too. It will help them to improve the better practice.

Until now there are not many books and publications or research conducted, that tells the present condition of securities trading system of Nepalese securities markets. Thus, this study is significant to management, shareholder, general public, policy maker and academicians. This study will explore for possibility of better practice and will represent the current status. So, it will be fruitful for not only current and potential investors but also for policy maker, manager, researcher and leaders.

More concisely, it will provide literature to the researcher who wants to carry out further research in this field.

1.5 Limitations of the Study

The study mainly focuses on the securities trading system of Nepal Stock Exchange limited (NEPSE). Due to the limited time and resource to conduct the study, it does have some drawbacks. Followings are some known limitations of the study:

- I. In Nepalese market, there is only one stock market. So, the studies and references will be extremely limited.
- II. The limitations of this study are time constraints, limited budget, lack of experience, up to date information etc.
- III. The research is confined to the activities of Nepal Stock Exchange limited (NEPSE).
- IV. This study is fully dependent on the data provided by the respective organizations.
- V. The non availability of required data and references are also one of the limitations of the study.
- VI. This study is only for the partial fulfillment of the requirement of degree of MBS.
- VII. In this study only fixed year i.e. from Fiscal year 1993/94 to 2008/09 collected data are used.

1.6 Organization of the Study

By following a simple research methodology approach, this study has been organized in five different chapters. The organization of this research study will be as follows:

Chapter I: Introduction consists of background of the study, statement of the problem, objective of the study, rationale of the study, limitation of the study and organization of the study.

Chapter II: deals with review of literature which consists of conceptual/theoretical framework, review of the books, journals and review from empirical/past researches studies. This will advance the knowledge about subject matter as well as general method of doing research in transaction procedures of securities.

Chapter III: explains the methodology used in the research to find the result for meeting the objective of the study. It deals with research methodology, which includes nature or research, nature and sources of data, data gathering procedures, tools for analysis.

Chapter IV: deals with the analysis of secondary data collected during the study. This section attempts to analyze and evaluate the data with the help of analytical tools and interpret the result so obtained.

Chapter V: covers the summary, conclusions and recommendations of the study.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter deals with review of literature which consists of conceptual framework, review of the books, journals and review from past research studies. This will advance the knowledge about subject matter as well as general method of doing research in securities trading system in Nepal Stock Exchange Limited.

2.1 Conceptual Framework

Conceptual framework gives the basic concept on the relevant topic in the research where as reviews of the related studies gives knowledge about what have been done previously on the topic, what were the findings, what can be done future etc. review of related studies are done through articles, reports, magazines, different internet web sites and previous dissertation papers that have been conducted by various authors, scholars, researchers and teachers.

Nepal Stock Exchange Limited (NEPSE) is the only one organized stock market of Nepal. Stock markets are the type of secondary markets where the securities are traded which are already been issued in the primary market. It means that, securities once purchased through primary market are traded in secondary market. Both the primary and secondary markets are complementary to each other. In the absence of one market, other market cannot flourish.

Securities market facilitates the exchange of financial assets by bringing together buyers and sellers of securities. Securities market provides and effective way of rising money for commercial enterprises and at the same time provide an investment opportunity for individual and institutions. Securities market has both theoretical and practical perspectives. Securities market provides value and significance to the financial assets. Practically, the activities

of buying and selling securities of the securities market are extremely important for the allocation of capital within economics. The securities market serves as a reliable guide to the performance of companies and there by promoting efficiency.

To make clearer about these markets, following attempt has been done.

2.1.1 Financial Market

Financial markets provide a forum in which suppliers and demanders of funds can transact business funds directly. Financial market constitutes money market and capital market. The money market is created by a financial relationship between suppliers and demanders of short-term funds, which have maturities of one year or less. Most of the money market transactions are made in marketable securities, which are short-term debt instrument such as treasury bills, commercial papers and negotiable certificates of deposit issued by government, business and financial institutions. The money market exists because certain individuals, businesses government, business and financial institutions, businesses governments, and financial institutions have temporary idle funds that they wish to place in some type of liquid assets or short-term interest-earning instrument. At the same time, other individuals, businesses governments, and financial institutions find themselves in need of seasonal or temporary financing. The money market thus brings together the suppliers and demanders of short-term liquid funds. The capital market is a financial relationship created by a number of institutions and arrangements that allows the suppliers and demanders of long-term funds with maturities of more than one year – to make transactions. Included among long-term funds are securities issues of business and government. The backbone of the capital market is formed by the various securities exchanges that provide a forum of debt and equity transactions. The smooth functioning of the capital market, which is enhanced through the activities of investment bankers, is important to the long-run growth of business (Gitman, 1988: 30-32).

Thus, financial market provides a forum in which suppliers of loans and investments can transact business directly. The loan and investments of institutions are made without the direct knowledge of the suppliers of funds (savers). Suppliers in the financial markets know where their funds are being lent or invested. The two key financial markets are the money and capital market. Transactions in short-term debt instruments, or marketable securities, take place in the money market. Long-term securities (bonds and stocks) are traded in the capital market.

All securities, whether in the money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the issue—that is the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individuals, business, government or financial institution savers and investors, they become part of “new” securities are sold: the secondary market can be viewed as a “used” or “pre” owned securities market.

2.1.2 Securities Market

Security

In general, only a piece of paper represents the investors’ rights to certain prospects or property and the conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights, is called a security. It may be transferred to another investor, and with it go all its rights and conditions. Thus, everything from a pawn ticket to a share of GM common stock is a security. Hereafter the term security will be used to ‘a legal representation of the right to receive prospective future benefits under stated conditions.

Security Markets

Security markets exist in order to bring together buyers and sellers of securities, meaning that they are mechanisms created to facilitate the exchange of financial assets. There are many ways in which security markets can be distinguished. One way is primary and secondary markets, where the key distinction is whether the securities are being offered for sale by the issuer. Interestingly, the primary market itself can be subdivided into seasoned and unseasoned new issues. A seasoned new issue refers to the offering of an additional amount of already existing securities, whereas an unseasoned new issue involves the initial offering of a security to the public. Unseasoned new equity issues are often referred to as public offerings or IPO's.

Another way of distinguishing between security markets considers the life span of financial assets. *Money Market* typically involves financial assets that expire in one year or less, whereas *Capital Markets* typically involve financial assets with life spans of greater than one year. Thus, treasury bills are traded in a money market, and treasury bonds are traded in a capital market (Sharpe, Alexander & Bailey, 2003: 9-10).

Therefore, the securities market is an important constituent of the capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sale and resale of corporate securities.

Securities are traded in a market called securities markets. Although, securities markets are concentrated in few locations, they refer more to mechanism rather than to place designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities such as equities, short and long term debt instruments, etc. are the products that are traded in the markets. Institutions such as investment bankers and security firms, securities issuing

institutions such as government and corporate bodies are the participants of the securities markets. Securities markets' major function is to provide line between saving and investment there by facilitation the creation of new wealth. The development of a sound securities market with its constituent financial institution is one of the mechanisms which enable the efficient transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them move productivity and/or have loss/risk aversion (Rugh, 1966: 56).

The existence of markets for securities is of advantage to both issuers and investors. As to their benefit to issuers, securities market assists business and government in raising funds. In a society with private ownership of the means of production and distribution of goods and services, savings must be directed towards investment in industries where capital is most productive. Government must also be able to borrow for public improvements. Market mechanism makes possible the transfer of funds from surplus to deficit sectors efficiently and at low cost (Fisher and Jordan, 2000: 17).

The securities market can be classified into primary market and secondary market.

(i) Primary Market

The primary market for securities is the one in which new issues of bonds, preferred stock, and common stocks are sold by various economic units to acquire new capital (Reilly, 1986: 74).

Securities available for the first time are offered through the primary securities markets. The issuer may be a brand new company or one that has been in business of many years. The securities offered might be a new type for the issuer or additional amounts of a security used frequently in the past. The key is that these securities absorb new funds for the offers of the issuer (Fisher and Jordan, 2000: 19).

The primary securities market includes all transactions that result in the accumulation of financial capital by firms, governments or individuals to be used in consumption or real capital investment. The participants in this process are many and varied, but an important segment, includes the money brokers who act as a middlemen in the process of exchanging securities or fund. These brokers provide invaluable services. Their principal role is to assist in the pooling of funds by the certain security firms that will appeal to the ultimate investors (Jacob and Pettit, 1984: 147).

Primary market is financial market in which securities are initially issued, the only market in which the issuer is directly involved in the transaction (Gitman, 1988: 30).

(ii) Secondary Market

Secondary markets are markets for existing assets, which are currently traded between investors. These are the markets that create the price and allow for liquidity. If secondary markets did not exist, investors would have no place to sell their assets, without liquidity, many investors would not invest at all.

If investors would not resell securities readily, they would be hesitant to acquire them, and such reluctance would reduce the total quantity of funds available to finance industry and government. Those who own securities must be assured of a fact, fair orderly and open system of purchase and sell at known prices (Fisher and Jordan, 2000: 18).

In secondary markets there is trading in outstanding issues. In this case, an issue has already been sold to the public, and it is traded between current and potential owners. Again, there are secondary markets for bonds, preferred stock and common stock. The proceeds from a sale in the secondary market go, not to the company, but to the current owner of the security.

The secondary market involves trading securities initially sold in the primary market. Therefore, the secondary market provides liquidity to individuals who acquire securities in the primary markets. The primary market would be seriously hampered in its function of helping firms acquire new capital without the liquidity provided by the secondary market.

Secondary markets are also important to corporations because the prevailing market price of any security the firm issues is determined by action in the secondary market.

Therefore, any seasoned new issue (additional shares of an outstanding issue) sold in the primary market will necessarily be priced in line with the firm's capital costs, which are determined in the secondary market (Reilly, 1986: 76-77).

Secondary securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers. Secondary market comprises the stock exchange and the over-the-counter (OTC) market (Rimal, 2004: 94).

There are four different kinds of secondary markets, they are:

1. Organized Securities Exchanges,
2. Over-The-Counter (OTC) market,
3. Third market, and
4. Fourth market

Figure 2.1
Different Kinds of Secondary Markets



The *Organized Securities Exchanges* are the physical locations where listed securities are traded under a set of rules and regulations. Investors usually purchase Securities in the secondary market by calling securities brokers. In secondary market investors buy and sell securities themselves, the issuer never gets any cash flow from the trades. Likewise, Nepal Stock Exchange (NEPSE) of Nepal, the New York Stock Exchange (NYSE), Tokyo Stock Exchange, American Stock Exchange (AMEX), and Bombay Stock Exchange (BSE) are the examples of organized stock exchanges.

Organized security exchanges are tangible physical entities. Each of the larger ones occupies its own building, has a limited number of members and has an elected governing body – its board of governors. Members are said to have “seats” on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange Shares

The *Over-The-Counter (OTC)* exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchanges. It is not a formal exchange like organized stock exchanges. It neither requires membership for trading of securities nor listing of securities for trading, meaning that formal listing of securities are not necessary in the OTC market. A sophisticated telecommunication network

links active traders in this market. The prices at which securities are traded “over-the-counter” are determined by competitive bids and negotiation. The OTC, in addition to creating a resale market for outstanding securities, is a primary market in which new public issues are sold. Therefore, the OTC market competes with investment bankers and the organized exchanges because OTC dealers can operate in both the primary and secondary markets.

The over-the-counter (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchanges. Active traders in this market are linked by a sophisticated telecommunications network. The prices at which securities are traded “over-the-counter” are determined by competitive bids and negotiation. The OTC, in addition to creating a resale market for outstanding securities, is a primary market in which new public issues are sold (Gitman, 1988: 37).

National Association of Securities Dealers Automated Quotation system (NASDAQ) is an example of an OTC market. This is the computer-linked network for the trading of OTC securities. It was initiated in 1971. It provides immediate information on a computer-linked system of bid/asked prices for stocks offered by various dealers. The bid price is that at which a dealer is willing to purchase a security and asked price is that at which the dealer is willing to sell a security.

Securities exchanges – both organized and over-the-counter – act as the backbone of the capital market by providing a forum in which debt and equity transactions can be made (Gitman, 1988: 37).

The *Third Market* is an OTC market where the securities listed in the organized stock exchange are also traded.

The term third market is used to describe over-the-counter trading of shares listed on an exchange. When a stock is listed on an exchange, members of that exchange are generally required to execute all buy and sell orders through the exchange (Reilly, 1986: 88).

More generally, the term 'Third Market' now refers to the trading of any exchange-listed security in the over the counter markets. The trading hours are not fixed to the third market like organized stock exchange.

In the third market dealers provide only execution and record keeping services for their clients.

The *Fourth Market* also exists in the over-the-market and here trades occur directly among investors. In other words, in this type of market the buyer and seller deal directly with each other. This deal occurs in the exchange listed securities. Fourth market participants completely bypass normal dealers' services.

The term fourth market is used to describe the direct trading of securities between two parties with no broker intermediary (Reilly, 1986: 88).

2.1.3 Stock Exchange and Its Role and Functions

Stock exchange is the most highly 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.

Securities exchange don't directly buy or sell securities, rather they provide trading floors on which a continuous auction market is conducted. To transact business on the trading floor of an exchange and individual must be member, that is, a seat on the exchange must be purchased. Individual or institutional investors who place orders to buy or sell the securities listed on an exchange

may not be present when their orders are executed. Rather, they must be transmitted their orders to an exchange member-usually a commission broker-who sees that they are carried out (Jacob and Pettit, 1984: 155).

In the recent years, the authorities are increasing the role of the stock exchange (Sur, 1998: 40). Stock exchange is not and has at no time been the private concern of a few individuals. Nor have their activities been limited to the cyclical booms and slumps, which attracted so much popular attention. The stock exchange as the market for securities gives every body assess to number of difference opportunities for capital investment. The function of stock exchange is to provide equal opportunities for many buyers and sellers of securities as possible. From general economic point of view the stock exchange constitute the core of capital market. It has put its finger on the pulse of the economy and gives the diagnoses to the public in the form of quotation (Franfurture, 1972: 15).

The Functions of Securities Exchange

Capital markets permit the segments of the economy that need capital for plant and equipment to obtain funds from the savers in the economy. Thus, they enable the stock of capital goods in the economy to grow. Just as stock of capital goods in the economy to grow. Just as financial institutions collect savings from numerous parties and lend them to acceptable borrowers, so the capital markets permit the conversion of savings into investment, through loans or through the sale of ownership interests. The securities exchanges that make up the capital markets perform a number of important functions.

(i) Creating a Continuous Market

The key function of securities exchange is to create a continuous market for securities at a price that is not very different from the price at which they were previously sold. The continuity of securities markets provides the liquidity necessary to attract investors' funds. Without exchanges, investors might have

to hold debt securities to maturity and equity securities indefinitely. It is doubtful that many people would be willing to invest under such conditions. A continuous market also reduces the volatility of security prices, further enhancing their liquidity.

(ii) Allocation Scarce Capital

The securities exchanges help allocate scarce funds to the best uses. That is, by disclosing the price behavior of securities and requiring the disclosure of certain corporate financial data, they allow investors to assess the securities' risk and return and to move their funds into the most promising investments. An efficient market is one that allocates funds to the most productive uses. The idea behind an efficient market is that the market price of securities always fully reflects available information and therefore is equal to the securities' value. This is especially true for securities that are actively traded on major exchanges. Since the competition among profit-seeking investors tends to hold prices close to their correct level.

(iii) Determining and Publicizing Security Prices

Securities exchanges both determine and publicize security prices. The price of an individual security is determined by what is bought and sold, or the demand and supply for the security.

A capital market brings together buyers and sellers from all geographic areas while affording them some anonymity. This trading forum helps to ensure an efficient market in which the price reflects the true value of the security. Changing evaluations of a firm, of course, cause changes in the demand for and supply of its securities and ultimately result in a new price for the securities.

(iv) Aiding in New Financing

Securities exchanges also provide firms with a method of obtaining new financing. Since the markets are continuous, there by ensuring investor

liquidity, new capital can be raised through new security issues. Of course, not all firms have access to those markets to raise new capital, but the presence of securities exchanges does give certain firms direct access to the savings of individuals, other firms, and financial institutions. Without the exchanges, new capital could be obtained only through direct negotiations with holders of large amounts of money. This effort obviously would be quite tedious (Gitman, 1988: 32-36).

This institution plays a notable part in the economic life of the country acting as a free market for securities, where prices are determined by demand and supply. The function of a stock exchange is not only providing a market for securities but also assist in the raising of funds for government and industries. Thus, free and active markets in stock and share have become a prerequisite for the mobilization and distribution of a nation's saving as to support modern business (Sur, 1998: 40-49).

The valuation of securities is very complicated procedures. Different statistical analysis like fundamental and technical analysis has been devised. But the trading procedure of the secondary market helps to value the securities more accurately considering the investors perception.

In secondary market, the buyers always use to quote low price to buy securities and sellers use to quote high price to sell. The buying price will be substituted if any other security person intend to pay more and the selling price will be changed if some any other brokers show his willingness to sell at lower price. This sort of negotiation goes on in continuous process till the price matches. Once the price matches then the transactions will be made according to the rules and regulations. So the pricing in securities is based on the principle of perfect market-hypothesis and helps to determine the worth of securities (Bhattra, 2004: 111).

2.1.3.1 Functions of Nepal Stock Exchange Limited

The stock exchange provides an organized market for the investors to pay and sell securities freely. The market for these securities is an almost perfectly competitive one because a large number of sellers and buyers participate. The shares listed, however are not really homogeneous like a commodity in a perfectly competitive market.

In the stock exchange, there is an active bidding and a two-way auction trading takes place. The bargains that are struck the fairest price determined by the basic law of demand and supply. The stock exchange provides an auction market in which members of stock exchange participate to ensure continuity of the price and liquidity to investors.

NEPSE is the sole organization for the operation of the secondary market for listed securities. NEPSE is working under SEBON. It has its own board of directors to direct and to formulate the policy matter to run the securities transactions business in the country. In order to execute day to day activities a general manager will be appointed by government and it has several departments under which several division and sections are incorporated to run the day to day activities.

2.1.4 Participants in Nepal Stock Exchange Limited

(a) Member Broker

Member broker are the license holders who are empowered to accept the buy and sell orders from their individual clients and make transactions in trading floors. Such security persons execute the orders on behalf of their clients and charge the commission on the basis of traded amount. The basic services such as holding securities for safe keeping, providing information and advice relating to investment alternatives, extending margin loans and facilitating short sales.

The brokers require to be registered with the security board to perform securities dealing. A broker seeking registration with the board has to specify in the securities act, 2006. Any individual, a firm or company desiring to engage in the business of buying and selling securities and in other related activities in the capacity of only and intermediary for clients without purchasing directly in its own name is granted membership as a broker. If a broker wishes to purchase securities for himself or in his own name, he can do through other brokers by giving advance notice to the stock exchange.

At present, there are 23 member brokers who operate on the trading floor as per the securities exchange act 2006, rules and bye-laws.

(b) Security Dealer

Dealer trade solely for themselves and are prohibited from handling orders. Since dealers have access to the floor and can own securities on their own name. They benefit from buying at low and selling at high price. The benefit of the dealers to the market is that their buy and sells action added up liquidity of the securities.

(i) Security Dealer (Primary Market)

The security dealers (Primary market) are the dealers who provide pre-issue and post issue services for the sales management of securities which are being newly issued by a corporate body through a public issue or the circular method underwrite the purchase of unsold issue shares, or perform other related functions.

(ii) Security Dealer (Secondary Market)

The security dealers (Secondary Market) are the dealers who deal in securities through brokers in the name of the investor or in his own name with the objective of managing investments in securities presented at the stock exchange

for transactions in his own name or by concluding investment management contacts according to the current law 13.

The security dealer specializes in buying and selling securities that is securities issued by government and public bodies like NIDC, citizenship fund and credit development banks etc. The market is an OTC market and each purchase and sale has to be separately negotiated. The market, therefore, tends to be restricted.

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

Presently, there are 11 sales and issue manager and 1 dealer (Secondary Market). The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done with in another three months by paying 25% penalty.

(c) Market Maker

Market makers are the institutional members. They are also known as specialists; facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealers in many ways except that they always stand ready to buy and sell securities at their bid and asked price for which they are market maker. They are well organized institutions and are considered to be an expert in the area of analyzing financial statements and controlling and regulating the market through the market mechanism. So, these organizations are allowed making buy and sell in and from their own account. So, in this process of market making, they are allowed quoting both the bid and ask price.

The spread between these two is their income. They are not allowed to deal with general investors. It is expected that they will buy when there is excess supply of securities in the market and they will sell the securities when there is excess demand. With this process they will control the probable artificial increase and decrease of market price. Market brokers are their clients.

At present, there are 2 market makers, who operate on the trading floor as per the securities exchange Act 2006, rules and bye-laws (www.nepalstock.com).

2.1.5 Trading System of Nepal Stock Exchange (NEPSE)

2.1.5.1 Trading Procedures

Previously, NEPSE had adopted an “Open-Out-Cry” system. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with 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 match, contacts between the buying and selling brokers or between the brokers and market makers are concluded on the floor.

But at present, NEPSE the only one stock exchange in Nepal introduced fully automated screen based trading since 20th August 2007.

The NEPSE trading system is called ‘NEPSE Automated Trading System ‘(NATS). It is a fully screen based automated trading system, which adopts the principle of an order driven market.

2.1.5.2 Trading Days and Hours

NEPSE has fixed the trading days and hours during which the members are allowed to make their transaction activities.

Table 2.1
Trading Days and Hours

Types of Trading	Days	Trading Time
Regular Trading	Sunday to Thursday	12.00 PM to 3.00 PM
Odd lot Trading	Friday	12.00 PM to 1.00 PM
Transaction of govt. bond	Sunday to Friday	10.30 AM to 11.30 AM

Source: www.nepalstock.com

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

2.1.5.3 Trading Location

The trading can be done either from NEPSE's trading floor or from the broker's office. NEPSE uses sophisticated technology through which brokers can trade remotely from their office located inside the Kathmandu valley. This remote trading facility was started from 1 November 2007.

2.1.5.4 Circuit Breakers

NEPSE has implemented index-based circuit breakers with effect from 2064/65 (21 September 2007). In addition to the circuit breakers, price range is also applicable on individual securities.

2.1.5.5 Index-based Circuit Breakers

The index-based circuit breaker system applies at 3 stages of the NEPSE index movement of 3%, 4% and 5%. These circuit breakers when triggered bring about a trading halt in all equity. In case of 3% movement either way, there would be a market halt for 15 minutes if the movement takes place during first

hour of trading i.e. 13:00 hours. In case this movement takes after 13:00 hours there will be no trading halt at this level and market shall continue trading. In case of 4% movement either way, there would be a market halt for half an hour if the movement takes place before 14:00 hours. In case this movement takes after 14:00 hours there will be no trading halt at this level and market shall continue trading. In case of 5% movement in either way, trading shall be halted for the remainder of the day.

2.1.5.6 Price Range for Transaction

Price Range is applicable on individual securities. The trading of the individual securities are not halted but allowed to trade within the price range. The price band is 10% of previous close on either way. During the ATO session the range is 5% on either way of Previous Close Price. After the band is 2% on either way of the Last traded price till it reaches to 10% of the previous close.

2.1.5.7 Settlement Procedures

NEPSE has adopted a T+3 settlement system. Settlement will be carried out on the basis of paper verses payment. The trading is done at "T" and at T+1; the buying brokers have to submit bank vouchers for settlement with covering letter. At T+2, the selling brokers must submit share certificate with covering letter. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank. Once the settlement is done the buying brokers with the consultation of the clients must decide and present the purchased shares if they want to record it as blank transfer. This must be completed within T+5.

2.1.5.8 Blank Transfer (BT) Procedures

Under this mechanism an opportunities to derive the market benefit is provided. But presently, the buying brokers must complete the BT process within T+5. The transactions that are executed can be recorded in different way and NEPSE has considered all possible retention.

The followings are the major key points to be considered.

1. This is related only with buy of the securities.
2. The buyer may decide to have market benefit either to have capital gains or to minimize the loss.
3. In order to do this s/he may partly send for name transfer or may register it in blank transfer.
4. If she register total purchase in blank transfer and can put for sale and if only the part of the shares are subscribed then s/he can handover the part and the part can be forwarded for name transfer to the concerned company. In order to do this s/he has to cancel the blank transfer for that portion.

2.1.5.9 Brokerage System

Table 2.2
Brokerage for Equity

S.No.	Trading Amount	Brokerage %
A	Up to 50,000	1
B	> 50,000 & < 5,00,000	0.9
C	> 5,00,000 & < 10,00,000	0.8
D	> 10,00,000	0.7

Source: www.nepalstock.com

Table 2.2 shows the brokerage for equity. Up to trading amount Rs. 50,000 brokerage charge is 1%. From Rs. 50,000 to Rs. 5,00,000 trading amount, brokerage charge is 0.9%. From Rs.5,00,000 to Rs.10,00,000 trading amount, brokerage charge is 0.8%. Above Rs. 10,00,000 trading amount, brokerage charge is 0.7%.

Table-2.3
Brokerage for Government Bond

S.No.	Trading Amount	Brokerage %
A	Up to 5,00,000	0.20
B	> 5,00,000 & < 50,00,000	0.10
C	> 50,00,000	0.05

Source: www.nepalstock.com

Table-2.3, shows the Brokerage for Government Bond. Up to Rs. 5,00,000 trading amount, brokerage charge is 0.20%. From Rs. 5,00,000 to Rs.50,00,000 trading amount, brokerage charge is .10%. Above Rs. 50,00,000 trading amount, brokerage charge is 0.05%.

Table 2.4

Brokerage for All Other Stocks which is not Listed in Table 2.2 and 2.3

S.No.	Trading Amount	Brokerage %
A	Up to 50,000	0.75
B	> 50,000 & < 50,00,000	0.60
C	> 50,00,000	0.40

Table 2.4 shows the brokerage for all other stocks which is not listed in the table 2.2 and 2.3. Up to Rs. 50,000 trading amount, brokerage charge is 0.75%. From Rs. 50,000 to Rs. 50, 00,000 trading amount, brokerage charge is 0.60%. Above Rs. 50, 00,000 trading amount, brokerage charge is 0.40%.

2.2 Review of Government Policies and Programs

Nepal Stock Exchange Ltd. (NEPSE) is the only securities market of Nepal. There are different policies and programs initiated by the government for the regulation and control of the securities market. The major provisions set up by the government in relation to securities market of Nepal are explained below:

2.2.1 Securities Board of Nepal (SEBON)

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Exchange Act, 2006. The functions, duties and powers of SEBON as per the Act are as follows.

- To offer advice to Government on matters connected with the development of the capital market.
- To register the securities of corporate bodies established with the authority to make a public issue of its securities.

- To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- To supervise and monitor the functions and activities of stock exchange.
- To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
- To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- To supervise and monitor the functions and activities of securities-dealers.
- To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- To systematize the task of clearing accounts related to transactions in securities.
- To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.

- To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

There are seven departments and sixteen sections in the organization of SEBON. Under the Management Department, there are two divisions namely Human Resources Section and Finance Section. There are also four sections under the Planning and Development Department namely Research Section, Training Section, Information Technology Section and International Affairs Section. There are also two sections under the Corporate Finance Department namely, Public Issue Section and Collective Investment Scheme Section. Likewise, Under the Regulation Department, there are two sections namely, Stock Exchange Regulation Section and Market Intermediaries Regulation Section. There are also four sections under the Surveillance Department namely, Stock Exchange Surveillance Section, Market Intermediaries Surveillance Section, Trading Surveillance Section and Corporate Surveillance Section. Finally, under Legal Department, there are two sections Research and Investigation Section and Enforcement Section.

The major financial sources of SEBON are the government grant, transaction fee from the stock exchange and registration fee of corporate securities. Other financing sources include registration and renewal of stock exchange and market intermediaries and the income from mobilization of its revolving fund (www.sebonp.com).

2.3 Review of Previous Studies

This study is the research study about securities trading system of NEPSE, the only organized securities market of Nepal. However, only a few studies are able to trace out the real scenario regarding the Nepalese Securities market.

Mahendra Dhamala (2010), has conducted research on **Determinants of Share Price in Nepalese Financial Market**. The basic objectives of the study are to examine whether MPS of listed companies, especially for selected companies under the study, really represent the financial indicators such as NWPS, EPS, DPS, ROE, etc. and to what extent the risk is involved in the

investment of common stocks of those. In pursuance of the basic objectives, the following specific objectives are set:

- To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- To identify whether stocks are equilibrium priced or not.

He concluded that no single financial indicator has main role to determine MPS of all companies undertaken for the study. The same financial indicator that has significant role in determining MPS for one company is not significant for another company. The degree of interrelationship of MPS with different financial indicators varies from one company to another. There is no uniformity in the relationship of MPS with various financial indicators of the sampled companies. If considered on the basis of the average data for the past 5 years, MPS of 6 financial institutions has higher positive correlation with major financial indicators such as EPS, NWPS and DPS, and such relationship is significant.

He also concluded that the Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance. The market price of share in Nepal is not indicative of a company's financial performance in stock market. The share market is imperfect and inefficient and is liable to manipulation. Basically, value of share price is to be determined by the future financial indicators. Unfortunately, the stock market does not run based on proper information about the company (Dhamala, 2010).

Similarly, another research conducted by **Subida Tuladhar (2008) on Growth and Development of Nepal Stock Exchange** had the main objective of the present study is how NEPSE is promoting Nepalese stock market and the

important role played by it. This study is to enquire into the present status, performance of NEPSE and predict the future scenario.

- To find out the growth in assets (total assets, fixed assets and investment) of NEPSE.
- To find out the growth in market parameters (market capitalization, NEPSE index, members, listed companies)
- To find out the growth in profitability of NEPSE.
- To analyze the organizational structure of NEPSE.

She had concluded that Nepal Stock Exchange is still in the dormant stage. NEPSE has not reached in the height where it should be in. There are lots of spaces for improvement.

- Even though, NEPSE is making a reasonable amount of profit in past 8 years, it is still not sufficient. The company made the reasonable amount of profit in the year 61/62. But after that year the profit is not satisfactory.
- In the year 62/63 market capitalization shows the increase. Overall market capitalization of the company has increasing trend. In the year 62/63 return had declined.
- The number of participants of the company is not satisfactory as well. In the year 56/57 number of market maker was 3 but is was nil from the year 58/59. The security broker, issue manager had decreased. The number of dealers remained same in 8 years.
- The company's revenue collection is much fluctuating. The year 61/62 collected the reasonable amount of revenue which increased the overall profit of the company.

In every aspect we can witness the fluctuating image rather it should be increasing. The overall performance of NEPSE in securities market as well as of company itself is not satisfactory (Tuladhar, 2008).

Shayam Maharjan (2007), conducted a research on **A Study on Stock Market in Nepal with Concentrate to Problems and Prospects**. The main objective of the research was to deal with the analysis of the stock market in Nepal, which will bring revolution in the development of the capital market. Similarly, to provide report reader information in terms of prospective current scenario of stock market.

The basic objective of this study was to highlights of the following aspects of stock market:

- To analyze the trend of the stock market
- To study the procedure a practice of entering the primary and secondary market.
- To analyze the problem of the stock market

He concluded that capital market remains important for all types of investors to participate in economic development. Nepal lays behind to develop a healthy capital market with a sound financial infrastructure through the Nepal Stock Exchange was formalized eighteen years ago in 1985 and NEPSE established only in 1994. Regulatory measures are slowly updating incorporating the contemporary issues but that has not been found effective because of government problem in the corporate sector. Capital market in Nepal is confined to equity market only. Debt transaction is negligible in Nepal Stock Exchange. Turnover as well as market capitalization are very small relative to its GDP. Besides, NEPSE is not integrated into world markets. Capital market, at the present position, is beneficial to the investors who can overlook the rules of game. It is yet to be rational to a discerning investor.

Establishment of the Nepal Stock Exchange (NEPSE) market opened an avenue to investors, both large and small, to invest in the enterprise sector and participate in the secondary market. The actors of financial markets are loosely tied together from legal provisions, which are not effectively implemented. As

the financial institutions pre dominate the market, it has not been able to diversify. Increasing problems noted with the corporate governance, transparency and disclosure have seriously dented the Nepalese capital market. The Board mainly acts as a superfluous body trying to fulfill formalities rather than seriously attending to corporate governance. The result has been poor, security to investors, particularly minority shareholders, who are not fully aware of the risk and return considerations. Hence, to make the stock exchange a vehicle of growth, initiatives must be taken to protect investors, improve corporate governance and make the companies operate in a conducive and transparent manner (Maharjan, 2007).

The research conducted by **Sudip Amatya (2005)**, on **Present Status of Nepalese Debt Securities Market** was with the main objective to study the position of debt securities market in the structure of Nepalese securities market. He found that Nepalese debt market is still at infant stage. Government debt securities market is slightly at maturity stage in comparison to corporate debt securities market. So that, emphasis should be given in the development of corporate debt securities market will grow up very soon because there are some positive signals felt by researcher such as oversubscription of HBL and NIBL debenture, declining interest rate on deposit of commercial banks, growing participation of banking sector in issuing debentures. He also concluded 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, 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 (Amatya, 2005).

A research conducted by **Bijaya Bikram Shah (2005)**, on **Nepalese Securities Market and its Clearing and Settlement system** had the main objective of to study and analyze the clearing and settlement system in Nepalese security market. The other objectives of the study are:

- To study and analyze the present provisions regarding the clearing and settlement system in Nepalese security market.
- To study whether the present provisions are strictly followed or not.
- To analyze the investor awareness regarding the clearing and settlement system in Nepalese securities market.
- To point out suggestions, to make the clearing and settlement more effective and convenient to the stakeholders of securities market in Nepal. He concluded that the current provisions are inadequate to modernize the clearing and settlement system and to develop Nepali capital market. In addition, provisions related to stock exchange and brokers, which they should follow, are strictly followed but the provisions related to companies are not followed. Investors are aware about most of the steps of the clearing and settlement system. Added to that, they should bear 5-10 percent annual cost within the clearing and settlement period (Shah, 2005).

2.4 Research Gap

Research gap is the difference between the earlier research and the current research. As the world is growing faster the rapid changes and new developments may not be adequate to explain the current phenomena. Though many affiliated researches have been conducted in this area but there are very significant number of research has been done on the topic —a study on the Securities Trading system on NEPSE.

For last few years there has been a tremendous change in the securities trading system, as a matter of fact new amendments has been brought in to the practices which could have a signaled many researcher to conduct a research on

it. But unfortunately many of the research were based on stock price behavior, price index so on and so forth.

The main focus of the research will be to analyze the performance, growth and downfall of the Securities Trading System on NEPSE. This will help to analyze whether the securities Trading system is in increasing trend or falling trend. By analyzing these aspects, focus can be set on problem. During the study period used technical method and statistical method such as: correlation coefficient and time series analysis for analyzing the NEPSE trends.

CHAPTER- III

RESEARCH METHODOLOGY

Research methodology is a vital part of research work. It is a processing step to solve the research problems. In this part researchers use various methodology used for collecting and analyzing information and data. This part deals to the overall research method from the theoretical aspects to the collection and analysis of the data. The research study can produce the useable result if an appropriate methodology is taken under consideration to highlight and evaluate the different aspects such as: technical and logical of the study. It studies the various steps that are generally adopted by a researcher during the course of studying, research problems with certain objectives. The methodology should be adopted in such a well designed, quantitative and qualitative in a very clear and direct way using both financial and statistical tools that the leakages or errors of the study could be minimized. Thus quality of the description depends upon the methodology used by the researcher.

3.1 Research Design

This study basically analyses the trend and performance of NEPSE based on macro picture along with future predictions. To have an in-depth enquiry, 9 Sample Company's performance in NEPSE is also analyzed. In this perspective, this research follows exploratory and analytical research design. The data for the study is collected from secondary sources and the collected data are presented and analyzed using different tables, figures and statistical tools.

3.2 Population and Sample

All the companies currently listed in Nepal Stock Exchange (NEPSE) are considered as the total population. In the fiscal year 2008/09, a total of 163 companies were listed in NEPSE. So, all those 163 companies are considered

as the population. The purposive sampling technique has been adopted for this study. The listed companies in NEPSE are categorized into 9 different sectors. So, while selecting the samples, care has been taken to include each sector. Because of the resource constraint, one company from each sector is selected. The number of companies and sample according to the sectors are as follows:

Table 3.1
Total Population and Sample

S. N.	Types of listed company	Total population	Sample
1	Commercial Banks	23	1
2	Development Banks	30	1
3	Insurance company	17	1
4	Finance company	62	1
5	Manufacturing & Processing co.	18	1
6	Hotel	4	1
7	Trading company	4	1
8	Other company	2	1
9	Hydro power	3	1
	Total	163	9

Source: www.nepalstock.com

The sample companies used in this study are as follows:

1. Everest Bank Ltd. (Bank)
2. Nepal Development Bank (Development Bank)
3. Life Insurance Co. Nepal (Insurance Company)
4. Cosmic Mer. Bank & Finance (Finance Company)
5. Oriental Hotels Limited (Hotel)
6. Unilever Nepal Ltd. (Manufacturing and Processing Company)
7. Chilime Hydropower Co. (Hydro Power)
8. Bishal Bazar Co. Ltd. (Trading Company)
9. Nepal Doorsanchar Co. Ltd.(Other Company)

3.3 Sources and Collection of Data

Because of the nature of study, only secondary source is used for the collection of data. And, the data relating to the study are collected from different articles, newspapers, published and unpublished records and websites of different organizations. As per the objective of the study, the different data collected from Nepal Stock Exchange (NEPSE) and securities Board of Nepal (SEBON), are specially considered, and under this study data of FY 2008/09 are basically used because, till date, data of fiscal year 2009/10 are not published.

3.4 Presentation and Analysis of Data

All the collected data are illustrated and presented with the help of tables, figures and graphs with detail interpretation.

For the analysis of the collected data different ratios and statistical tools are used.

The ratios used in this study are as follows:

3.4.1 Financial Ratios

(i) Company Trading Ratio

The company trading ratio is the ratio of the number of traded companies to the total number of listed companies. It is not necessary that shares of all the companies listed in the stock exchange are traded. So, the listed companies whose shares are traded in the stock exchange are called traded companies. The company traded ratio measures the liquidity of a stock exchange i.e. higher the company trading ratio higher the liquidity and vice-versa.

The company traded ratio can be calculated as:

$$\text{Company traded Ratio} = \frac{\text{Number of traded Companies}}{\text{Number of listed Companies}}$$

(ii) Market Capitalization Ratio

The market capitalization ratio is the ratio of market capitalization to the Gross Domestic Product (GDP). The market capitalization ratio can be used as a measure of market size. This ratio serves as an indicator of stock market development under the assumption that stock market size is positively correlated with the ability to mobilize capital and diversify risk. Generally, the market capitalization or developed stock market is greater than 1.

The market capitalization ratio is calculated as,

$$\text{Market capitalization Ratio} = \frac{\text{Market capitalization}}{\text{GDP}}$$

(iii) Value Traded Ratio

The value traded ratio is the ratio of total amount traded on the stock market to the nominal Gross Domestic Product (GDP). It measures the organized trading of firm equity as a share of national output. While not a direct measure of trading costs or the uncertainty associated with trading on a particular market, the assumption behind the value traded ratio is that it positively reflects liquidity on an economy-wide basis. The value traded ratio is the complementary of the market capitalization ratio. Thus, for the measurement of liquidity of a market, both the ratios, market capitalization ratio and value traded ratios are required to get the fact. For the developed market, the value traded ratio is greater than 0.4.

The value traded ratio can be calculated as,

$$\text{Value Traded Ratio} = \frac{\text{Value}}{\text{GDP}}$$

(iv) Turnover Ratio

The turnover ratio is the ratio of turnover to the market capitalization. Though, it is not direct measure of theoretical deflation of liquidity, high turnover is often used as indicator of low transaction cost. The turnover ratio complements to market capitalization ratio. A large but inactive market can have large

market capitalization ratio but a small turnover ratio. While the value traded ratio captures trading relative to the size of stock market. A small liquid market can have a high turnover ratio but a small value traded ratio.

The turnover ratio can be calculated as,

$$\text{Turnover Ratio} = \frac{\text{Turnover}}{\text{Market Capitalization}}$$

3.4.2 Statistical Tools

The statistical tools used in the study are as follows:

(i) Correlation Coefficient

Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. For example, changes in the value of advertisement are associated with the changes in the sales. Similarly, changes in price are accompanied by changes in quantity demanded. Though, there are many methods for the study of correlation and to compute the correlation coefficient, Karl Pearson's Method has been used in this study.

$$\text{Correlation Coefficient (r)} = \frac{\sum xy - \sum x \cdot \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

Where,

N = Number of pairs of observations

$\sum x$ = Sum of observations in series x

$\sum y$ = Sum of observations in series y

$\sum x^2$ = Sum of square of observation in series x

$\sum y^2$ = Sum of square of observation in series y

$\sum xy$ = Sum of the product of observations in series x and y,

The value of correlation coefficient 'r' lies between -1 to + 1 i.e. $-1 \leq r \leq + 1$

If $r = 1$, there is perfectly positive relationship

If $r = -1$, there is perfectly negative relationship

If $r = 0$, there is no correlation at all.

To test the reliability of the computed value of the correlation coefficient 'r', the probable error (P.E) is used which is calculated as,

$$P.E = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Where,

r = correlation coefficient

n = number of pairs of observations

If $r < 6 \text{ P.E}$, the value of 'r' is not significant i.e. there is no evidence of correlation between the variable.

If $r > 6 \text{ P.E}$, the value of 'r' is significant i.e. correlation is significant.

(ii) Time Series Analysis

A time series is an arrangement of statistical data in chronological order (based on time period). A time series can be defined as a collection of reading of economic variables belonging to different time period, the time period may be annually, monthly, weekly and so on.

For the measurement of trends, following methods can be used.

- a. Graphic and free hand curve method
- b. Semi-average method
- c. Moving average method
- d. Least square method

Out of them, least square method has been used in this study. This is mathematical method of obtaining trend that uses the concept of least square method, simply the technique of fitting regression equation. For straight line trend between the time series values (y) and the time (x) is given by,

$$y_c = a + bx \dots\dots\dots(i)$$

Where,

a = Y- intercept or value of y when x = 0

b = slope of the trend line or amount of change in y per unit change in x.

To determine the straight line trend , we have to determine the value of 'a' and 'b' . The values of 'a' and 'b' is obtained by solving the following two normal equations.

$$\sum y = na + b\sum x \dots\dots\dots (ii)$$

$$\sum xy = a\sum x + b\sum x^2 \dots\dots\dots (iii)$$

Where N is the number of years (or month or any period) for which the data is given

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is devoted to the presentation analysis of primary and secondary data collected during the period of study. This chapter therefore, attempts to analyze and examine the data with the help of financial and statistical analytical tools and to interpret the results obtained thereof.

4.1 Annual Trend Analysis

Securities Exchange Centre (SEC), established in 1976 A D. was converted into Nepal Stock Exchange (NEPSE) in 1993 A.D., which opened its trading floor on 13th January, 1994. From that time, NEPSE is involved in the securities trading of different listed companies. Here, attempts have been made to study the status of NEPSE by analyzing its yearly trends of different factors from its beginning year to the last fiscal year, i.e. from FY 1993/94 to FY 2008/09.

4.1.1 Listed Companies in Nepal Stock Exchange Limited (NEPSE)

Listing means the registration of issued securities with the stock exchanges to make them eligible for trading. Corporate sectors generally raise the required fund through the market either by issuing the common stocks or preferred stocks or debt instruments like bonds and debentures, if the features of marketability and liquidity are not added nobody will be interested to invest the hard earned savings in these instruments. This is simply because the investors are in need of funds and the invested securities are essential. Therefore, Nepal Stock Exchange Limited (NEPSE) is established with the objective of imparting free marketability and providing liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers, market makers etc. and it is a non profit organization, operating under Securities Exchange Act, 2006.

There are 163 listed companies in the FY 2008/9 up to **(Appendix-1)** in NEPSE.

The following Table-4.1 shows the number of listed companies in Nepal Stock Exchange limited (NEPSE) in different fiscal years, from FY 1993/94 to FY 2008/09.

Table 4.1
Number of Listed Companies in NEPSE

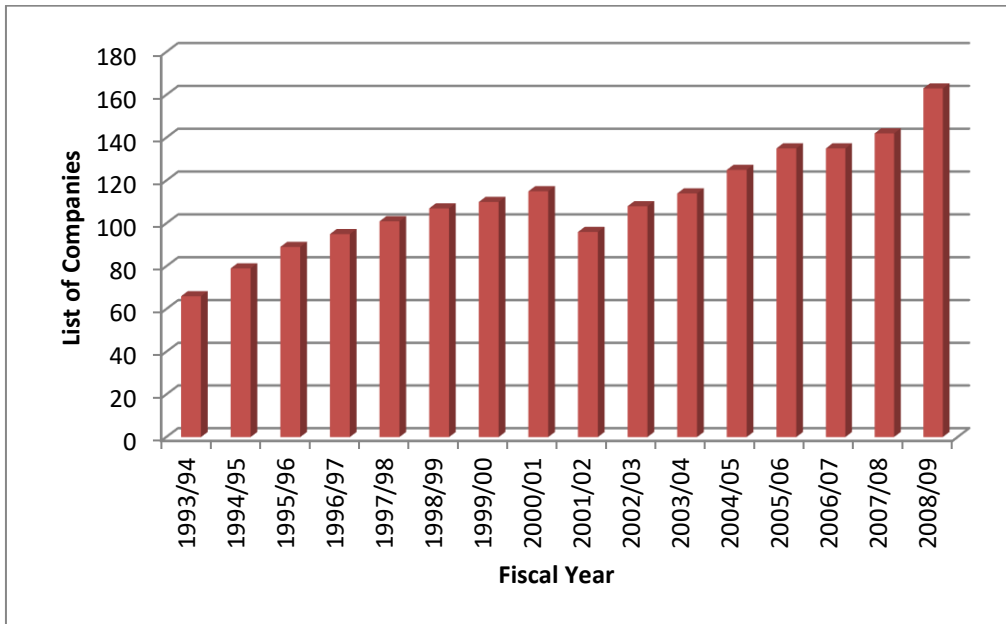
Fiscal Year	No. of listed companies	% Increase or Decrease
1993/94	66	-
1994/95	79	19.70
1995/96	89	12.66
1996/97	95	6.74
1997/98	101	6.32
1998/99	107	5.94
1999/00	110	2.80
2000/01	115	4.55
2001/02	96	(16.52)
2002/03	108	12.50
2003/04	114	5.56
2004/05	125	9.65
2005/06	135	8.00
2006/07	135	-
2007/08	142	5.19
2008/09	163	14.79

Source: Annual Trading Report, NEPSE at www.nepalstock.com

The following figure is used to present the number of listed companies from fiscal year 1993/94 to fiscal year 2008/09

Figure 4.1

Number of Listed Companies in NEPSE (From FY 1993/94 to FY 2008/09)



Source: table 4.1

According to Table 4.1 and Figure 4.1, the number of listed companies is increasing each year except in the FY 2001/02 and FY 2006/07. However, the increment rate is fluctuating. In the last fiscal year, total listed companies in Nepal Stock Exchange Ltd. were 142, which increased to 163 with an increment rate of 14.79%.

In the FY 2001/02, the number of listed companies decreased to 96 from 115 of previous FY. This happened due to the delisting of the companies by the NEPSE. According to the Stock Exchange Act, 1983, there is the provision of delisting the companies which are not able to disclose the documents regarding annual general meeting, audit report and unable to pay the annual listing fees in NEPSE up to two years.

4.1.2 Annual Turnovers of NEPSE During Different Fiscal Years from FY 1993/94 to FY 2008/09 are Presented below:

Table 4.2

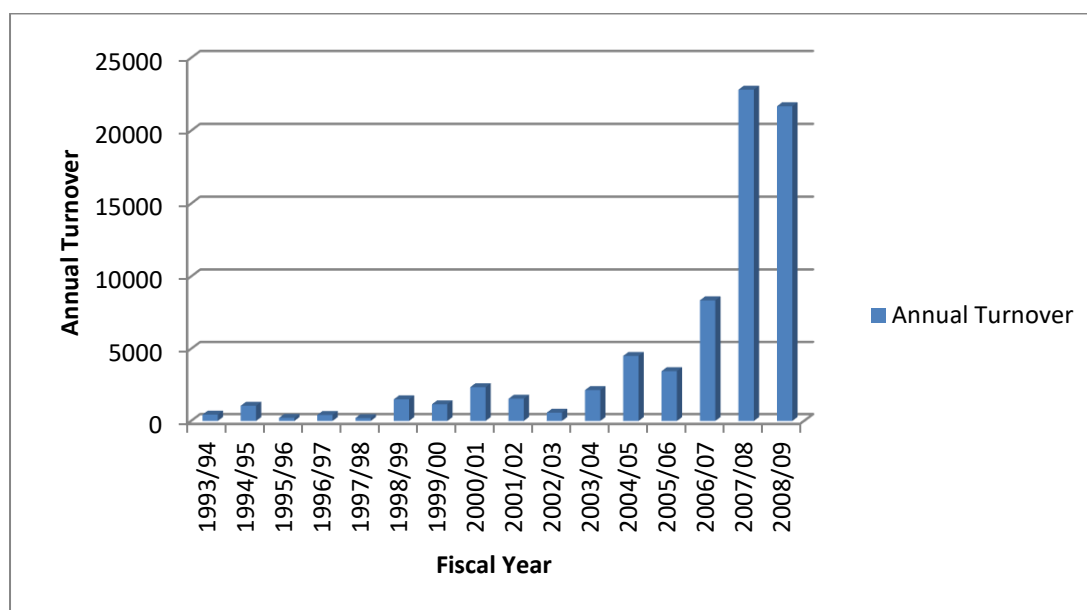
Annual Turnover of NEPSE (From FY 1993/94 to FY 2008/09)

Fiscal year	Annual Turnover (Rs. in million)	Growth Rate (%)
1993/94	441.56	-
1994/95	1054.27	138.76
1995/96	215.61	(79.55)
1996/97	416.23	93.05
1997/98	202.61	(51.32)
1998/99	1499.89	640.32
1999/00	1157.03	(22.86)
2000/01	2344.16	102.60
2001/02	1540.63	(34.28)
2002/03	575.8	(62.63)
2003/04	2144.27	272.40
2004/05	4507.68	110.22
2005/06	3451.4	(23.43)
2006/07	8360.1	142.22
2007/08	22820.8	172.97
2008/09	21681.14	(4.99)

Source: NEPSE, Annual Trading Report at www.nepalstock.com

Annual turnover of NEPSE during the different fiscal years are presented in following bar diagram:

Figure 4.2
Annual Turnover of NEPSE
(From FY 1993/94 to FY 2008/09)



Source: Table 4.2

In Table 4.2 and Figure 4.2, it can be seen that the turnover in the FY 1993/94 was only Rs. 441.56 million which reached to Rs. 22820.8 in the fiscal year 2007/08. During this period, the turnovers in every fiscal year were fluctuating with huge amount. The highest turnover was in the FY 2007/08 of Rs. 22820.8 million and the lowest turnover was in the FY 1997/98 of Rs. 202.61 million. When the growth rate of turnover is considered, it is seen that there is both increasing and decreasing pattern until FY 2005/06. After FY 2005/06, it is increasing till the FY 2007/08 in an increasing rate, but in FY 2008/09 it is decreased to Rs. 21681.14 million so it can be expected that it will further increase in the future.

4.1.3 Annual Market Capitalization of NEPSE

Annual market capitalizations of NEPSE during different fiscal years from FY 1993/94 to FY 2008/09 are presented in the table below:

Table 4.3**Annual Market Capitalization of NEPSE (From FY 1993/94 to FY 2008/09)**

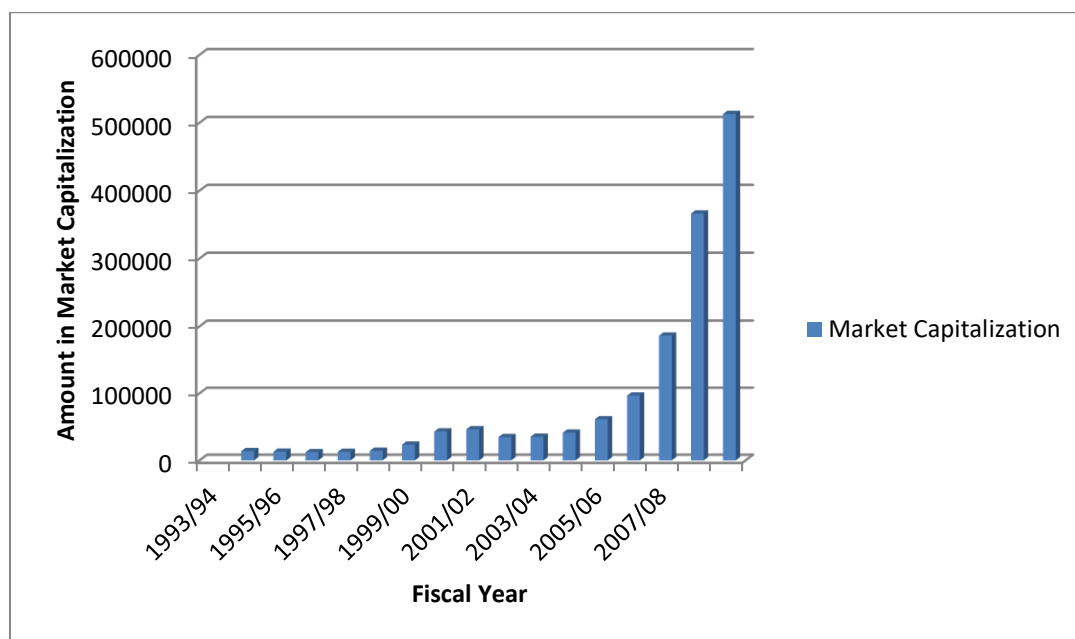
Fiscal Year	Market Capitalization (Rs. in million)	Capitalization Growth Rate (%)
1993/94	13872	-
1994/95	12963	(6.55)
1995/96	12295	(5.15)
1996/97	12698	3.28
1997/98	14289	12.53
1998/99	23508	64.52
1999/00	43123.3	83.44
2000/01	46349.4	7.48
2001/02	34703.9	(25.13)
2002/03	35240.4	1.55
2003/04	41424.77	17.55
2004/05	61365.89	48.14
2005/06	96763.7	57.68
2006/07	186301.3	92.53
2007/08	366247.6	96.59
2008/09	512939.07	40.05

Source: NEPSE, Annual Trading Report at www.nepalstock.com

The following figure is used to present the annual market capitalization of NEPSE during the different fiscal years:

Figure 4.3

**Annual Market Capitalization
(From FY 1993/94 to FY 2008/09)**



Source: Table 4.3

Table 4.3 and Figure 4.3 show that the market capitalization in the FY 1993/94 was Rs. 13872 million which at the end of the FY 2008/09 is recorded to be Rs. 512939.07 million.

The analysis of the annual market capitalization of NEPSE from FY 1993/94, it is found that it is decreasing until the FY 1995/96 where it reached to Rs. 12295 million. After that year, it is increasing till the FY 2000/01 and reached 46349.40 million. Again in the following year i.e. in the FY 2001/02, it has decreased to Rs. 34703.90 million, which is 25.13% less than that of previous fiscal year. From FY 2001/02 to 2008/09, it is increasing yearly with an increasing rate sometimes nearly doubled increased and it has reached 512939.07 million in FY 2008/09, which is the highest annual market capitalization ever recorded.

4.1.4 NEPSE Index

Market index is a number or indicator that explains how the overall performance of security market is at present based on some past value. The stocks of listed companies are traded in stock exchange centre. On course of transactions, the price of some companies' stock would increase while the price of other companies' stock may decline overtime. However, if the overall performance of the stock market has to be analyzed, an index is needed. Market index serves this purpose. Market index can be computed by using different techniques. A particular stock exchange centre adopts one of the following techniques:

(i) Value weighted Index

Value weighted index is also known as capitalization method. Capitalization or the value is the product of the number of shares outstanding and closing price of any stock. Under this method the prices of stocks in the index are multiplied by their respective number of shares outstanding and then added to arrive at a figure equal to the aggregate market value for that day. This figure is then divided by the total value of the day when the index was started (base year) to calculate with the resulting value multiplied by an arbitrarily determined beginning index value. This index is calculated by using following formula.

$$\text{Value Weighted Index at time } t (I_t) = \frac{Mv_t}{Mv_o} \times I_o$$

Where,

I_t = Index at time t

Mv_t = Market Value

Mv_o = Market Value at time 0 or base period

I_o = Index at time 0 or base period

(ii) Price Weighted Index

Price weighting index is calculated by summing up the prices of stocks that are included in the index and divided by divisor (or constant). The world's popular

index DJIA is calculated on the basis of price weighting by using the following formulae:

Price Weighted Index at time t (I_t) = Total Price / Divisor

(iii) Equally Weighted Index

Equal weighting index is computed daily by multiplying the level of the index on the previous day by the arithmetic mean of the daily price relative of the relevant stocks in the index. It is thus calculated by the following formulae:

Equally Weighted Index at time t (I_t) = Average Price Relative x Previous Day's Index

(iv) Geometric Mean

Geometric mean index is computed daily by multiplying the previous day's index by the geometric mean of the daily price relative of the relevant stocks in the index. It is computed by the formula given below:

Geometric Mean Index at time t (I_t) = (Product of Price Relative)^{1/n} x Previous Day's Index

Out of those techniques of computing market index, NEPSE uses value weighted index technique. For the computation of value weighted index, NEPSE has assumed 30 magh, 2050 (12th Feb. 1994) as base period.

In Table 4.4, NEPSE index during different fiscal years are presented:

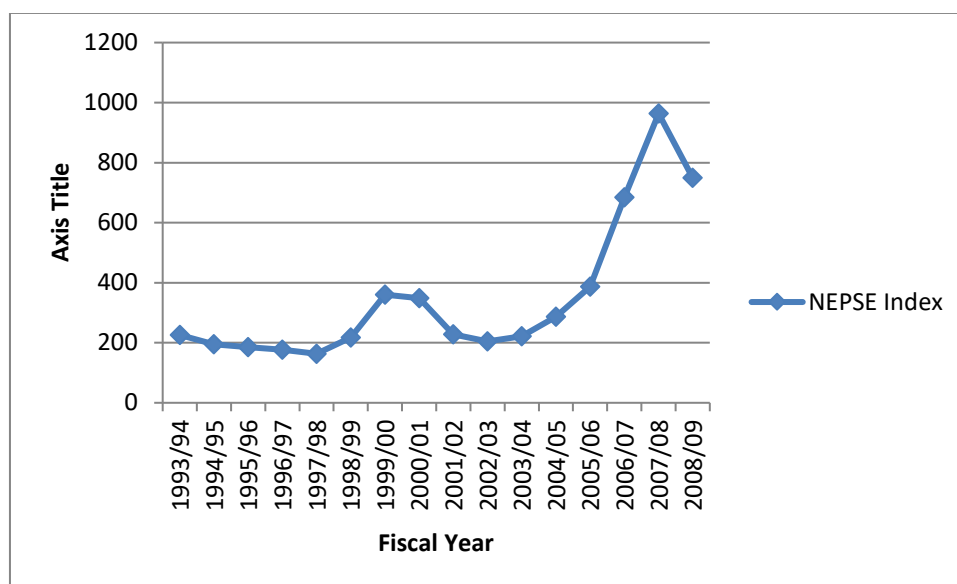
Table 4.4
NEPSE Index (From FY 1993/94 to FY 2008/09)

Fiscal Year	NEPSE Index	Increase or Decrease (%)
1993/94	226.03	-
1994/95	195.48	(30.55)
1995/96	185.61	(9.87)
1996/97	176.31	(9.30)
1997/98	163.35	(12.96)
1998/99	216.92	53.57
1999/00	360.70	143.78
2000/01	348.43	12.27
2001/02	227.54	(120.89)
2002/03	204.86	(22.68)
2003/04	222.04	17.18
2004/05	286.67	64.63
2005/06	386.80	34.93
2006/07	684	76.84
2007/08	963.4	40.85
2008/09	749.10	(22.24)

Source: NEPSE, Annual Trading Report at www.nepalstock.com

The yearly NEPSE indexes during different fiscal years are presented by the following figure:

Figure 4.4
NEPSE Index (Yearly)
(From FY 1993/94 to FY 2008/09)



Source: table 4.4

Table 4.4 and Figure 4.4 show the annual NEPSE index. The NEPSE index in the FY 1993/94 was 226.03 which increased to 963.40 in the FY 2007/08 but in FY 2008/09 it is decreased to 749.10. During this period of time (i.e. From FY 1993/94 to FY 2008/09), the NEPSE index has been fluctuating yearly. From FY 1993/94 to FY 1997/98, the NEPSE index has been decreasing yearly which reached to Rs. 163.35 points in the FY 1997/98. Thereafter, it has been increasing from the FY 1997/98 to FY 1999/00 and reached to 204.86 points in FY 2002/03. From FY 2002/03 to the last FY 2007/08, the NEPSE index has been increased more than three times i.e. 963.40 in FY 2007/08. It is 40.85 points higher than that of the previous fiscal year but in FY 2008/09 NEPSE index has been decreased to 22.24 points less than that of pervious year. Due to the fluctuating nature of NEPSE index, it is difficult to predict, because of the

global economic crises, the NEPSE index may adversely effected and may decline in future years.

4.1.5 Liquidity of NEPSE

To witness the liquidity of a stock market, different ratios can be used. The ratios applied here to find out the liquidity of NEPSE are Company Trading Ratio, Market Capitalization Ratio, Value Traded Ratio, and Turnover Ratio.

4.1.5.1 Company Trading Ratio

Company Trading Ratio is the ratio of the number of companies traded to the total number of companies listed. It is not necessary that the shares of all the companies listed in the stock exchange are traded, so the listed companies whose shares are traded in the stock exchange are called traded companies. The company trading ratio measures the liquidity of a stock exchange i.e. higher the company trading ratio higher the liquidity and vice versa.

The Table 4.5 shows the traded companies out of listed companies in NEPSE during different fiscal years from FY 1993/94 to FY 2008/09:

Table 4.5
Number of Traded Companies out of Listed Companies
(From FY 1993/94 to FY 2008/09)

Year	Listed company	Traded Company	Traded Ratio (%)
1993/94	66	30	45.45
1994/95	79	53	67.09
1995/96	89	59	66.29
1996/97	95	67	70.53
1997/98	101	68	67.33
1998/99	107	69	64.49
1999/00	110	69	62.73
2000/01	115	67	58.26
2001/02	96	69	71.88
2002/03	108	81	75
2003/04	114	92	80.70
2004/05	125	102	81.60
2005/06	135	110	81.48
2006/07	135	116	85.93
2007/08	142	136	95.77
2008/09	149	145	97.32

Source: NEPSE, Annual Trading Report at www.nepalstock.com

From table 4.5, it can be observed that the number of trading companies is highest in the FY 2008/09. Also the percentage of trading company to listed company i.e. company trading ratio is also highest in the FY 2008/09. When we see the number of trading companies from the beginning to the present, we find that the numbers of trading companies are increasing yearly with increase in the listed companies except in the FY 2000/01 where the number of trading companies reduced to 67 from 69 of previous FY 1999/00, but in the FY 2005/06 traded ratio slightly decreased to 81.48% from 81.60%. Viewing the

increasing trend of company trading ratio, it can be taken as a satisfactory indicator in the development of securities market in Nepal.

4.1.5.2 Market Capitalization Ratio

The market capitalization ratio is the ratio between market capitalization and Gross Domestic Product (GDP). Market Capitalization Ratio shows the contribution of market capitalization to the GDP. Market capitalization ratio of different fiscal years are calculated and presented in the table below:

Table 4.6
Market Capitalization Ratio (From FY 1993/94 to FY 2008/09)

Fiscal Year	GDP (Rs. in million)	Market Capitalization (Rs. in million)	Market Capitalization Ratio (%)
1993/94	191596	13872	7.24
1994/95	209974	12963	6.17
1995/96	239388	12295	5.14
1996/97	269570	12698	4.71
1997/98	289798	14289	4.93
1998/99	330018	23508	7.12
1999/00	366251	43123.3	11.77
2000/01	393994	46349.4	11.76
2001/02	406007	34703.9	8.55
2002/03	437072	35240.4	8.06
2003/04	473876	41424.77	8.74
2004/05	504101	61365.89	12.17
2005/06	534460	96763.7	18.10
2006/07	560890	186301.3	33.22
2007/08	595850	366247.6	61.47
2008/09	705460	512939.07	72.70

Source: NEPSE Annual Trading Report at www.nepalstock.com

And CBS website www.cbs.gov.np

Market capitalization ratio was 7.24% in the FY 1993/94 which reached to 72.70% in the last FY 2008/09. From the above table it can be seen that the

highest market capitalization ratio was in the last FY 2008/09 of 72.07% and the lowest ratio in FY 1996/97 of only 4.71%. Since the GDP of the country is increasing annually and when the market capitalization ratio from FY 2002/03 to last FY 2008/09 is seen increasing which shows that contribution of market capitalization to GDP is also increasing. Thus, it can be taken as a good indication for the development of securities market and it can be hoped for the further increase in the market capitalization ratio in the future.

To examine the relationship between market capitalization and GDP, correlation coefficient is calculated (**Appendix-8**).

Table 4.7
Correlation Coefficient between Market Capitalization and GDP

Correlation Coefficient (r)	6 P.E	Significant/Not Significant
0.8016	0.36162	Significant

Source: Appendix-8

Table 4.7 shows the Correlation Coefficient (r) between market capitalization and GDP. The 'r' calculated has been 0.7248 and the probable error (6.P.E) is 0.2876, which is significant. All this shows the significant relationship between the market capitalization and GDP. Therefore, it is concluded that increase in market capitalization will increase GDP.

4.1.5.3 Value Traded Ratio

The value traded ratio is the ratio of value traded or turnover to the Gross Domestic Product (GDP). Value traded ratio is the complementary of the market capitalization ratio. For testing the liquidity of the security market, value traded ratio is also needed to compare.

Value Traded Ratios during different fiscal years from FY 1993/94 to FY 2008/09 are calculated and presented in the table below:

Table-4.8**Value Traded Ratio (From FY 1993/94 to FY 2008/09)**

Fiscal Year	GDP (Rs. in million)	Annual Turnover (Rs. in million)	Value Traded Ratio (%)
1993/94	191596	441.56	0.2305
1994/95	209974	1054.27	0.5021
1995/96	239388	215.61	0.0901
1996/97	269570	416.23	0.1544
1997/98	289798	202.61	0.0699
1998/99	330018	1499.89	0.4545
1999/00	366251	1157.03	0.3159
2000/01	393994	2344.16	0.5950
2001/02	406007	1540.63	0.3795
2002/03	437072	575.8	0.1317
2003/04	473876	2144.27	0.4525
2004/05	504101	4507.68	0.8942
2005/06	534460	3451.4	0.6458
2006/07	560890	8360.1	1.4905
2007/08	595850	22820.8	3.83
2008/09	705460	21681.14	3.07

Source: NEPSE Annual Trading Report at www.nepalstock.com And CBS website www.cbs.gov.np

From Table 4.8, it can be seen that the value traded ratio is fluctuating during the different fiscal years. However, from FY 2005/06 to FY 2007/08, it is in increasing trend which is a good sign for the development of securities market in Nepal but in FY 2008/09 it is decreased to 3.07%. The value traded ratio in the last FY 2007/08 is 3.83% which is the highest ratio ever recorded. Thus, it can be observed that the recent performance of the market is becoming better.

4.1.5.4 Turnover Ratio

The turnover ratio calculates the activeness of the share market. This ratio calculates the trading relative to the size of the stock market. Turnover ratio is used to measure the liquidity of the stock market. Higher the turnover ratio, higher will be the liquidity and vice-versa.

Turnover ratios during different fiscal years from FY 1993/94 to FY 2008/09 are calculated and presented in the following table:

Table: 4.9
Turnover Ratio (From FY 1993/94 to FY 2008/09)

Fiscal Year	Annual Turnover (Rs. in million)	Market Capitalization (Rs. in million)	Turnover Ratio (%)
1993/94	441.56	13872	3.18
1994/95	1054.27	12963	8.13
1995/96	215.61	12295	1.75
1996/97	416.23	12698	3.28
1997/98	202.61	14289	1.42
1998/99	1499.89	23508	6.38
1999/00	1157.03	43123.3	2.68
2000/01	2344.16	46349.4	5.06
2001/02	1540.63	34703.9	4.44
2002/03	575.8	35240.4	1.63
2003/04	2144.27	41424.77	5.18
2004/05	4507.68	61365.89	7.35
2005/06	3451.4	96763.7	3.57
2006/07	8360.1	186301.3	4.49
2007/08	22820.8	366247.6	6.23
2008/09	21681.14	512939.07	4.23

Source: NEPSE, Annual Trading Reports FY 2008/09 at www.nepalstock.com

It can be seen from table 4.9 that the calculated turnover ratio is 3.18% in the FY 1993/94 which reached to 6.23% in the FY 2007/08. The highest turnover ratio was in the FY 1994/95 of 8.13% and lowest ratio in FY 1997/98 of only

1.42%. When we take a glimpse of turnover ratios of different fiscal years, we find it fluctuating yearly, but from FY 2005/06 to the FY 2007/08, it is increasing in an increasing rate but in fiscal year 2008/09 it is decreased to 4.23%. So, we can hope that it will further increasing in the future which creates hope for the development of securities market in Nepal.

4.2 Analysis of Present Status

Present condition of NEPSE is expected well than the past but it cannot be considered as a satisfying condition. To predict the condition of NEPSE in future, the analysis of present status is important.

For the analysis of current status of NEPSE, monthly analysis has been done in different aspects during the last FY 2008/09.

4.2.1 Number of Listed Companies under Different Sectors in FY 2008/09

The number of listed companies in NEPSE at the end of fiscal year 2008/09 was 163 (**Appendix-1**). These companies are categorized into 9 different sectors. Each sector possesses the different number of listed companies.

The numbers of listed companies according to the sectors are presented in the table below.

Table: 4.10

Sector-wise Number of Listed Companies in FY 2008/09

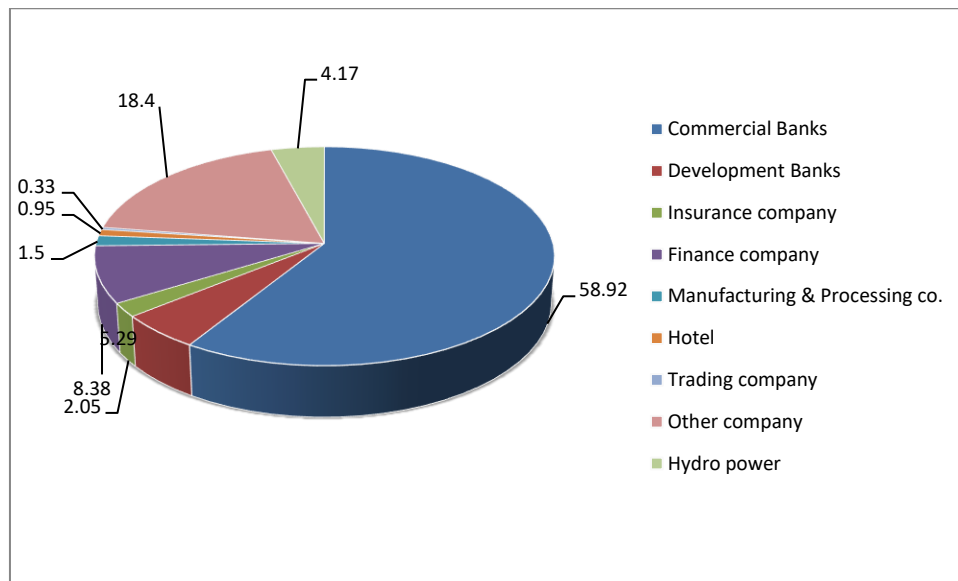
S.No.	Sectors	Numbers	Percentage (%)
1	Commercial Banks	23	14.11
2	Development Banks	30	18.40
3	Insurance company	17	10.43
4	Finance company	62	38.04
5	Manufacturing & Processing co.	18	11.04
6	Hotel	4	2.45
7	Trading company	4	2.45
8	Other company	2	1.23
9	Hydro power	3	1.84
	Total	163	100

Source: Listing Companies at www.nepalstock.com

The following pie-chart presents the number of listed companies under different sectors in FY 2008/09.

Figure-4.5

Sector wise Number of Listed Companies in FY 2008/09



Source: Table 4.10

In Table 4.10 and Figure 4.5 it is observed that in FY 2008/09 the number of listed companies in NEPSE is 163. Out of them 23 companies from commercial sector, 30 companies from development bank sector, 62 companies from finance sector, 17 companies from insurance sector, 18 companies from manufacturing & processing sector, 4 companies from hotel sector, 4 companies from trading sectors, 2 companies from other company sector and 3 company from hydro power sector. When we see the figure above, it is found that, finance sector covers largest are 38.36% of total listed companies and least area is covered by other company sector which only has 1.26% of the total.

4.2.2 Turnover in FY 2008/09

The sector wise turnover in the FY 2008/09 is presented in the table below:

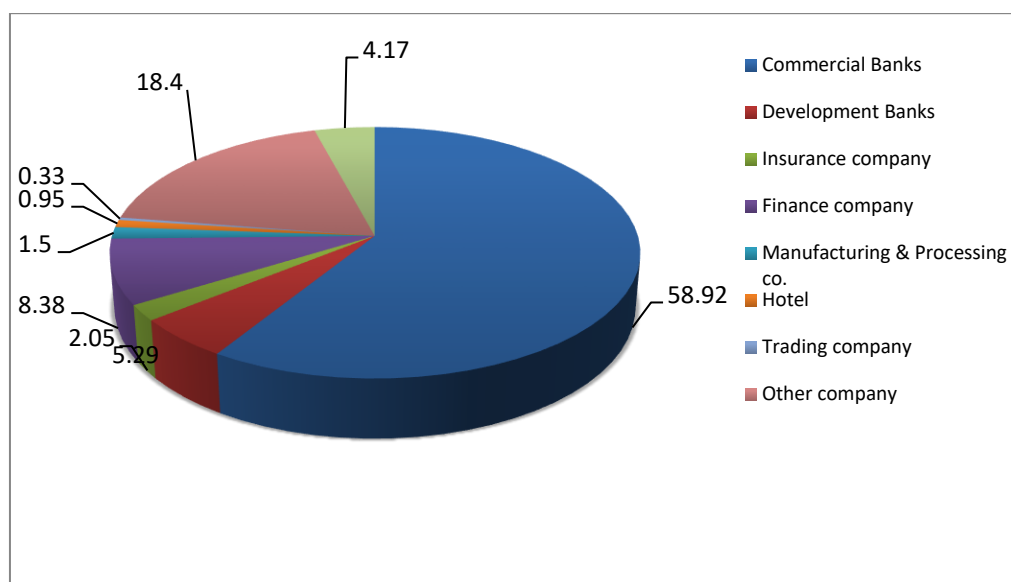
Table: 4.11
Sector-wise Turnover of NEPSE in FY 2008/09

S.No.	Sectors	Turnover (Rs. in million)	Percentage (%)
1	Commercial Banks	13949.87	64.63
2	Development Banks	2973.03	13.77
3	Insurance company	212.8	0.99
4	Finance company	2986.04	13.83
5	Manufacturing & Processing co.	26.08	0.12
6	Hotel	18.69	0.09
7	Trading company	33.49	0.16
8	Other company	494.39	2.29
9	Hydro power	890.3	4.12
	Total	21584.69	100

Source: NEPSE, Annual Trading Report 2008/09 at www.nepalstock.com

Sector-wise turnover of NEPSE in FY 2008/09 is presented by the pie chart below:

Figure: 4.6
Sector-wise Turnover in FY 2008/09



Source: Table 4.11

Table 4.11 and Figure 4.6 show that commercial sector has the largest turnover of Rs. 13949.87 million which is 64.63% of the total. Trading amount of development banks is Rs. 2973.03 million which covers 13.77% of the total. Finance sector has the turnover of Rs. 2986.04 million which is 13.83% of the total and insurance sector covers 212.8 million which is 0.99% of total. Manufacturing & Processing sector covers 26.08 million which is only 0.12% of the total. Trading company sector covers 33.49 million which is 0.16% of total, other companies covers 494.39 million only which is the least turnover of the total, which is only 2.29% of the total. Hydro power covers 4.12% of the total area, whose turnover is 890.3 million.

The monthly turnover of NEPSE during the FY 2008/09 is presented in the following table:

Table: 4.12

Monthly Turnover of NEPSE During FY 2008/09

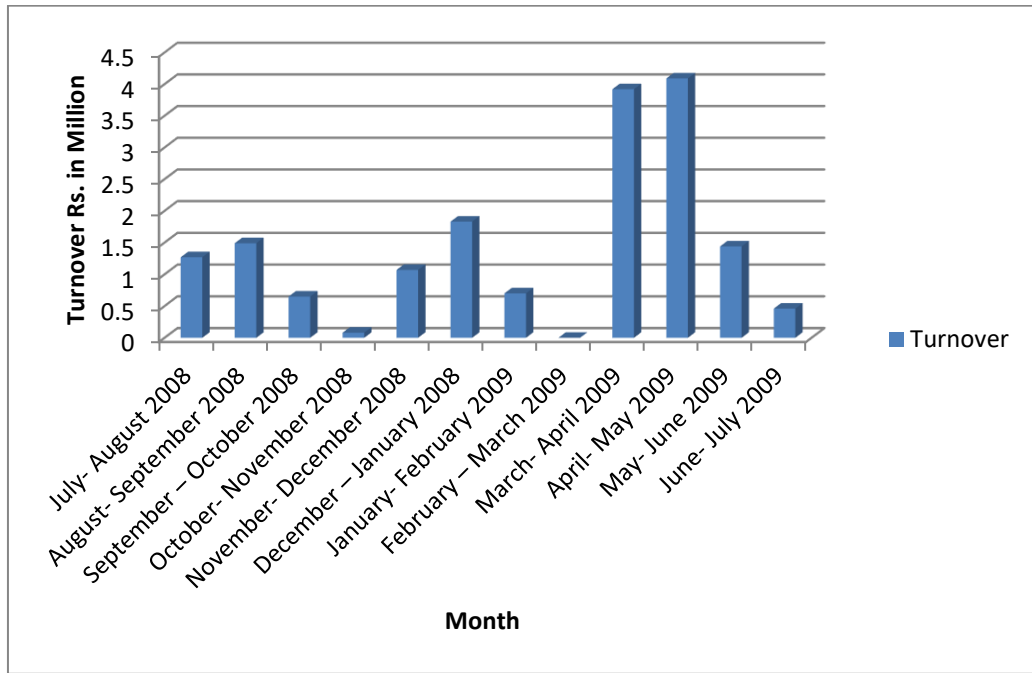
Months	Turnover (Rs. in million)
July- August 2008	2982.14
August- September 2008	3053.88
September – October 2008	1927.94
October- November 2008	2614.24
November- December 2008	1873.61
December – January 2008	1403.95
January- February 2009	1003.58
February – March 2009	1160.64
March- April 2009	1108.41
April- May 2009	1069.77
May- June 2009	2153.26
June- July 2009	1475.23

Source: NEPSE, Monthly Trading Report 2008/09 at www.nepalstock.com

The monthly turnover during the FY 2008/09 is presented by the figure below

Figure: 4.7

Monthly Turnover of NEPSE During FY 2008/09



Source: Table 4.12

Table 4.12 and Figure 4.7 show that in the month of August- September 2008, the turnover is very high compared to others months. The least turnover is recorded in the month January- February, 2009 of only Rs. 1003.58 million. The monthly turnover during the year can be regarded as the fluctuating where monthly ups and down took place. At the beginning month i.e. July- August, 2008 the turnover was 2982.14 which reached to Rs. 1475.23 million at the end month i.e. June- July , 2009.

4.2.3 Market Capitalization of Listed Companies in FY 2008/09

By the end of the FY 2007/08, the market capitalization value of the listed securities reached to Rs 365919 million. In the last fiscal year, this value was Rs. 186301.3 million.

Sector-wise market capitalization value for FY 2008/09 is presented in the following table.

Table: 4.13

Sector- wise Market Capitalization in FY 2008/09

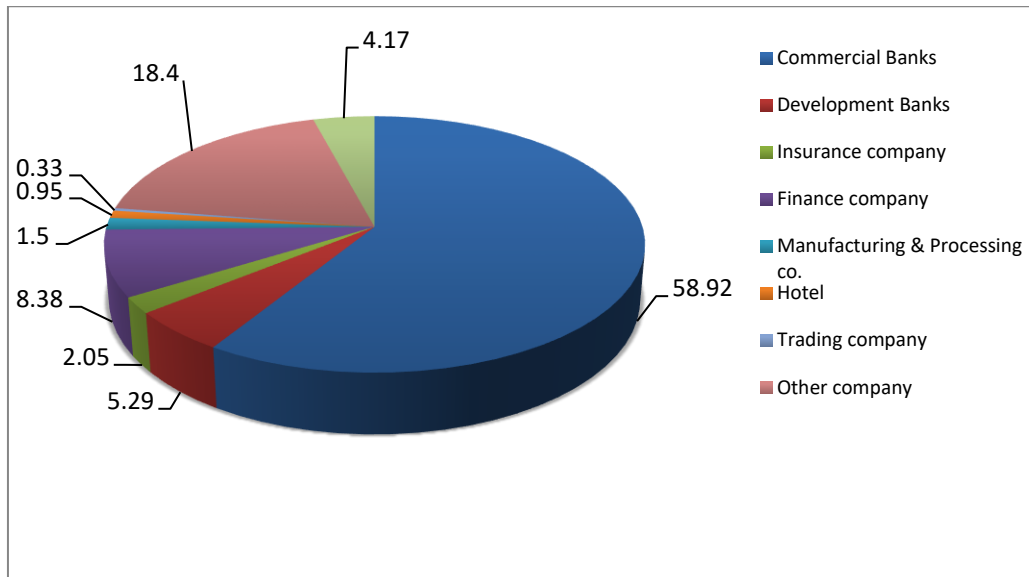
S.No.	Sectors	Market Capitalization	Percentage (%)
1	Commercial Banks	302219.29	58.92
2	Development Banks	27137.89	5.29
3	Insurance company	10537.49	2.05
4	Finance company	43007.13	8.38
5	Manufacturing & Processing co.	7706.9	1.50
6	Hotel	4851.95	0.95
7	Trading company	1696.36	0.33
8	Other company	94369.16	18.40
9	Hydro power	21413.72	4.17
	Total	512939.08	100

Source: NEPSE, Annual Trading Report 2008/09 at www.nepalstock.com

The market capitalization in FY 2008/09 is presented in following pie-chart below:

Figure: 4.8

Sector-wise Market Capitalization in FY 2008/09



Source: Table 4.13

Table 4.13 and Figure 4.8 show that the market capitalization of commercial bank is Rs. 302219.29 million which is the highest among the 9 sectors and

which covers 58.92% of the total. The second highest market capitalization value is of finance companies sector of Rs. 43007.13 million which is 8.38% of the total. Among the 9 sectors, the lowest market capitalization value is possessed by trading company sector with among of only 1696.36 million which covers only 0.33s% of the total.

4.2.4 Monthly NEPSE Index during FY 2008/09

By the end of fiscal year 2008/09, the price index of the listed securities (NEPSE index) remained at 749.10 points, which is 214.3 points lower than that of the previous fiscal years' index 963.4 points.

The monthly NEPSE index (closing) during the FY 2008/09 is presented in the table below:

Table-4.14
Monthly NEPSE Index During FY 2008/09

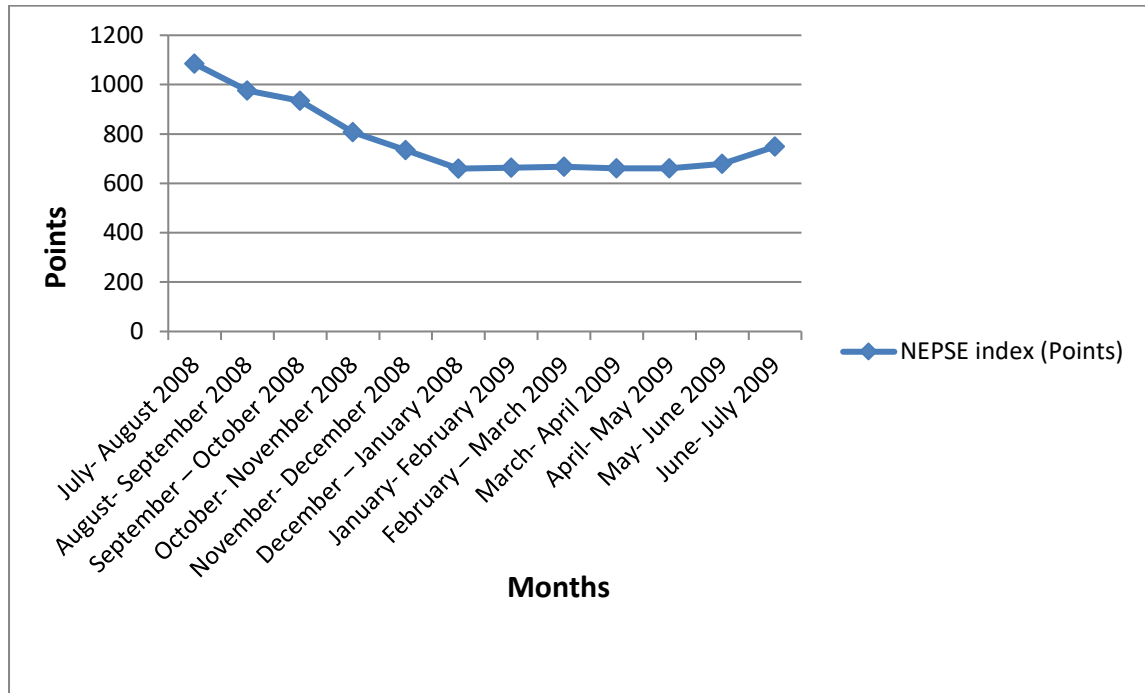
Months	NEPSE index (Points)
July- August 2008	1084.76
August- September 2008	976.01
September – October 2008	933.97
October- November 2008	806.90
November- December 2008	734.85
December – January 2008	659.81
January- February 2009	663.52
February – March 2009	667.20
March- April 2009	661.27
April- May 2009	660.96
May- June 2009	678.74
June- July 2009	749.10

Source: NEPSE, Monthly Trading Report 2008/09 at www.nepalstock.com

The monthly trend of the NEPSE Index during FY 2008/09 is presented in the figure below:

Figure: 4.9

Monthly NEPSE Index During FY 2008/09



Source: Table 4.14

In the FY 2008/09, the highest index of 1084.76 was noted in the month of July- August 2008. Then, from this points NEPSE index gradually decrease up to 660.96, which is recorded in the month of April- May, 2009. Then, from this point NEPSE has slightly increased in month of May- June, 2009 recorded 678.74. Then, again in the month of June- July, 2009 NEPSE recorded 749.10, this increase caused by the new capital gain tax act of the government of Nepal.

4.2.5 Monthly Share Price and Turnover of Selected Sample Companies During FY 2008/09

Monthly share price & turnover of different selected sample companies during the FY 2008/09 are presented here.

4.2.5.1 Monthly Share Price and Turnover of Everest Bank Ltd.

The following table shows the monthly share price and turnover of Everest Ban

Table: 4.15

Monthly Share Price and Turnover of Everest Bank Ltd.

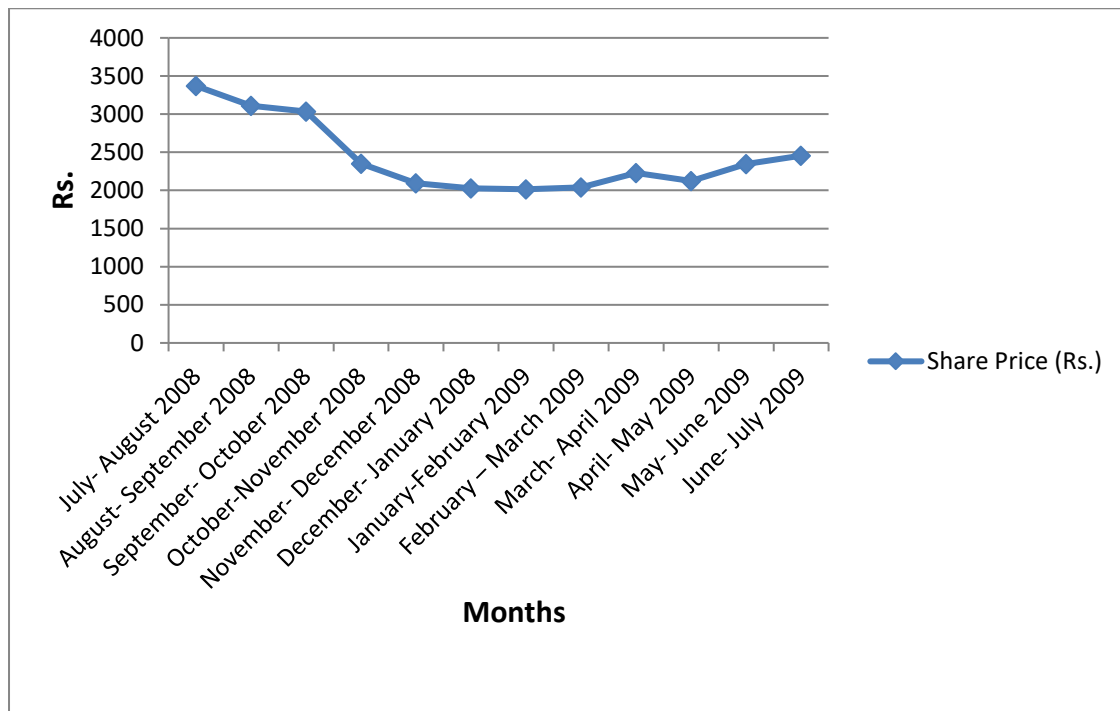
Months	Share Price (Rs.)	Turnover (Rs. in million)
July- August 2008	3370	47.01
August- September 2008	3112	43.75
September- October 2008	3033	18.90
October-November 2008	2352	5.01
November- December 2008	2095	3.79
December- January 2008	2026	9.45
January-February 2009	2015	12.85
February – March 2009	2040	10.42
March- April 2009	2230	10.58
April- May 2009	2125	16.03
May- June 2009	2345	18.03
June- July 2009	2455	18.42

Source: NEPSE, Monthly Report 2008/09 at www.nepalstock.com

The monthly trend of share price and turnover of Everest Bank Ltd. are shown in the figures below:

Figure: 4.10

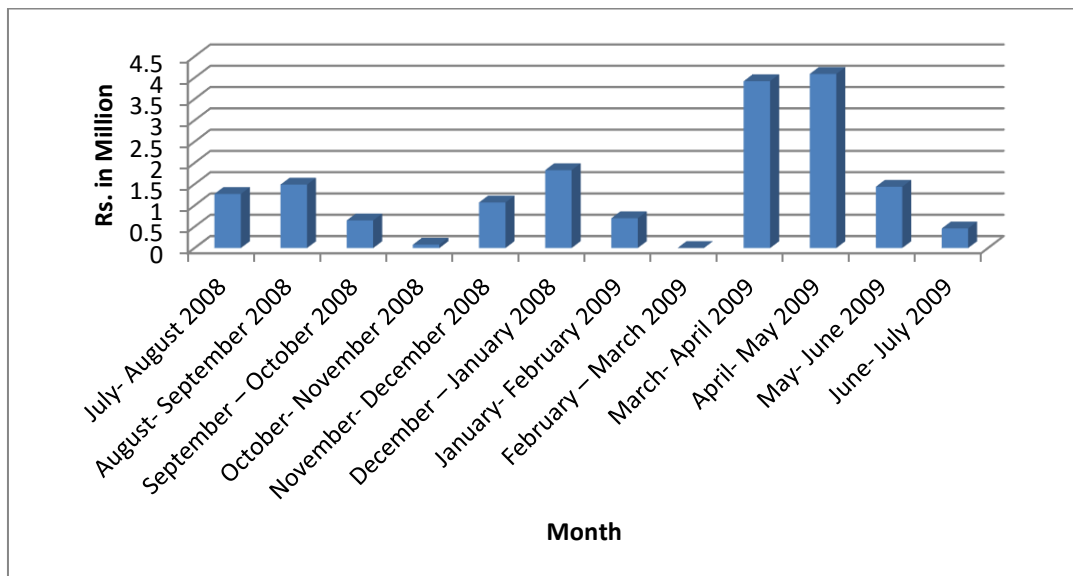
Monthly Share price of Everest Bank Ltd.



Source: Table 4.15

Figure: 4.11

Monthly Turnover of Everest Bank Ltd.



Source: Table 4.15

From Table and Figures, it is found that the share price was Rs. 3370 and turnover Rs. 47.01 million of Everest Bank Ltd. in the beginning month of July-August, 2008. At the ending month of June-July, 2009, the share price was 2455 and turnover was Rs. 18.42 million.

During the year, the highest share price was in the month of July- August, 2008 of Rs. 3370 and the least in the month of January-February, 2009 of Rs. 2015. Similarly, the highest turnover was in the month of July-August, 2008 of Rs. 47.01 million when closing share price was Rs. 3370 and least turnover was in the month of November-December, 2008 of Rs. 3.79 million when closing price was Rs. 2095.

4.2.5.2 Monthly Share Price and Turnover of Nepal Development Bank Ltd.

Monthly share price and turnover of Nepal Development Bank Ltd. is presented in the table below:

Table: 4.16

Monthly share price & turnover of Nepal Development Ltd.

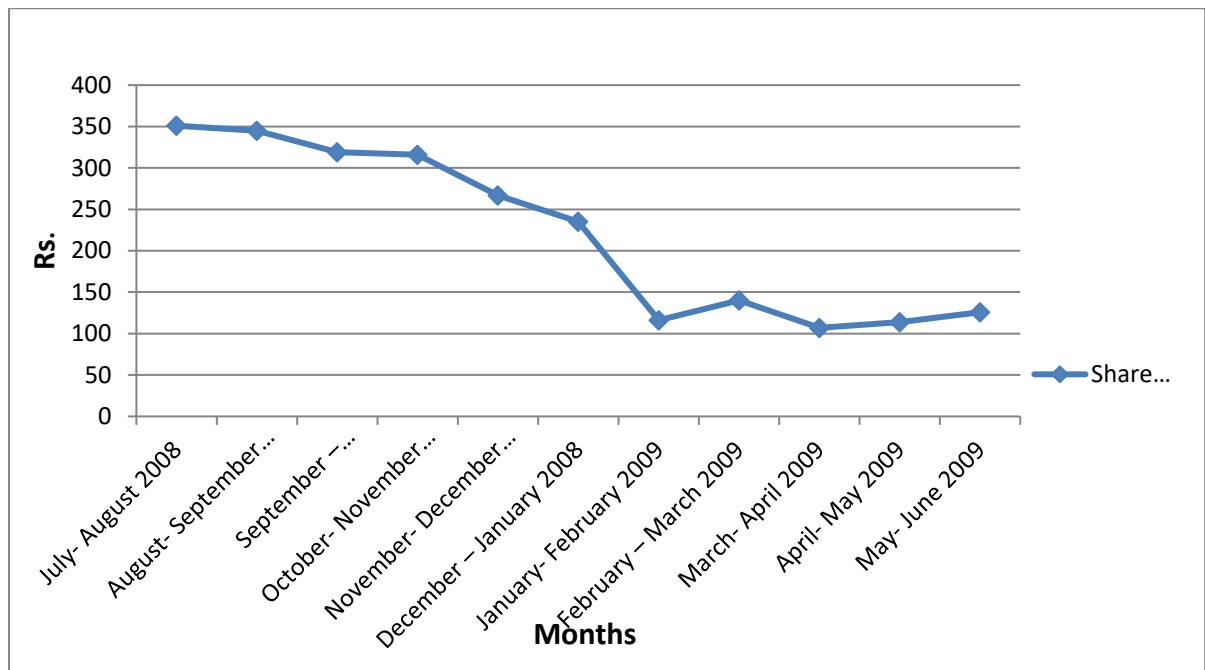
Months	Share Price (Rs.)	Turnover (Rs. in million)
July- August 2008	351	17.03
August- September 2008	345	5.59
September – October 2008	319	63.86
October- November 2008	316	8.52
November- December 2008	267	0.62
December – January 2008	235	0.36
January- February 2009	116	4.70
February – March 2009	140	0.42
March- April 2009	107	3.58
April- May 2009	114	0.51
May- June 2009	126	0.35
June- July 2009	-	-

Source: NEPSE, Monthly Report 2008/09 at www.nepalstock.com

The monthly trend of share price and turnover of Nepal Development Ltd. are shown in the figures below:

Figure: 4.12

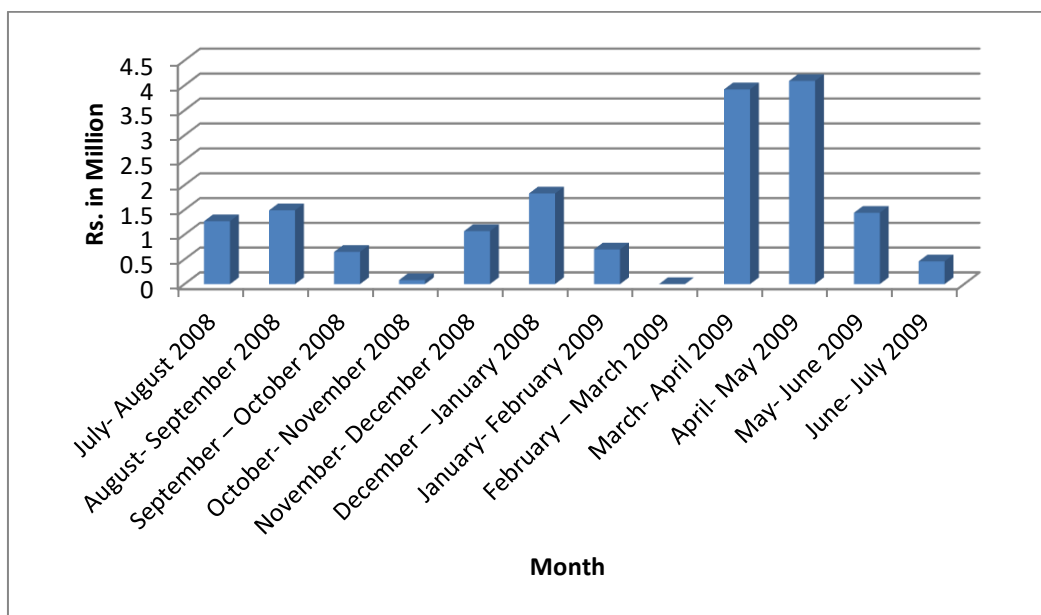
Monthly share price of Nepal Development Bank Ltd.



Source: Table 4.16

Figure: 4.13

Monthly Turnover of Nepal Development Bank Ltd.



Source: Table 4.16

From Table and Figures, it is observed that share price was Rs. 351 and the turnover Rs. 17.03 million of Nepal Development Bank Ltd. in the beginning month of July-August, 2008. At the ending month of May-June, 2009, the share price was Rs. 126 and the turnover was Rs. 0.35 million, but in the month of June-July, 2009 there was no any transaction made.

During the fiscal year, the highest share price was in the month of July-August, 2008 . of Rs. 351 and least in the month of March-April,2009 of Rs. 107. Similarly, the highest turnover was recorded in the month of September-October, 2008 when it reached to the amount of Rs. 63.86 million when the closing share price was Rs. 319 and lowest turnover was in the month of May-June, 2009 of Rs. 0.35 million when the closing share price was Rs. 126.

4.2.5.3 Monthly Share Price and Turnover of Cosmic Merchant Bank & Finance Ltd.

Monthly share price and turnover of Cosmic Merchant Bank & Finance Ltd. are presented in the table below:

Table: 4.17

Monthly Share Price and Turnover of Cosmic Merchant Bank & Finance Ltd.

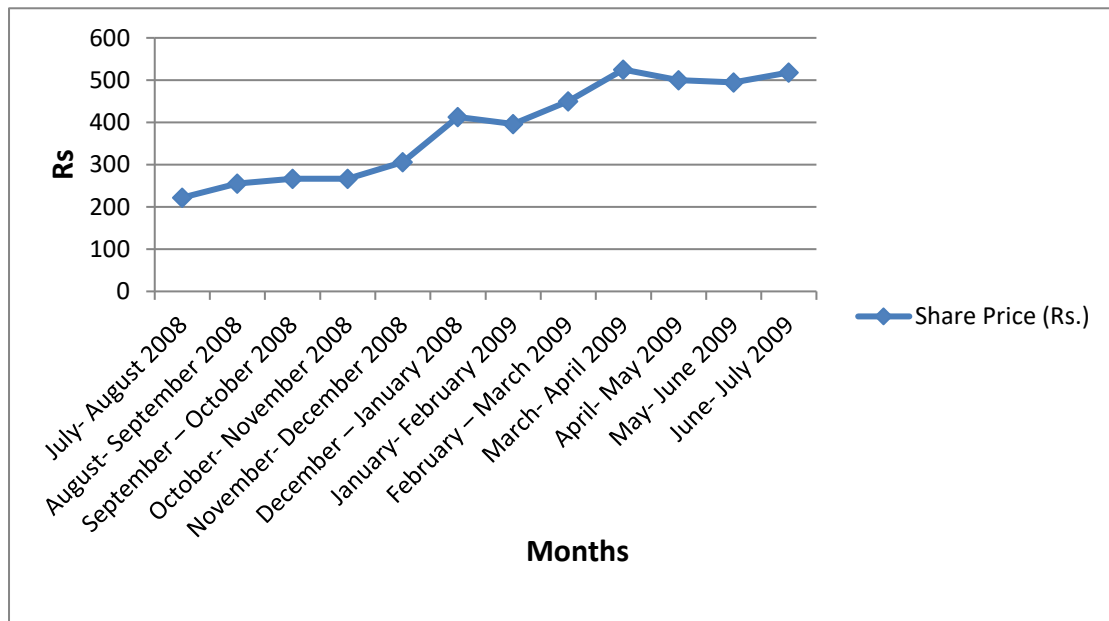
Months	Share Price (Rs.)	Turnover (Rs. in million)
July- August 2008	222	13.99
August- September 2008	255	6.13
September – October 2008	267	0.01
October- November 2008	-	-
November- December 2008	306	0.02
December – January 2008	413	1.10
January- February 2009	396	13.51
February – March 2009	450	7.40
March- April 2009	525	9.41
April- May 2009	500	16.35
May- June 2009	495	0.67
June- July 2009	518	0.59

Source: NEPSE, Monthly Report 2008/09 at www.nepalstock.com

Monthly share price and turnover of Cosmic Merchant Bank & Finance Ltd. are shown in the figure below:

Figure: 4.14

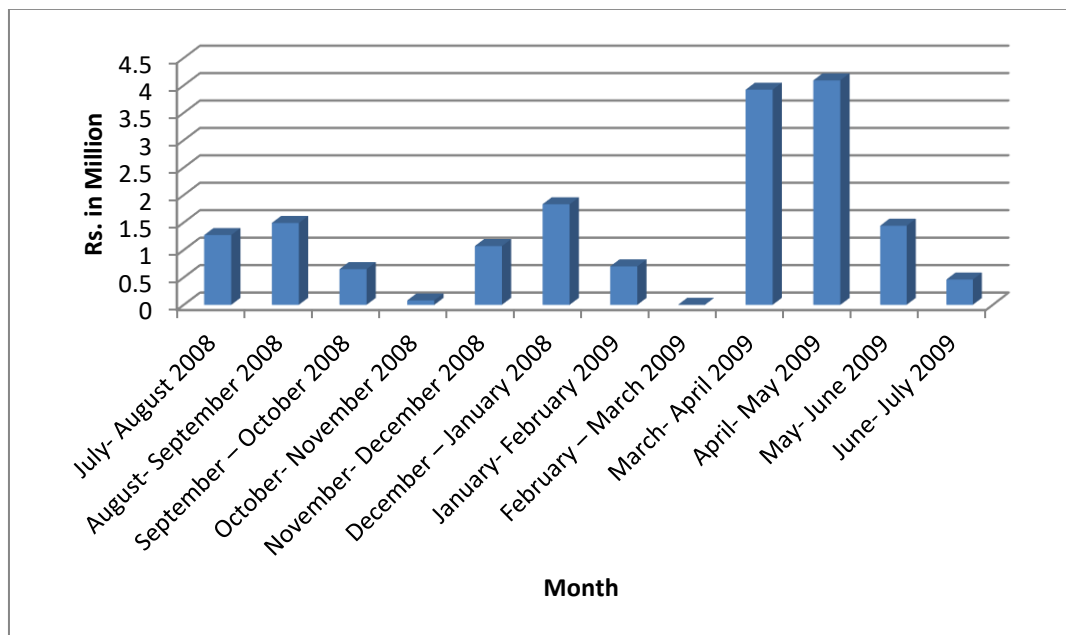
Monthly Share Price of Cosmic



Source: Table 4.17

Figure: 4.15

Monthly Turnover of Cosmic Merchant Bank & Finance Ltd



Source: Table 4.17

From Table and Figures, it has been seen that the share price was Rs. 222 and the turnover Rs. 13.99 million of Cosmic Merchant Bank & Finance Ltd. in the beginning month of July-August, 2008 . At the end of month of June-July 2009, the share price was Rs. 518 and the turnover was Rs. 0.59 million. During the fiscal year, the highest share price was in the beginning month of March-April,2009 of Rs. 525 and the lowest in the ending month of July-August, 2008 of Rs. 222. And also in the month of October-November 2008, there were no any transaction at all.

Similarly, the highest turnover was in the month of April-May, 2009 of Rs. 16.35 million when the closing share price was Rs. 500 & the lowest turnover of Rs. 0.02 million in the month of November-December, 2008 when the closing share price was Rs. 306. In the month of October-November 2008 as earlier mention, there was no any transaction.

4.2.5.4 Monthly Share Price and Turnover of Life Insurance Company Nepal

Monthly share price and turnover of Life Insurance Company Nepal Ltd. are presented in the table below:

Table: 4.18

Monthly Share Price and Turnover of Life Insurance Company Nepal Ltd.

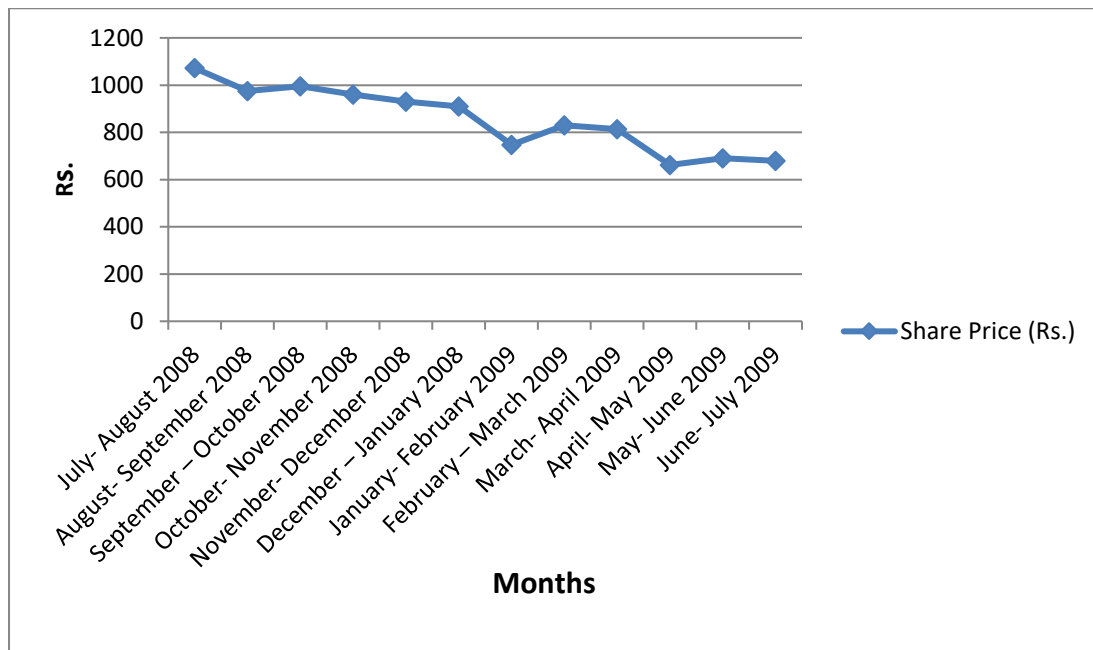
Months	Share Price (Rs.)	Turnover (Rs. in million)
July- August 2008	1072	1.54
August- September 2008	975	6.61
September – October 2008	995	2.28
October- November 2008	960	0.67
November- December 2008	930	1.06
December – January 2008	910	0.31
January- February 2009	747	0.42
February – March 2009	830	0.65
March- April 2009	813	0.36
April- May 2009	662	1.44
May- June 2009	690	1.61
June- July 2009	680	0.50

Source: NEPSE, Monthly Report 2008/09 at www.nepalstock.com

The monthly share price and turnover of Life Insurance Co. Nepal Ltd. are shown by the figure below:

Figure: 4.16

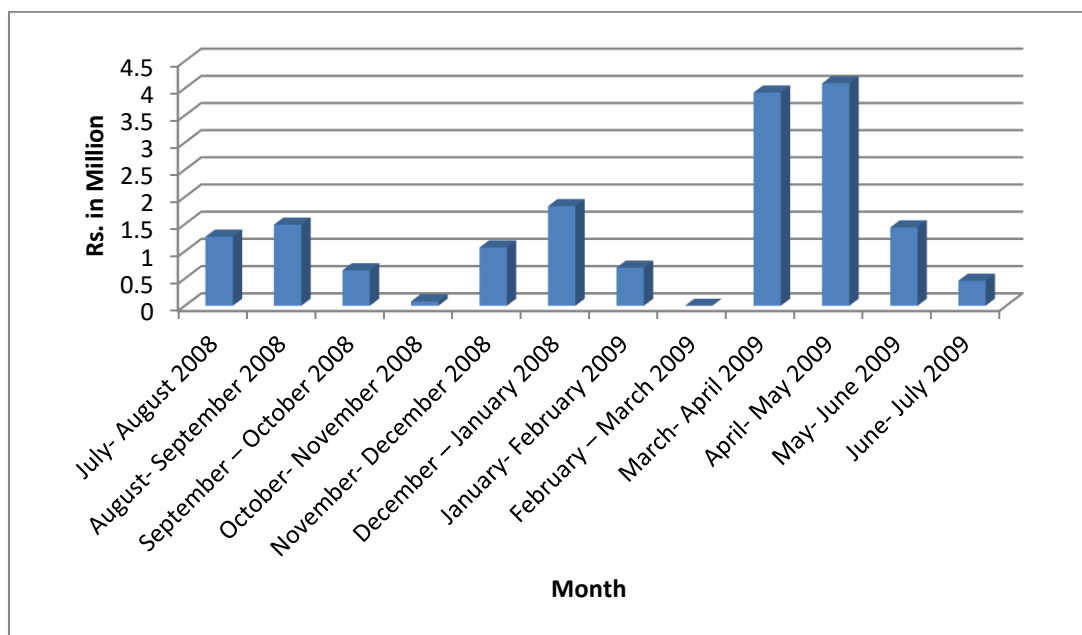
Monthly Share Price of Life Insurance Co. Nepal



Source: Table 4.18

Figure: 4.17

Monthly Turnover of Life Insurance Co. Nepal Ltd



Source: Table 4.18

The above Table and Figures show that the share price was Rs. 1072 and the turnover of Rs. 1.54 million of Life Insurance Co. Nepal Ltd in the beginning of month of July-August, 2008. The ending month of June-July, 2009, the share price was Rs. 680 and the turnover was Rs. 0.5 million.

During the fiscal year, the highest share price was Rs. 1072 in the month of July-August, 2008 and the lowest share price was Rs. 662 in the month of April-May, 2009. Similarly, the highest turnover was Rs. 6.61 million in the month of August-September, 2008 when closing share price was Rs. 975 and lowest turnover was. 0.31. Million in the month of December-January, 2008 when closing share price was Rs. 910.

4.2.5.5 Monthly Share Price and Turnover of Oriental Hotel Ltd.

The monthly share price and turnover of Oriental Hotels Limited are presented in the table below:

Table: 4.19

Monthly Share Price and Turnover of Oriental Hotels Limited.

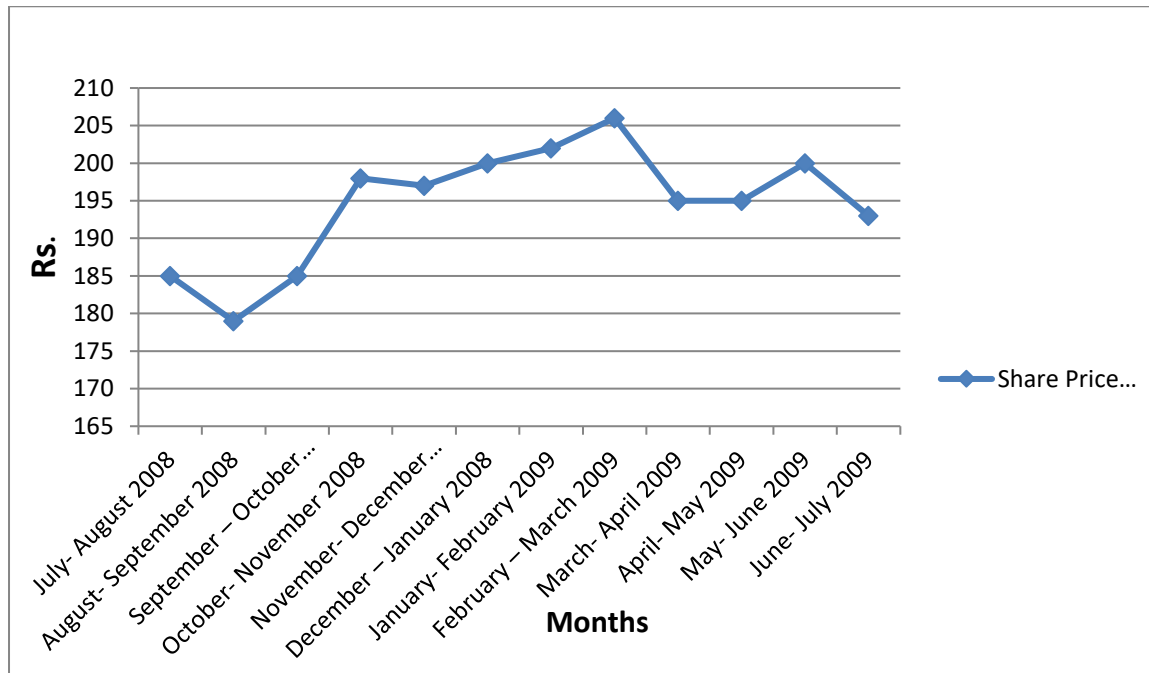
Months	Share Price (Rs.)	Turnover (Rs. in million)
July- August 2008	185	0.35
August- September 2008	179	3.38
September – October 2008	185	1.26
October- November 2008	198	0.15
November- December 2008	197	0.06
December – January 2008	200	0.04
January- February 2009	202	0.18
February – March 2009	206	0.01
March- April 2009	195	0.13
April- May 2009	-	-
May- June 2009	200	0.03
June- July 2009	193	0.04

Source: NEPSE, Monthly Report 2008/09 at www.nepalstock.com

The monthly share price and turnover of Oriental Hotels Limited are shown in the figures below:

Figure: 4.18

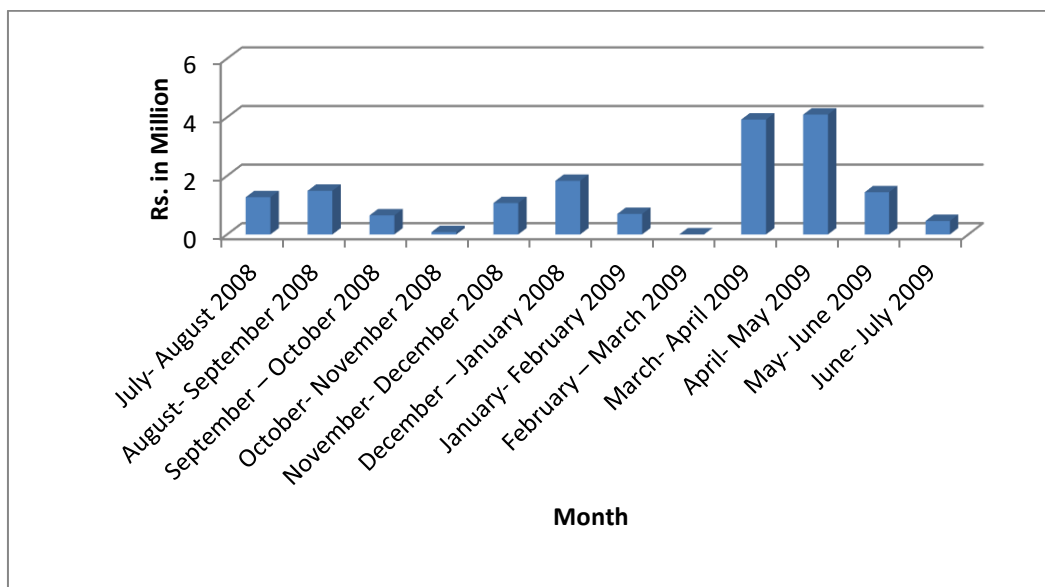
Monthly Share Price of Oriental Hotels Limited



Source- Table 4.19

Figure: 4.19

Monthly Turnover of Oriental Hotels Limited



Source- Table 4.19

From Table and Figures, it is obvious that the share price was Rs. 185 and turnover Rs. 0.35 million of Oriental Hotels Limited in the beginning month of July-August, 2008. At the end month of June-July 2009, the share price was Rs. 193 and the turnover was Rs. 0.04 million.

During the fiscal year, the monthly share price, become lowest Rs. 185 in the both month July-August and September-October, 2008. In April-May, 2009 there were no any transaction. The highest share price during this fiscal year was Rs. 206 in the month of February-March, 2009. Similarly, in the month of August-September, 2008 highest turnover recorded of Rs. 3.38 million at the share closing price of Rs. 179. During this fiscal year, in the month of February-March 2009, lowest turnover recorded of Rs. 0.01 million at closing price of Rs. 206.

4.2.5.6 Monthly Share Price and Turnover of Unilever Nepal Ltd.

The monthly share price and turnover of Unilever Nepal Ltd. are presented in the table below:

Table: 4.20

Monthly Share Price and Turnover of Unilever Nepal Ltd.

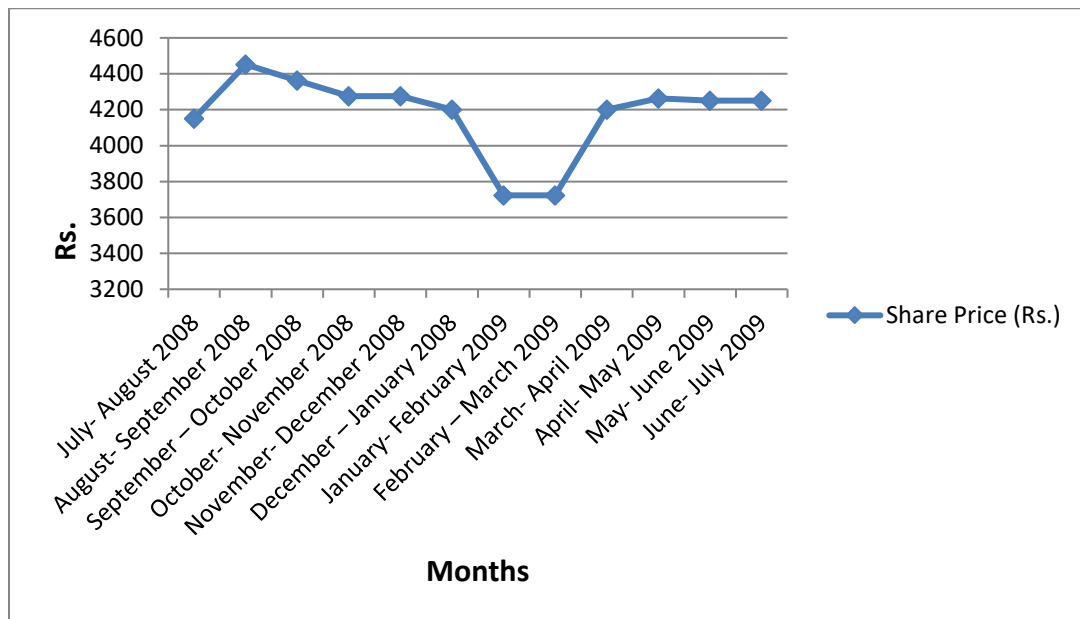
Months	Share Price (Rs.)	Turnover (Rs. in million)
July- August 2008	4150	1.27
August- September 2008	4452	1.49
September – October 2008	4363	0.65
October- November 2008	4276	0.08
November- December 2008	4275	1.07
December – January 2008	4200	1.83
January- February 2009	3723	0.70
February – March 2009	-	-
March- April 2009	4200	3.92
April- May 2009	4263	4.09
May- June 2009	4250	1.44
June- July 2009	4250	0.46

Source: NEPSE, Monthly Report 2008/09 at www.nepalstock.com

The monthly share price and turnover of Unilever Nepal Ltd. are shown in the figures below:

Figure: 4.20

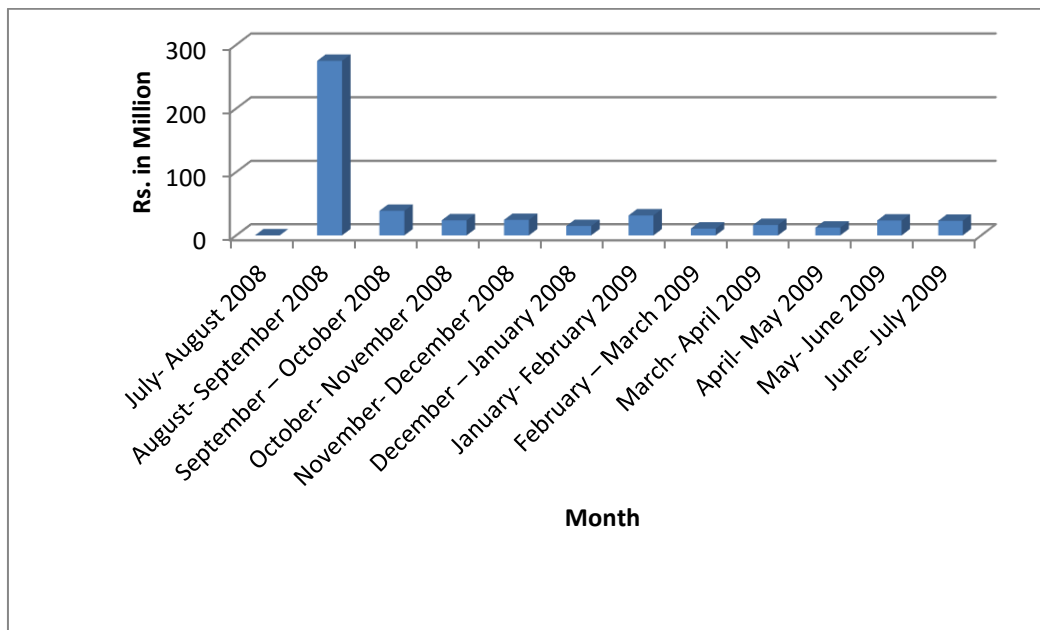
Monthly Share Price of Unilever Nepal Ltd.



Source: Table-4.20

Figure: 4.21

Monthly Turnover of Unilever Nepal Ltd.



Source: Table-4.20

From Table and Figures, it is apparent that the share price was Rs. 4150 and turnover Rs 1.27 million of Unilever Nepal Ltd. in the beginning month of July-August 2008. At the ending of June-July 2009, the share price was Rs. 4250 and the turnover was Rs. 0.46 million.

During the fiscal year, in the month of February-March 2009, there was no any transaction at all. The highest share price was Rs. 4452 in the month of August-September 2008 with turnover of Rs. 1.49 million. The lowest share price was Rs. 3723 in the month of January-February, 2009 with turnover of Rs. 0.70 million. During the fiscal year, the highest turnover was Rs. 4.09 million in the month of April-May 2009; at that time closing share price was Rs. 4263. As earlier mentioned, in the month of February-March 2009, transaction was not made at all. The lowest turnover during this fiscal year was Rs. 0.08 million in the month of October-November 2008, when the closing share price was Rs. 4276.

4.2.5.7 Monthly Share Price and Turnover of Bishal Bazar Co. Ltd.

The monthly share price and turnover of Bishal Bazar Co. Ltd. are presented in the table below:

Table: 4.21

Monthly Share Price and Turnover of Bishal Bazar Co. Ltd.

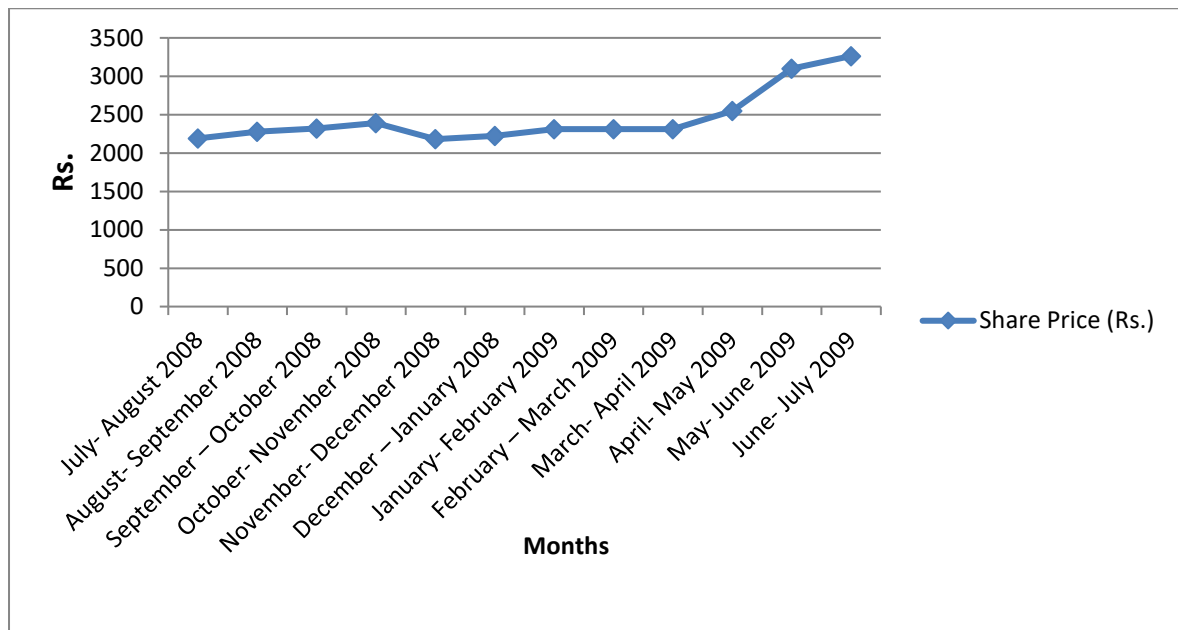
Months	Share Price (Rs.)	Turnover (Rs. in million)
July- August 2008	2190	0.31
August- September 2008	2277	2.45
September – October 2008	2322	1.78
October- November 2008	2390	1.30
November- December 2008	2181	3.32
December – January 2008	2224	0.13
January- February 2009	2311	2.10
February – March 2009	2310	3.96
March- April 2009	2310	3.44
April- May 2009	2550	6.59
May- June 2009	3100	3.30
June- July 2009	3264	4.57

Source: NEPSE, Monthly Report 2008/09 at www.nepalstock.com

The monthly share price and turnover of Bishal Bazar Co. Ltd are shown in the figure below:

Figure: 4.22

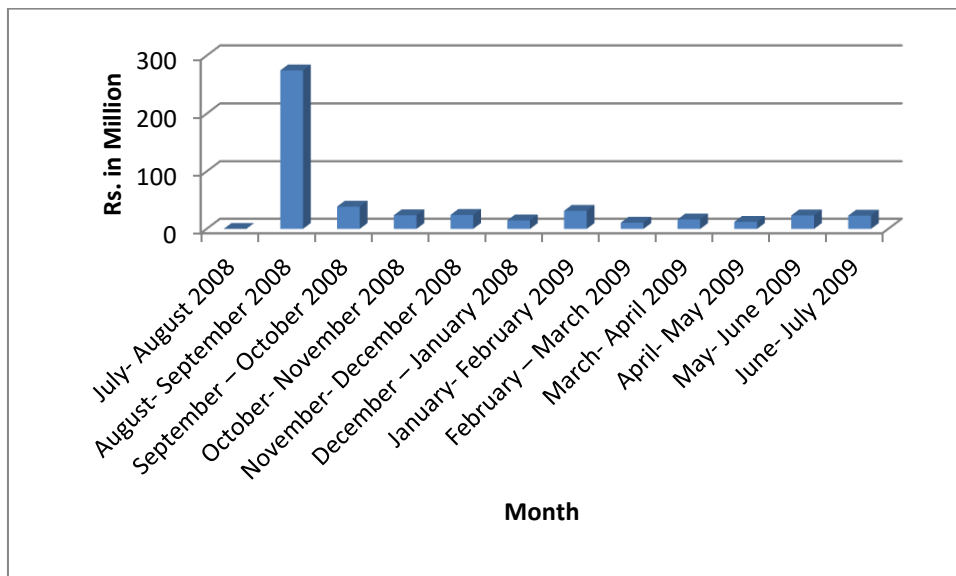
Monthly Share Price of Bishal Bazar Co. Ltd.



Source: Table 4.21

Figure: 4.23

Monthly Turnover of Bishal Bazar Co. Ltd.



Source: Table 4.21

From Table and Figures, it is clear that the share price was Rs. 2190 and the turnover R. 0.31 million of Bishal Bazar Co. Ltd. in the beginning month of July-August, 2008. At the ending month of June-July 2009, the share price was Rs. 3264 and the turnover was Rs. 1.18 million.

During the fiscal year, the highest share price was Rs. 3264 in the month of June-July 2009 and the lowest share price was Rs. 2181 in the month of November-December 2008. Similarly, the highest turnover was Rs. 6.59 million in the month of April-May 2009, when the closing share price was Rs. 2550 and in the month of December-January 2008, lowest turnover of Rs. 0.13 million was recorded at closing price of Rs. 2224.

4.2.5.8 Monthly Share Price and Turnover of Chilime Hydropower Co.

The monthly share price and turnover of Chilime Hydropower Co. Ltd. are presented in the table below:

Table: 4.22

Monthly Share Price and Turnover of Chilime Hydropower Co. Ltd.

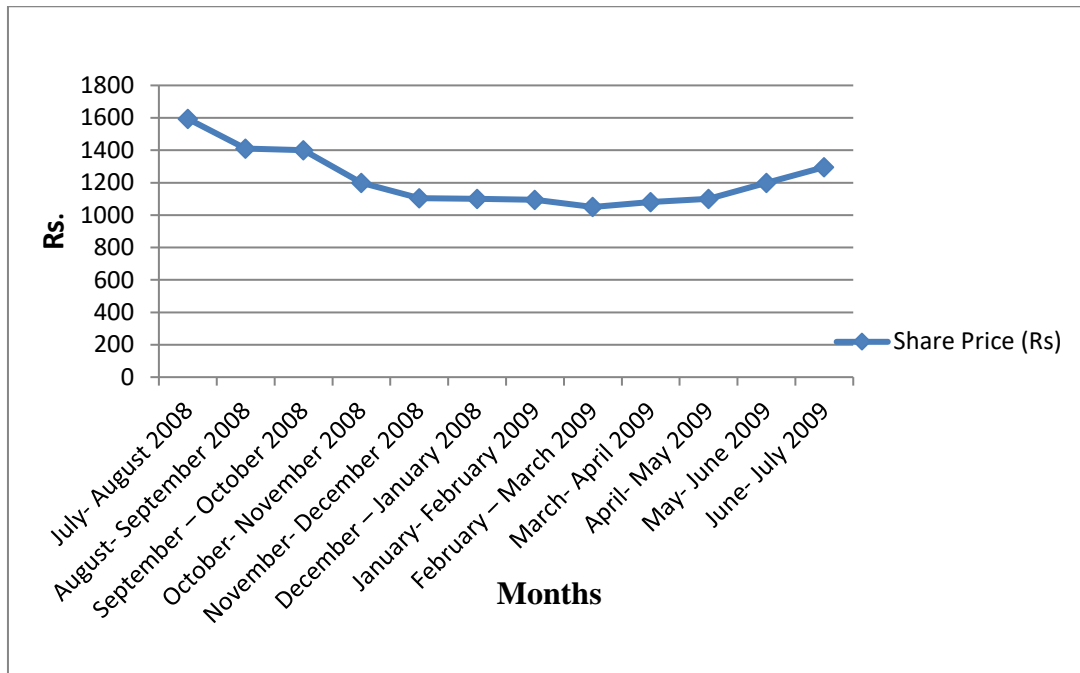
Months	Share Price (Rs)	Turnover (Rs. in million)
July- August 2008	1594	35.89
August- September 2008	1410	33.81
September – October 2008	1400	27.33
October- November 2008	1200	46.77
November- December 2008	1105	20.16
December – January 2008	1100	12.10
January- February 2009	1095	11.39
February – March 2009	1050	13.13
March- April 2009	1080	30.82
April- May 2009	1100	10.33
May- June 2009	1200	41.546
June- July 2009	1296	27.91

Source: NEPSE, Monthly Report 2008/09 at www.nepalstock.com

The monthly share price and turnover of Chilime Hydropower Power Co. are shown in figure:

Figure: 4.24

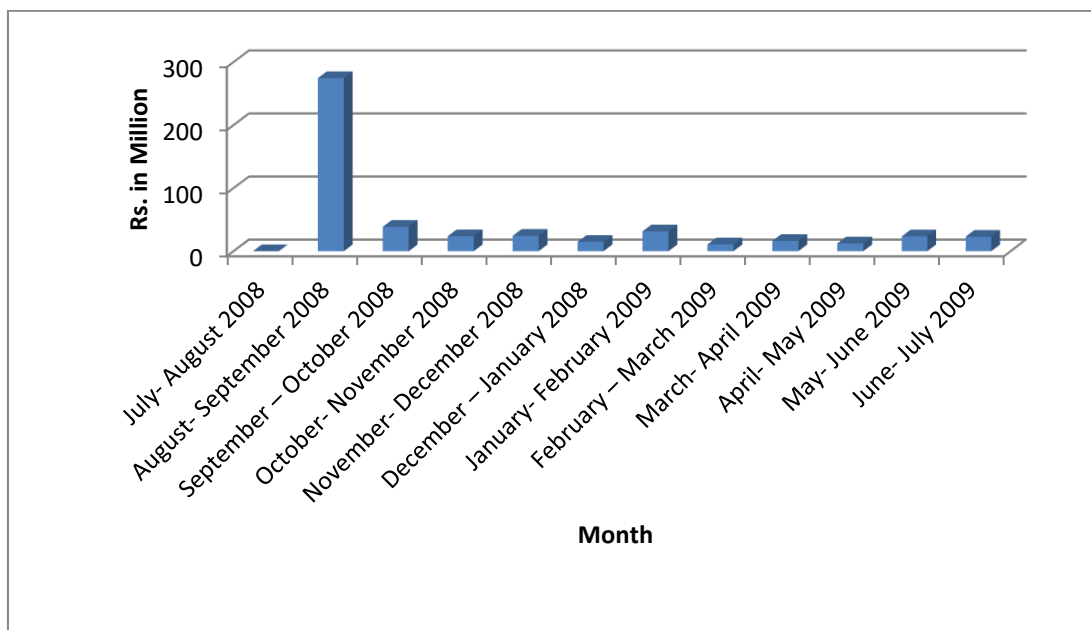
Monthly Share Price of Chilime Hydro Power Co.



Source: Table 4.22

Figure: 4.25

Monthly Share Price of Chilime Hydro Power Co.



Source: Table 4.22

From Table and Figures it is seen that the share price was Rs. 1594 and the turnover of Rs. 35.89 million of Chilime Hydro Power Co. in the beginning month of July-August 2008. At the end month of June-July 2009, the share price was Rs. 1296 and turnover was Rs. 27.91 million.

During the fiscal year, the highest share price was Rs. 1594 in the month of July-August 2008 and the lowest share price was Rs. 1050 in the month of February-March 2009. Similarly, the highest turnover was Rs. 46.77 million in the month of October-November 2008, when closing share price was Rs. 1200 and the lowest turnover was Rs. 10.33 million in the month of April-May, 2009 when closing share price was Rs. 1100.

4.2.5.9 Monthly Share Price and Turnover of Nepal Doorsanchar Co. Ltd.

The monthly share price and turnover of Nepal Doorsanchar Co. Ltd are presented in the table below:

Table: 4.23

Monthly Share Price and Turnover of Nepal Doorsanchar Co. Ltd.

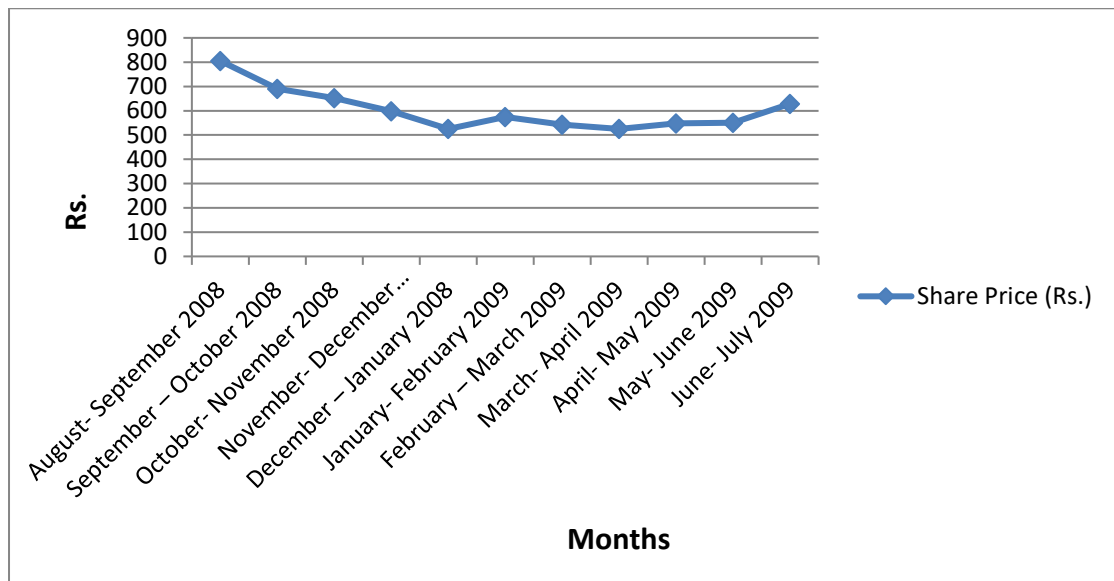
Months	Share Price (Rs.)	Turnover (Rs. in million)
July- August 2008	-	-
August- September 2008	805	274.71
September – October 2008	691	38.80
October- November 2008	652	23.79
November- December 2008	598	24.45
December – January 2008	525	14.81
January- February 2009	575	31.49
February – March 2009	543	10.83
March- April 2009	525	16.45
April- May 2009	548	12.37
May- June 2009	550	23.52
June- July 2009	629	23.07

Source: NEPSE, Monthly Report 2008/09 at www.nepalstock.com

The monthly share price and turnover of Nepal Doorsanchar Co. Ltd. are shown in the figures below:

Figure: 4.26

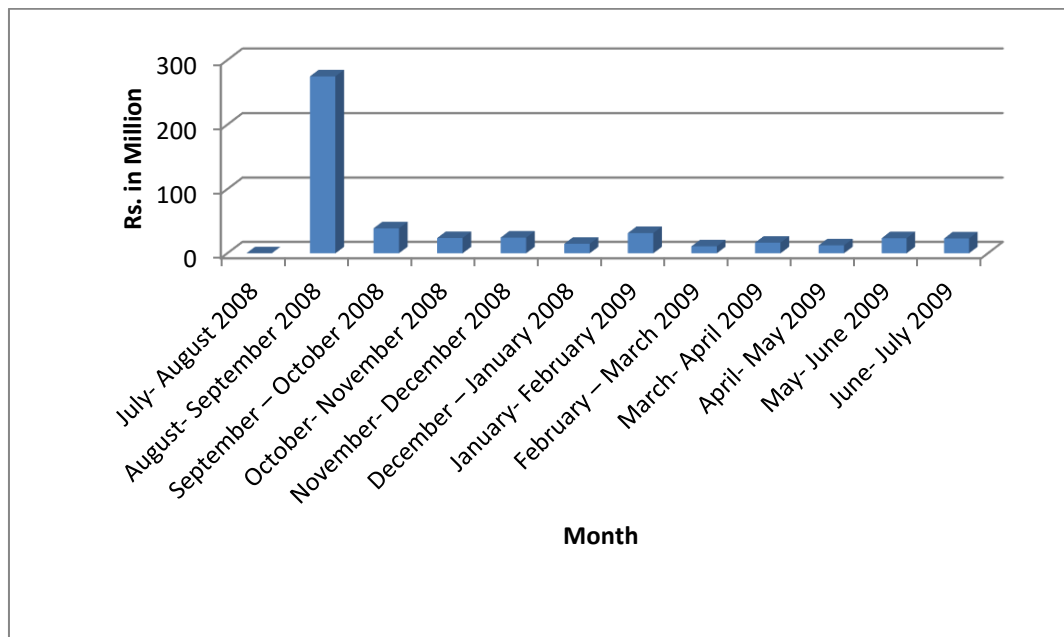
Monthly Share Price of Nepal Doorsanchar Co. Ltd



Source: Table 4.23

Figure: 4.27

Monthly Turnover of Nepal Doorsanchar Co. Ltd.



Source: Table 4.23

From the above Table and Figures, it is obvious that in the month of July-August 2008 no transaction was made. In the second month i.e. in August-September 2008, that the share price was Rs. 805 and turnover was Rs. 274.71 million. At the ending month of June-July 2009, the share price was Rs. 629 and the turnover was Rs. 23.07 million.

During the fiscal year, the highest share price was Rs. 805 in the month of August-September 2008, and lowest share price was Rs. 525 in the month of both December-January 2008 and March-April 2009. Similarly, the highest turnover was Rs. 274.71 in the month of August-September 2008, when the closing share price was Rs. 805 and in the month of July-August, 2008 as earlier explained no transaction was made. Lowest turnover were Rs. 10.83 million in the month of February-March 2009, at closing share price of Rs. 543.

4.2.6 Correlation Coefficient Analysis

The correlation coefficient between monthly share price and turnover of different selected companies during FY 2008/09 in NEPSE are presented in the table below:

Table: 4.24

Correlation Coefficient between Share Price and Amount Traded

S. No.	Name of the Company	Correlation Coefficient	6 P.E	Significance/ Not Significant
1	Everest Bank Ltd.	0.8630	0.2981	Significant
2	Nepal Development Bank	0.4211	1.004	Not Significant
3	Life insurance Co. Nepal	1.0156	1.1679	Not Significant
4	Cosmic Mer. Bank & Finance	0.04124	1.2181	Not Significant
5	Oriental Hotels Limited	-0.774	0.4892	Not Significant
6	Unilever Nepal Ltd.	0.1141	1.204	Not Significant
7	Chilime Hydro Power co.	0.5288	0.842	Not Significant
8	Bishal Bazar Co. Ltd.	0.471	0.91	Not Significant
9	Nepal Doorsanchar Co. Ltd.	0.8232	0.3766	Significant

Source: Appendix-4

The above table shows the calculated values of correlation coefficient between monthly closing share price and turnover of different selected companies during the FY 2008/09 (**Appendix-4**). According to the table, the correlation coefficients of 8 companies are positive which shows the positive relation between share price and turnover. While the other 1 company have negative correlation coefficient, which shows that there is negative relation between share price and turnover of this company.

When the correlation coefficients are tested with probable error (P.E), the result of 7 companies, Nepal Development Bank, Life insurance Co. Nepal, Cosmic Merchant Bank and Finance Ltd, Oriental Hotel Limited, Unilever Nepal Ltd, Chilime Hydro Power Co., Bishal Bazar Co. Ltd., were found to be insignificant because the value of correlation coefficient (r) is less than the value of 6 times P.E. Where as the result of Everest Bank Ltd., and Nepal Doorsanchar Co. Ltd. was found to be significant because the value of correlation coefficient (r) is greater than 6 times P.E.

4.3 Future Predictions

The future predictions of different aspects are done using the Time Series Analysis for the next five fiscal years i.e. from FY 2009/10 to FY 2012/13.

4.3.1 Time Series Analysis to Predict the Turnover of NEPSE

The predicted values of turnover of NEPSE using Time Series Analysis for the next five fiscal years (From FY 2009/10 to FY 2013/14) are presented in the table and figure below:

Table: 4.25

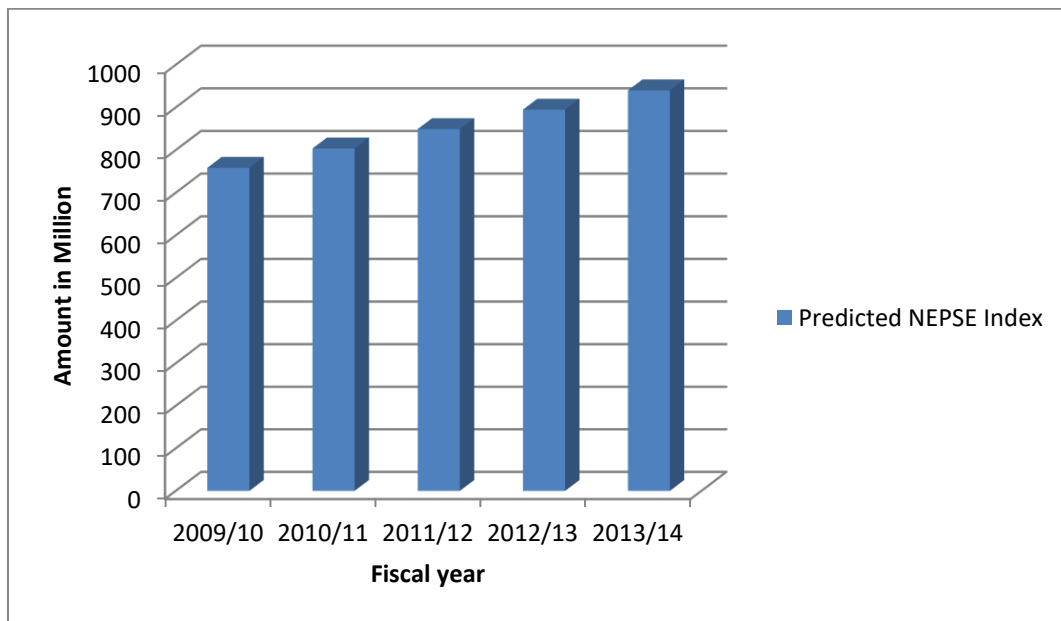
Predicted Values of Turnover of NEPSE

Fiscal Year	Predicted Turnover (Rs. in Million)
2009/10	13530.25
2010/11	14724.57
2011/12	15918.89
2012/13	17113.21
2013/14	18307.53

Source: Appendix-5

Figure: 4.28

Predicted Values of Turnover of NEPSE



Source: Table 4.25

As exhibited in above Table and Figure, the predicted value of turnover is Rs. 13530.25 million in the FY 2009/10 which will increase to Rs. 14724.57 million in the FY 2010/11. Likewise, it will reach Rs. 15918.89 million and Rs. 17113.21 million in FY 2011/12 and FY 2012/13 respectively. After that it will reach Rs. 18307.53 million in the FY 2013/14. All the predicted values of turnover (From FY 2009/10 to FY 2013/14) are less than that of FY 2008/09 where the turnover was Rs. 21681.14 million. The actual turnovers in the future

are likely to be different than the predicted values because, in the past the percentage changes in the values of annual turnover were very high.

4.3.2 Time Series Analysis to Predict the Market Capitalization of NEPSE.

The predicted values of Market Capitalization of NEPSE using time series analysis for the next five fiscal years (From FY 2009/10 to FY 2013/14) are presented in the table and figure below:

Table: 4.26

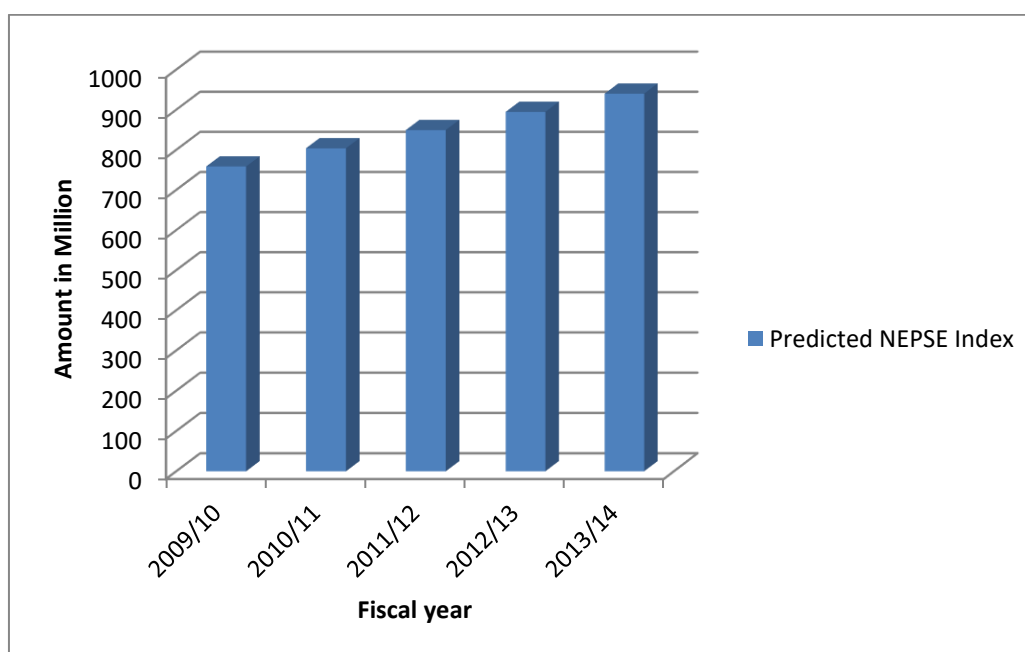
Predicted Values of Market Capitalization of NEPSE

Fiscal Year	Predicted Market Capitalization (Rs. in million)
2009/10	312399.85
2010/11	336596.47
2011/12	360793.09
2012/13	384989.71
2013/14	409186.33

Source: Appendix-6

Figure: 4.29

Predicted Values of Market Capitalization of NEPSE



Source: Table 4.26

According to the prediction, the market capitalization will decrease in the FY 2009/10 as compared to the FY 2008/09. The predicted value of market capitalization for the FY 2009/10 is Rs. 312399.85 million which is less than that of FY 2008/09 where the market capitalization was Rs. 512939.07 million. All the predicted values are less than that of actual market capitalization value which is Rs. 336596.47 million predicted values for FY 20010/11 and FY 2011/12 are 360793.09 million. Similarly, predicted values for FY 2012/13 and 2013/14 are 384989.71 million and 409186.33 million respectively. This show all the predicted values are less than that of actual values of 512939.07 million of FY 2008/09. These predicted values may or may not fulfill because of the large amount fluctuation, from the previous values. This means the actual market capitalization in the future are likely to be different than the predicted value because, in the past the percentage changes in the values of the annual market capitalization are very high.

4.3.3 Time Series Analysis to Predict NEPSE Index of the Next FY

The predicted values for NEPSE Index using the time series analysis for the next five fiscal years (From FY 2008/09 to FY 2012/13) are presented in the table and figure below:

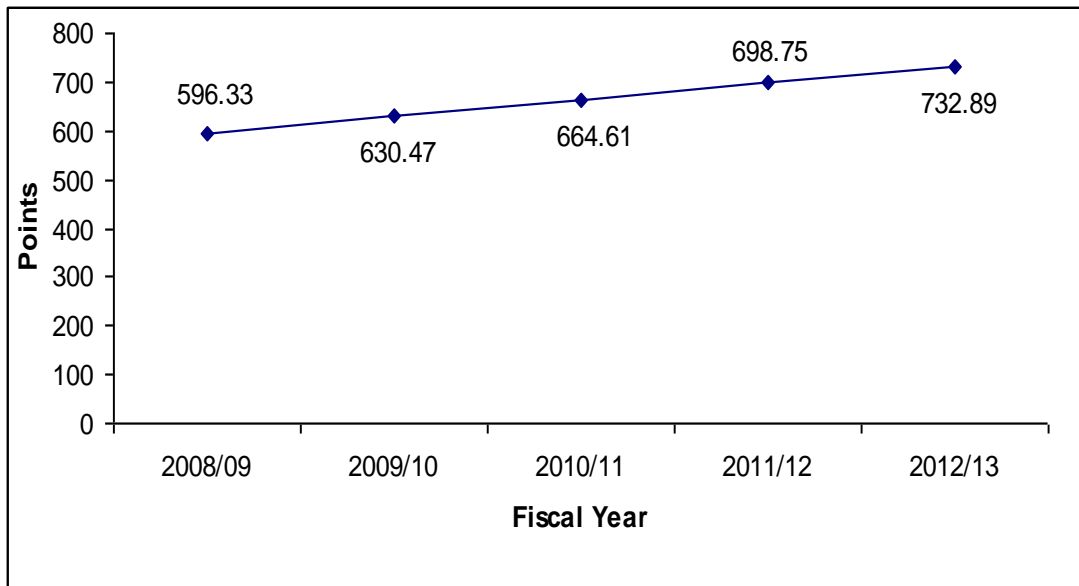
Table: 4.27

Predicted Values of NEPSE Index

Fiscal Year	Predicted NEPSE Index (In Points)
2009/10	758.42
2010/11	803.8
2011/12	849.22
2012/13	894.62
2013/14	940.02

Source: Appendix-7

Figure: 4. 31
Predicted Values of NEPSE Index



Source: Table 4.27

As exhibited in the above table and figure, according to the prediction, NEPSE index will decrease to 758.42 points in the FY 2009/10 from 749 points of FY 2008/09. In the FY 2010/11, NEPSE index will reach 803.8 points which can be considered as a good indication in the development of securities market. The NEPSE index will further increase in FY 2011/12 to 849.22 points. Similarly, according to the prediction, NEPSE index will be 894.62 points and 940.02 points in fiscal year 2012/13 and 2013/14 respectively. It is a good indication of security market which shows continuous increase in NEPSE index, but points may fluctuates because of its fluctuating characteristics.

4.4 Major Findings

The major findings derived from the analysis of data are as follows:

- The number of listed companies is increasing each year except in the FY 2001/02 and FY 2006/07. However, the increment rate is fluctuating. The stock exchange act, 1983, has the provision of delisting the companies which are not able to disclose the documents regarding annual general

meeting, audit report and unable to pay the annual listing fees in NEPSE, up to two years.

- The turnovers in every fiscal year are substantially fluctuating. When the growth rate of turnover is considered, it is seen that both increasing and decreasing pattern until FY 2005/06. After FY 2005/06, it is increasing in an increasing rate in the future.
- The market capitalization in every fiscal year is fluctuating. The growth rate of market capitalization is increasing in an increasing rate from fiscal year 2002/03. Therefore, it can be expected that it will further increase in the future.
- NEPSE index is fluctuating every year. So, it is difficult to predict, because of the global economic crises, the NEPSE index may adversely effected.
- Number of trading companies is highest in the FY 2008/09. Also the percentage of trading company to listed company i.e. trading ratio is also highest in the FY 2008/09. The number of trading companies from the beginning to the present. It is found that the numbers of trading companies are increasing yearly except FY 2000/01.
- Viewing the increasing trend of company trading ratio, it can be taken as a satisfactory indicator in the development of securities market in Nepal.
- There is positive correlation between market capitalization and GDP. Market capitalization is fluctuation yearly; it is maximum in FY 2008/09.
- Value traded ratio is fluctuating yearly; it is maximum in FY 2008/09. i.e. 3.83%.
- Turnover ratio is fluctuating yearly, but from FY 2005/06 to the FY 2007/08, it is increasing in an increasing rate.
- There are 163 listed companies under different sector. It is found that finance sector covers highest area of total listed companies and least area is covered by other company sector of the total.

- Different sectors have different turnover, commercial sector has the largest turnover and other company sector has lowest turnover of the total.'
- Market capitalization is different in different sector. Commercial banks sectors cover highest market capitalization and other company sector covers least market capitalization of the total.
- NEPSE'S category of different 9 sectors has their own different turnover, market capitalization, liquidity position of NEPSE and share price. These all are in fluctuating nature and fluctuating rate also different in different year. Out of 9 sample companies Chilime Hydropower Company Ltd. has high turnover amount and Oriental Hotels Ltd. has low turnover amount among others.
- Some companies have zero turnovers in some months. This means all listed companies are not necessarily traded in NEPSE.
- Correlation Coefficient between share price and turnover is positive in 8 companies out of 9 sample companies and only two companies have significant relation among 9 sample companies. It means correlation between share price and turnover is positive but it is insignificant.
- The turnover and market capitalization will increase in future according to the prediction but predicted values are likely to be different than predicted values because, in the past the percentage changes in the values of annual turnover and market capitalization were very high.
- Predicted points of NEPSE index shows that it will increase continuously, it is good indication of security market but points may fluctuates because of its fluctuating characteristics.

CHAPTER- V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This research is conducted with a view to locate the present condition of securities trading system in Nepal Stock Exchange (NEPSE) which is the only one stock exchange of Nepal. The securities trading systems in NEPSE still has different deficiencies like, low trading volume, absence of trained/ professional brokers, early stage of growth, limited movement of share prices, limited information to investors, price instability, lack of proper investment decisions of the investors, etc. Furthermore, due to the slow growth of corporate sector in the country, securities market of Nepal is not developing as expected, development of vivacious and dynamic securities market is the pre-requisite for the development of economic condition of the country. Therefore, the development of efficient securities market is very much essential to assist in the development of whole country. Securities trading system is the main function performed by a securities exchanges. A sound trading system should be followed or implemented by a security exchange for the effective and efficient trading of the securities. Therefore, this study was carried out mainly focusing on the trading system of Nepal Stock Exchange (NEPSE), the only organized security exchange of Nepal.

According to the nature of the study, only the secondary sources were used for the collection of data. For this, the different data collected from Nepal Stock Exchange (NEPSE) and securities Board of Nepal (SEBON), were specially considered. The collected data were presented by the use of different tables, figures and graphs with detail interpretation.

The data showed that, the number or listed companies in NEPSE is in an increasing trend, but the rate of increment is fluctuating yearly. When analyzing the annual trends of turnover, market capitalization and NEPSE

index, it can be hoped that, it will further increase in future, because the increasing pattern is seen in all of the especially after the FY 2005/06. Thus, it can be hoped that the development of NEPSE will be placed in the coming years.

Out of those listed companies, the companies traded are also increasing yearly which can be considered as a good indicator in the development of securities market in the country. Out of the companies whose securities are traded in NEPSE, the securities of banking sectors are traded mostly, which is not good in the development of securities market, so attempt should be made to increase the trading of securities of other sectors.

Different ratios were used to find the liquidity of the NEPSE, which showed satisfactory condition of liquidity in the market but there still requires the need of increase in the liquidity for the overall development of the securities market. Moreover, when correlation coefficient analysis was made between the share price and amount traded of the selected listed companies, it was found that most of the companies do not have significant correlation coefficient between the share price and amount traded or turnover. It shows that the share trading is not affected by the changes in the stocks prices, which indicates the immaturity of the securities trading system in a stock exchange.

Finally, when the future predictions were made regarding different aspect of NEPSE, it showed that after next two/three years, there will be the pace in the development of NEPSE, which ultimately supports the development of securities market of the country.

5.2 Conclusions

The conclusions drawn from the study are as follows:

Turnovers and Market capitalization

Turnovers and Market Capitalization are fluctuating in every fiscal year with huge amount. When the growth rate of turnover is considered, it is seen that both increasing and decreasing pattern until FY 2005/06. After FY 2005/06, it is increasing in an increasing rate. So, it can be expected that it will further increase in the future. The growth rate of market capitalization is increasing in an increasing rate from fiscal year 2002/03. Therefore, it can be expected that it will increase in the future.

NEPSE Index

NEPSE index is fluctuating every year due to fluctuations in the trading of number of securities and in their prices. Investors are not aware, sensitive and rational in their investment decision. They are less sensitive about over priced and under priced securities. Nepalese investors are liquidity trader rather than informational trader. Therefore, it is difficult to predict NEPSE index for future, from the past one and half year NEPSE index is decreased about 50%.

Correlation Coefficient

It is found that correlation between share price and turnover is positive except one company but it is less significant. Therefore, it can be concluded that there is no relation between share price and turnover. When the correlation coefficient between market capitalization and GDP is tested, it is found that there is positive correlation between them. So, it is concluded that increase in market capitalization will increase GDP.

Role of Stock Exchange and Nepal Stock Exchange Limited (NEPSE)

It is obvious that the stock exchange perform important roles in national economy. Most importantly, they encourage investment by providing places for buyers and sellers to trade securities. This investment, in turn enables

companies to obtain funds to expand their businesses. The transactions turnover reveals various ups and down. However, from the past 3 years, the performance of the market i.e. turnover and market capitalization is in increasing trend.

Future Scenarios

The increment in the performance of NEPSE will further increase in the future which will boost the development of securities market in the country. On the other hand, it can be said that, in comparison to the stock exchange of other countries, only a dim shape of the market has been visualized in national scenario in Nepal. Still, a lot of things need to be done for the entire growth of the Nepalese capital market so that it will stand in international standard.

Requirements

The deterioration situation of the country was also the obstacle in the development of securities market in Nepal. Now, to some extent, the condition of the country is improving, therefore, it can be hoped that, there is rapid development in different sectors of the country including securities market. It can be said that economic development with industrialization will be possible only by mobilizing sufficient amount of internal and external capital. People will invest their money when they feel that the market is efficient and transparent. So, the market needs to be more transparent with the availability of different investment alternatives and sufficient systems should be developed to control the possible fraud and errors.

Problems and Challenges

It can be concluded that there are still various problems and challenges exists which the securities market of Nepal. There is lack of proper plan and policies, lack of competitor stock exchange in Nepal, lack of adequate training institutions to aware investors and investors concentration only in banking sectors are the major problems facing by the securities of Nepal which needs to

be overcome shortly in order to have pace in the development of the securities market which ultimately assist in the economic development of the country.

5.3 Recommendations

The following recommendations are offered:

Increasing Investor's Confidence

Security Board of Nepal (SEBON) should make long term vision to handle the security market of Nepal. Present plans, policies and programs are insufficient to the security market of Nepal. NEPSE Index is decreasing substantially since last year. Therefore, it is difficult to predict market whether it will go in bullish or bearish trend in future. SEBON and NEPSE should make confidence environment about security market.. Margin trading and short selling system should start to attract investor in security market of Nepal.. NEPSE and SEBON should strictly implement their plans, policies and programs in the process of development of securities market in Nepal to increase favorable environment about security market.

Encouraging Trading of Non-banking Securities

Presently, investors are concentrating more in banking sectors. They should be encouraged to invest in non-banking sectors as well. For this the non-banking companies should think about their policy regarding the dividends, stock split and reverse stock split and about dividend payment policy of their stocks. Non-banking sectors are more affected by exports, tourism, technology, infrastructure facilities etc. These sectors should especially develop and promote by the government of Nepal.

Increasing Participation of Institutional Investors

It is obvious that development of securities market is essential for the development of the country. Security market provides a place to make transaction of securities that gives the liquidity for the financial assets. Without liquidity feature in securities, no investors will be attracted. In the absence of

attraction, a company cannot collect their funds from the market. Therefore, for the development of securities market of Nepal, more institutional investors are needed and should develop so that small investors can also participate in the securities of different companies.

Implementing Plans and Policies

At present, plans and policies are only in paper, these are not implementing in practice. This culture should change and plans and policies should strongly implement to make in reality. Nepalese security market only attracting liquidity trader, to attract informational trader, a separate informational dissemination center should be established. The Tenth Five Year plan had a quantitative goal to increase number of investors investing in share capital of corporate bodies to at least 3 percent of total population and to increase the value of total market capitalization to at least 15 percent of total GDP, only last one is accomplished so that problems to achieve these goals should identified and corrective actions should be made. A separate plans, policies and programs implementation and monitoring body should be established.

Transparency Information and Communication

This is the age of information and communication. Still most of the companies feel hesitation in providing information regarding their companies demanded by the information seeker. This culture should change and companies' information should be transparent. Without proper information, no investor will attract in the transaction of securities. Therefore, the market should be made transparent with the proper dissemination of information. As stated above, a separate information dissemination center should be established to provide required information about security market for information seeker.

Control in the Practice of Dummy Transactions

The practice of dummy transactions should be discouraged. These kinds of practice will provide wrong information to an investor and wrong information

will ultimately discourage investors. Monitoring and regulatory body should prohibit such activities. Investors should have sound information. The practice of flirting the investors with the change in the share price by making dummy transactions by some brokers and investors in specific time and period should be controlled.

Conducting Awareness Programs

Generally, Nepalese investors are not aware about their investment scheme; therefore, they should be aware about their investment scheme by properly analyzing risk and return. Awareness programs about investments scheme should be conducted periodically. Because of the less awareness about investment scheme many investors are short term investors, they are not repeating their activities. They have unexpected fear about securities prices and turnover fluctuations. To eradicate such fear, information regarding investment process should be provided by establishing information dissemination center and conducting periodical awareness programs as well as free seminars and exhibitions.

Providing more Investment Alternatives

Nepalese investors do not have more investment alternatives in the field of securities market. Therefore, NEPSE should also start the trading of different bonds and debentures including governmental bonds because these fixed rate yielding securities are very essential to construct the sound portfolio for the investors. Banking and non banking sectors should issue bonds and debentures to attract Nepalese as well as foreign investor in more investment alternatives. Investment alternatives give fruitful portfolios for the investors so that they can minimize risk and maximize return from their investment process. As far as possible more investment alternatives should be provided for the investors.

Efficient Trading Systems

At present, NEPSE the only one stock exchange in Nepal introduced fully automated screen based trading since 20th August 2007. But in clearing and settlement, it has delay still remain. To eliminate such delays, it should be based fully computerized system. NEPSE should adopt trading system in more scientific way. NEPSE should use computerized system in all the system of transaction including clearing and settlement. Required investment should be made to make fully computerized based system in all the process. They should be made in international standard.

Extension of Trading Locations

NEPSE, the only stock exchange of the country, is operating only in Kathmandu Valley. There are all a lots of other big cities other than Kathmandu Valley in Nepal. Investors are not concentrating only in Kathmandu Valley. There are a lots of investors outside the Kathmandu. Therefore, for the development of securities market in Nepal it is important to expand its services to the regional level rather than concentrating solely in the Kathmandu Valley. It should open branches in other big cities such as Biratnagar, Bhairahawa, Nepalgaunj, Pokhara etc. to expand its business. NEPSE should increase its capital. More trading locations will provide many places for transaction that will ultimately attract more investors in this sector.

Opening New Stock Exchange

Nowadays, some process has been made to introduce new stock exchange in Nepal. But still, NEPSE is only one stock exchange of Nepal. As it is known that competition will provide better service for the investors Therefore, Government of Nepal should strongly think to introduce new stock exchange in Nepal so that competition of trading will be high which brings competent environment in the securities trading system of Nepal. Required changes should be made in plans, policies and programs to introduce other stock exchanges and infrastructures should be made by the Government of Nepal.

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APPENDICES:

Appendix - 1
Listed Companies in NEPSE on 2008/09

S. No.	Companies Name	Stock Symbol	Listed Shares	Paid up Value	Total Paid up Value
Commercial Banks					
1	Nabil Bank Ltd.	NABIL	9,657,470	100	965,747,000
2	Nepal Investment Bank Ltd.	NIB	24,070,689	100	2,407,068,900
3	Standard Chartered Bank Ltd.	SCB	9,319,664	100	931,966,400
4	Himalayan Bank Ltd.	HBL	12,162,150	100	1,216,215,000
5	Nepal SBI Bank Limited	SBI	8,734,791	100	873,479,100
6	Nepal Bangladesh Bank Ltd.	NBB	18,603,890	100	1,860,389,000
7	Everest Bank Ltd	EBL	6,388,200	100	638,820,000
8	Bank of Kathmandu	BOK	8,443,979	100	844,397,900
9	Nepal Industrial And Co.Bank	NICB	11,404,800	100	1,140,480,000
10	Machhachapuchhre Bank Ltd	MBL	13,146,420	100	1,314,642,000
11	Laxmi Bank Limited	LBL	10,980,861	100	1,098,086,100
12	Kumari Bank Ltd	KBL	11,858,374	100	1,185,837,400
13	Lumbini Bank Ltd.	LUBL	10,000,000	100	1,000,000,000
14	Nepal Credit And Com. Bank	NCCB	13,908,900	100	1,390,890,000
15	Siddhartha Bank Limited	SBL	9,522,000	100	952,200,000

			00		0
16	NMB Bank Ltd.	NMB	14,246,413	100	1,424,641,300
17	Bank of Asia Nepal Limited	BOAN	10,000,000	100	1,000,000,000
18	Citizens Bank International Limited	CZBIL	10,000,000	100	1,000,000,000
19	KIST Bank Limited	KIST	20,000,000	100	2,000,000,000
20	DCBL Bank Ltd.	DCBL	16,611,840	100	1,661,184,000
21	Global Bank Limited	GBL	10,000,000	100	1,000,000,000
22	Prime Commercial Bank Limited	PCBL	10,000,000	100	1,000,000,000
23	Sunrise Bank Limited	SRBL	12,500,000	100	1,250,000,000
Total			281,560,441	2,300	28,156,044,100
Finance					
24	Nepal Finance and Saving Co.Ltd.	NFS	300,000	100	30,000,000
25	NIDC Capital Markets Ltd.	NCM	1,012,500	100	101,250,000
26	National Finance Co. Ltd.	NFC	2,174,071	100	217,407,100
27	Nepal Share Markets Ltd.	NSM	4,320,000	100	432,000,000
28	Annapurna Finance Company Limited	AFC	2,620,800	100	262,080,000
29	Kathmandu Finance Limited.	KFL	759,000	100	75,900,000
30	Peoples Finance Limited.	PFCL	2,021,038	100	202,103,800
31	Union Finance Ltd.	UFCL	1,590,000	100	159,002,500

			25		0
32	Citizen Investment Trust	CIT	800,000	100	80,000,000
33	Nepal Aawas Bikas Beeta Co. Ltd.	NABB	1,523,681	100	152,368,100
34	Narayani Finance Limited	NFL	2,136,517	100	213,651,700
35	Yeti Finance Company Ltd.	YFL	625,000	100	62,500,000
36	Gorkha Finance Ltd.	GFLK	595,000	100	59,500,000
37	Samjhana Finance Co. Ltd.	SFC	225,000	100	22,500,000
38	Universal Finance Ltd.	UFLK	602,184	100	60,218,400
39	Nepal Housing And Merchant Fin.	NHMF	1,607,387	100	160,738,700
40	General Finance Ltd.	GFL	242,434	100	24,243,400
41	Maha Laxmi Finance Ltd.	MFL	960,000	100	96,000,000
42	Lalitpur Finance Ltd.	LFC	1,138,604	100	113,860,400
43	Goodwill Finance Co. Ltd.	GFCL	1,154,741	100	115,474,100
44	Paschimanchal Finance Co. Ltd	PFC	556,600	100	55,660,000
45	Pokhara Finance Ltd.	PFL	2,387,280	100	238,728,000
46	Lumbini Finance Ltd.	LFCL	900,000	100	90,000,000
47	Siddhartha Finance Limited	SFL	869,322	100	86,932,200
48	Alpic Everest Finance Company Limited	AEFL	780,000	100	78,000,000
49	United Finance Ltd	UFL	1,650,000	100	165,000,000
50	International Leasing And Fin. Co.	ILFC	6,480,000	100	648,000,000
51	Shree Investment Finance Co. Ltd	SIFC	1,008,000	100	100,800,000
52	Central Finance Co. Ltd.	CFCL	1,015,493	100	101,549,300
53	Nepal Shree Lanka Merchant	NSLM	1,000,0	100	100,000,000

	Bank	B	00		0
54	Premier Finance Co. Ltd	PFCLL	555,984	100	55,598,400
55	Nava Durga Finance Co.Ltd.	NDFL	455,948	100	45,594,800
56	Butwal Finance Ltd	BFL	826,330	100	82,633,000
57	Janaki Finance Ltd.	JFL	400,000	100	40,000,000
58	Standard Finance Ltd.	STFL	10,018,041	100	1,001,804,100
59	Om Finance Ltd.	OFL	1,049,569	100	104,956,900
60	Cosmic Mer.Bank And Fin.	CMBF	750,510	100	75,051,000
61	Fewa Finance Co. Ltd.	FFCL	910,000	100	91,000,000
62	World Merchant Bank Ltd	WMBF	720,000	100	72,000,000
63	Birgunj Finance Ltd	BJFL	852,983	100	85,298,300
64	Capital Mer. Bank And Fin	CMB	3,740,278	100	374,027,800
65	Everest Finance Ltd,	EFL	200,000	100	20,000,000
66	Prudential Bittiya Sans	PFIL	1,000,000	100	100,000,000
67	Shrijana Finance(Bittiya Sa	SFFIL	280,000	100	28,000,000
68	Royal Mer. Bank. And Fin	RMBFI	1,342,544	100	134,254,400
69	Guheyshwori Mer. Bank. Fin	GMFIL	986,901	100	98,690,100
70	IME Financial Institution	IMEFI	2,494,602	100	249,460,200
71	Bhajuratna Fin.And Sav. Co. Ltd.	BFIL	385,000	100	38,500,000
72	Patan Finance Ltd.	PFLBS	500,000	100	50,000,000
73	Imperial Financial Inst. Ltd.	IFIL	500,000	100	50,000,000
74	Civil Merchant bittiya sanstha	CMBS L	500,000	100	50,000,000
75	ICFC Bittiya Sanstha Ltd.	ICFC	3,293,837	100	329,383,700
76	Lord Buddha Financial Institutional Limited	LBFIL	750,000	100	75,000,000

77	Sagarmatha Merchant Banking And Finance Limited	SMBF	500,000	100	50,000,000
78	Kaski Finance Limited	KAFIL	500,000	100	50,000,000
79	Merchant Finance Company Limited	MFCL	300,000	100	30,000,000
80	Reliable Finance Limited	RIBSL	825,000	100	82,500,000
81	Shikhar Bittiya Sanstha Limited	SBSL	500,000	100	50,000,000
82	Nepal Express Finance Limited	NEFL	1,040,000	100	104,000,000
83	Kuber Merchant Finance Limited	KMBSL	500,000	100	50,000,000
84	Prabhu Finance Company Limited	PRFL	1,600,000	100	160,000,000
85	Api Finance Limited	AFL	600,000	100	60,000,000
Total			81,932,204	6,200	8,193,220,400
Hotels					
86	Yak and Yeti Hotel Ltd.(Ord.)	YHL	2,209,208	100	220,920,800
87	Soaltee Hotel Ltd.	SHL	9,566,815	10	95,668,150
88	Taragaon Regency Hotel	TRH	7,449,875	100	744,987,500
89	Oriental Hotel Ltd.	OHL	5,000,000	100	500,000,000
Total			24,225,898	310	1,561,576,450
Manufacturing & Processing					
90	Bottlers Nepal Ltd.(Balaju)	BNL	1,948,887	100	194,888,700
91	Nepal Lube Oil Ltd.	NLO	203,936	100	20,393,600
92	Nepal Vanaspati Ghee Udhog Ltd	NVG	101,250	100	10,125,000

93	Raghupati Jute Mills Ltd.	RJM	1,806,966	100	180,696,600
94	Butwal Spinning Mills Ltd.	BSM	1,306,693	100	130,669,300
95	Gorakhkali Rubber Udhog Ltd.	GRU	3,833,400	75	287,505,000
96	Jyoti Spinning Mills Ltd (ord.)	JSM	1,270,288	100	127,028,800
97	Arun Vanaspati Udhog Limited	AVU	550,343	100	55,034,300
98	Bottlers Nepal (Terai)Ltd.	BNT	1,210,000	100	121,000,000
99	Harisiddhi Brick and Tile Fac.Ltd.	HBT	18,650,000	10	186,500,000
100	Birat Shoe Ltd.(Ord.)	BSL	165,000	100	16,500,000
101	Uniliver Nepal Ltd.	UNL	920,700	100	92,070,000
102	Nepal Khadya Udhog Ltd.	NKU	90,000	100	9,000,000
103	Shree Bhrikuti Pulp And Paper Ltd	SBPP	3,500,000	100	350,000,000
104	Fluer Himalayan Limited	FHL	262,102	75	19,657,650
105	Shree Ram Sugar Mills Ltd	SRS	3,045,990	100	304,599,000
106	Nepal Bitumin and Barrel Udyog	NBBU	210,680	100	21,068,000
107	Himalayan Distillery Ltd.	HDL	4,130,000	100	413,000,000
Total			43,206,235	1,660	2,539,735,950
Others					
108	Nepal Film Dev.Co. Ltd.	NFD	491,285	100	49,128,500

109	Nepal Doorsanchar Company Limited	NTC	150,000,000	100	15,000,000,000
Total			150,491,285	200	15,049,128,500
HydroPower					
110	National Hydro Power Co.	NHPC	13,851,862	100	1,385,186,200
111	Butwal Power Co. Ltd.	BPCL	8,390,577	100	839,057,700
112	Chilime Hydro power Co.	CHCL	7,296,000	100	729,600,000
Total			29,538,439	300	2,953,843,900
Tradings					
113	Salt Trading Corporation	STC	247,777	100	24,777,700
114	Bishal Bazar Co. Ltd.	BBC	491,400	100	49,140,000
115	Nepal Trading Ltd.	NTL	50,000	50	2,500,000
116	Nepal Welfare Company Ltd.	NWC	41,000	50	2,050,000
Total			830,177	300	78,467,700
Insurance					
117	Nepal Insurance Co.Ltd.	NICL	1,026,984	100	102,698,400
118	Rastriya Beema Sansthan	RBS	995,138	100	99,513,800
119	National LifeInsu. Co.Ltd.	NLICL	1,320,000	100	132,000,000
120	Himalayan Gen.Insu. Co.Ltd.	HGI	1,008,000	100	100,800,000

12 1	United Insurance Co.(Nepal)Ltd.	UIC	600,000	100	60,000,000
12 2	Everest Insurance Co. Ltd.	EIC	1,012,500	100	101,250,000
12 3	Premier Insurance co. Ltd.	PIC	1,020,000	100	102,000,000
12 4	Neco Insurance Co.	NIL	1,100,000	100	110,000,000
12 5	Alliance Insurance Company Limited	AIC	599,862	100	59,986,200
12 6	Sagarmatha Insurance Co.Ltd	SIC	1,021,020	100	102,102,000
12 7	NB Insurance Co. Ltd.	NBIL	1,000,000	100	100,000,000
12 8	Nepal Life Insurance Co. Ltd.	NLIC	3,000,000	100	300,000,000
12 9	Life Insurance Co. Nepal	LICN	2,500,000	100	250,000,000
13 0	Prudential Insurance Co.	PICL	1,000,000	100	100,000,000
13 1	Lumbini General Insurance	LGIL	1,250,000	100	125,000,000
13 2	Shikhar Insurance Co. Ltd.	SICL	1,250,000	100	125,000,000
13 3	Siddhartha Insurance Limited	SIL	1,000,000	100	100,000,000
Total			20,703,504	1,700	2,070,350,400
Development Banks					
13 4	Nepal Industrial Dev. Corp.	NIDC	2,978,784	100	297,878,400
13 5	Nepal Development Bank	NDB	3,200,000	100	320,000,000
13	Nirdhan Utthan Bank Ltd.	NUBL	790,721	100	79,072,100

6					
13 7	Chhimek Vikash Bank Ltd.	CBBL	510,000	100	51,000,000
13 8	Paschimanchal Bikash Bank	PDBL	1,000,000	100	100,000,000
13 9	Infrastructure Development Bank Limited	IDBL	3,200,000	100	320,000,000
14 0	Diprox Development Bank	DDBL	226,200	100	22,620,000
14 1	Gandaki Bikas Bank Limited	GDBL	1,000,000	100	100,000,000
14 2	Business Development Bank Ltd.	BDBL	2,100,000	100	210,000,000
14 3	Bhrikuti Vikash Bank Limited	BBBL	704,947	100	70,494,700
14 4	Sanima Vikash Bank Ltd.	SBBL	7,680,000	100	768,000,000
14 5	Narayani Development Bank Ltd.	NABBC	250,000	100	25,000,000
14 6	Clean Energy Development Bank Limited	CEDBL	3,200,000	100	320,000,000
14 7	Triveni Bikas Bank Limited	TBBL	500,000	100	50,000,000
14 8	Purwanchal Grameen Bikash Bank Limited	PGBL	600,000	100	60,000,000
14 9	Pashupati Development Bank Limited	PSDBL	2,000,000	100	200,000,000
15 0	Bageshewari Dev. Bank	BBBLN	495,000	100	49,500,000
15 1	Sahayogi Vikas Bank	SBBLJ	360,000	100	36,000,000
15 2	Gurkha Development Bank	GDBNL	4,800,000	100	480,000,000
15 3	Annapurna Bikash Bank Limited	ABBL	2,100,000	100	210,000,000

154	Swabalamwan Bikash Bank	SWBBL	630,607	100	63,060,700
155	Ace Development Bank Limited	ACEDBL	7,504,619	100	750,461,900
156	Himchuli Bikash Bank Ltd.	HBBL	900,000	100	90,000,000
157	Malika Bikash Bank Limited	MDBL	500,000	100	50,000,000
158	Siddhartha Development Bank Limited	SDBL	6,450,000	100	645,000,000
159	Biratlaxmi Bikash Bank Limited	BLDBL	500,000	100	50,000,000
160	Excel Development Bank Ltd.	EDBL	200,000	100	20,000,000
161	Nepal Development And Employment Promotion Bank Limited	NDEP	4,765,970	100	476,597,000
162	Subhechha Bikas Bank Limited	SUBBL	400,000	100	40,000,000
163	Vibor Bikas Bank Limited	VBBL	6,800,000	100	680,000,000
Total			66,346,848	3,000	6,634,684,800

Appendix -3

Calculation of Correlation Coefficient (r) between monthly share price and amount traded during FY 2008/09 for the selected companies.

Everest Bank Ltd.

Months	Share Price (x)	Amount Traded (y)	x²	y²	xy
July-August 2008	3370	47.01	11356900	2209.9401	158423.7
August- September 2008	3112	43.75	9684544	1914.0625	136150
September- October 2008	3033	18.90	9199089	357.21	57323.7
October- November 2008	2352	5.01	5531904	25.1001	11783.52
November- December 2008	2095	3.79	4389025	14.3641	7940.05
December - January 2008	2026	9.45	4104676	89.3025	19145.7
January- February 2009	2015	12.85	4060225	165.1225	25892.75

February – March 2009	2040	10.42	4161600	108.5764	21256.8
March- April 2009	2230	10.58	4972900	111.9364	23593.4
April- May 2009	2125	16.03	4515625	256.9609	34063.75
May- June 2009	2345	18.03	5499025	325.0809	42280.35
June- July 2009	2455	18.42	6027025	339.2964	45221.1
	$\sum x = 29198$	$\sum y = 214.24$	$\sum x^2 = 73502538$	$\sum y^2 = 5916.9529$	$\sum xy = 583074.82$

We know that,

$$\text{Correlation Coefficient (r)} = \frac{N\sum xy - \sum x \sum y}{\sqrt{N\sum x^2 - (\sum x)^2} \sqrt{N\sum y^2 - (\sum y)^2}}$$

$$= \frac{12 \times 583074.82 - 29198 \times 214.24}{\sqrt{12 \times 73502538 - (29198)^2} \sqrt{12 \times 5916.9529 - (214.24)^2}}$$

$$= \frac{741518.32}{5423.0578 \times 158.4445}$$

$$= 0.8630$$

Calculation of Probable Error (P.E)

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.863^2}{\sqrt{12}}$$

$$= 0.04969$$

Probable Error (P.E) = 0.04969

$$6 \text{ P.E} = 6 \times 0.04969 = 0.2981$$

Note:

For the calculation of correlation coefficient (r) between monthly share price and amount traded and probable error (P.E) during FY 2008/09 of the other sample companies, same as above (Using the data of Appendix 2).

APPENDICES:

Appendix-1

Listed Companies in NEPSE on 2008/09

Commercial Banks					
1	Nabil Bank Ltd.	NABIL	9,657,470	100	965,747,000
2	Nepal Investment Bank Ltd.	NIB	24,070,689	100	2,407,068,900
3	Standard Chartered Bank Ltd.	SCB	9,319,664	100	931,966,400
4	Himalayan Bank Ltd.	HBL	12,162,150	100	1,216,215,000
5	Nepal SBI Bank Limited	SBI	8,734,791	100	873,479,100
6	Nepal Bangladesh Bank Ltd.	NBB	18,603,890	100	1,860,389,000
7	Everest Bank Ltd	EBL	6,388,200	100	638,820,000
8	Bank of Kathmandu	BOK	8,443,979	100	844,397,900
9	Nepal Industrial And Co.Bank	NICB	11,404,800	100	1,140,480,000
10	Machhapuchhre Bank Ltd	MBL	13,146,420	100	1,314,642,000
11	Laxmi Bank Limited	LBL	10,980,861	100	1,098,086,100
12	Kumari Bank Ltd	KBL	11,858,374	100	1,185,837,400
13	Lumbini Bank Ltd.	LUBL	10,000,000	100	1,000,000,000
14	Nepal Credit And Com. Bank	NCCB	13,908,900	100	1,390,890,000
15	Siddhartha Bank Limited	SBL	9,522,000	100	952,200,000
16	NMB Bank Ltd.	NMB	14,246,413	100	1,424,641,300
17	Bank of Asia Nepal Limited	BOAN	10,000,000	100	1,000,000,000

18	Citizens Bank International Limited	CZBIL	10,000,000	100	1,000,000,000
19	KIST Bank Limited	KIST	20,000,000	100	2,000,000,000
20	DCBL Bank Ltd.	DCBL	16,611,840	100	1,661,184,000
21	Global Bank Limited	GBL	10,000,000	100	1,000,000,000
22	Prime Commercial Bank Limited	PCBL	10,000,000	100	1,000,000,000
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26	National Finance Co. Ltd.	NFC	2,174,071	100	217,407,100
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29	Kathmandu Finance Limited.	KFL	759,000	100	75,900,000
30	Peoples Finance Limited.	PFCL	2,021,038	100	202,103,800
31	Union Finance Ltd.	UFCL	1,590,025	100	159,002,500
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37	Samjhana Finance Co. Ltd.	SFC	225,000	100	22,500,000
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81	Shikhar Bittiya Sanstha Limited	SBSL	500,000	100	50,000,000
82	Nepal Express Finance Limited	NEFL	1,040,000	100	104,000,000
83	Kuber Merchant Finance Limited	KMBSL	500,000	100	50,000,000
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94	Butwal Spinning Mills Ltd.	BSM	1,306,693	100	130,669,300
95	Gorakhakali Rubber Udhog Ltd.	GRU	3,833,400	75	287,505,000
96	Jyoti Spinning Mills Ltd (ord.)	JSM	1,270,288	100	127,028,800
97	Arun Vanaspati Udhog Limited	AVU	550,343	100	55,034,300
98	Bottlers Nepal (Teri) Ltd.	BNT	1,210,000	100	121,000,000
99	Harisiddhi Brick and Tile Fac.Ltd.	HBT	18,650,000	10	186,500,000
100	Birat Shoe Ltd.(Ord.)	BSL	165,000	100	16,500,000
101	Uniliver Nepal Ltd.	UNL	920,700	100	92,070,000
102	Nepal Khadya Udhog Ltd.	NKU	90,000	100	9,000,000
103	Shree Bhrikuti Pulp And Paper Ltd	SBPP	3,500,000	100	350,000,000
104	Fluer Himalayan Limited	FHL	262,102	75	19,657,650
105	Shree Ram Sugar Mills Ltd	SRS	3,045,990	100	304,599,000
106	Nepal Bitumin and Barrel Udyog	NBBU	210,680	100	21,068,000
107	Himalayan Distillery Ltd.	HDL	4,130,000	100	413,000,000
Total			43,206,235	1,660	2,539,735,950

Others Companies					
108	Nepal Film Dev.Co. Ltd.	NFD	491,285	100	49,128,500
109	Nepal Doorsanchar Company Limited	NTC	150,000,000	100	15,000,000,000
Total			150,491,285	200	15,049,128,500
Hydropower Companies					
110	National Hydro Power Co.	NHPC	13,851,862	100	1,385,186,200
111	Butwal Power Co. Ltd.	BPCL	8,390,577	100	839,057,700
112	Chilime Hydro power Co.	CHCL	7,296,000	100	729,600,000
Total			29,538,439	300	2,953,843,900
Trading Companies					
113	Salt Trading Corporation	STC	247,777	100	24,777,700
114	Bishal Bazar Co. Ltd.	BBC	491,400	100	49,140,000
115	Nepal Trading Ltd.	NTL	50,000	50	2,500,000
116	Nepal Welfare Company Ltd.	NWC	41,000	50	2,050,000
Total			830,177	300	78,467,700
Insurance Companies					
117	Nepal Insurance Co.Ltd.	NICL	1,026,984	100	102,698,400
118	Rastriya Beema Sansthan	RBS	995,138	100	99,513,800
119	National LifeInsu. Co.Ltd.	NLICL	1,320,000	100	132,000,000

120	Himalayan Gen.Insu. Co.Ltd.	HGI	1,008,000	100	100,800,000
121	United Insurance Co.(Nepal)Ltd.	UIC	600,000	100	60,000,000
122	Everest Insurance Co. Ltd.	EIC	1,012,500	100	101,250,000
123	Premier Insurance co. Ltd.	PIC	1,020,000	100	102,000,000
124	Neco Insurance Co.	NIL	1,100,000	100	110,000,000
125	Alliance Insurance Company Limited	AIC	599,862	100	59,986,200
126	Sagarmatha Insurance Co.Ltd	SIC	1,021,020	100	102,102,000
127	NB Insurance Co. Ltd.	NBIL	1,000,000	100	100,000,000
128	Nepal Life Insurance Co. Ltd.	NLIC	3,000,000	100	300,000,000
129	Life Insurance Co. Nepal	LICN	2,500,000	100	250,000,000
130	Prudential Insurance Co.	PICL	1,000,000	100	100,000,000
131	Lumbini General Insurance	LGIL	1,250,000	100	125,000,000
132	Shikhar Insurance Co. Ltd.	SICL	1,250,000	100	125,000,000
133	Siddhartha Insurance Limited	SIL	1,000,000	100	100,000,000
Total			20,703,504	1,700	2,070,350,400
Development Banks					
134	Nepal Industrial Dev. Corp.	N	2,978,784	100	297,878,400
135	Nepal Development Bank	NDB	3,200,000	100	320,000,000
136	Nirdhan Utthan Bank Ltd.	NUBL	790,721	100	79,072,100

137	Chhimek Vikash Bank Ltd.	CBBL	510,000	100	51,000,000
138	Paschimanchal Bikash Bank	PDBL	1,000,000	100	100,000,000
139	Infrastructure Development Bank Limited	IDBL	3,200,000	100	320,000,000
140	Diprox Development Bank	DDBL	226,200	100	22,620,000
141	Gandaki Bikas Bank Limited	GDBL	1,000,000	100	100,000,000
142	Business Development Bank Ltd.	BDBL	2,100,000	100	210,000,000
143	Bhrikuti Vikash Bank Limited	BBBL	704,947	100	70,494,700
144	Sanima Vikash Bank Ltd.	SBBL	7,680,000	100	768,000,000
145	Narayani Development Bank Ltd.	NABBC	250,000	100	25,000,000
146	Clean Energy Development Bank Limited	CEDBL	3,200,000	100	320,000,000
147	Triveni Bikas Bank Limited	TBBL	500,000	100	50,000,000
148	Purwanchal Grameen Bikash Bank Limited	PGBL	600,000	100	60,000,000
149	Pashupati Development Bank Limited	PSDBL	2,000,000	100	200,000,000
150	Bageshowori Dev.Bank	BBBLN	495,000	100	49,500,000

151	Sahayogi Vikas Bank	SBBLJ	360,000	100	36,000,000
152	Gurkha Development Bank	GDBNL	4,800,000	100	480,000,000
153	Annapurna Bikash Bank Limited	ABBL	2,100,000	100	210,000,000
154	Swabalamwan Bikash Bank	SWBBL	630,607	100	63,060,700
155	Ace Development Bank Limited	ACEDBL	7,504,619	100	750,461,900
156	Himchuli Bikash Bank Ltd.	HBBL	900,000	100	90,000,000
157	Malika Bikash Bank Limited	MDBL	500,000	100	50,000,000
158	Siddhartha Development Bank Limited	SDBL	6,450,000	100	645,000,000
159	Biratlaxmi Bikash Bank Limited	BLDBL	500,000	100	50,000,000
160	Excel Development Bank Ltd.	EDBL	200,000	100	20,000,000
161	Nepal Development And Employment Promotion Bank Limited	NDEP	4,765,970	100	476,597,000
162	Subhechha Bikas Bank Limited	SUBBL	400,000	100	40,000,000
163	Vibor Bikas Bank Limited	VBBL	6,800,000	100	680,000,000
Total			66,346,848	3,000	6,634,684,800

Appendix-4

Calculation of Correlation Coefficient(r) between monthly share price and amount traded during FY 2008/09 for the selected companies.

Everest Bank Ltd.

Months	Share Price (x)	Amount Traded (y)	x ²	y ²	xy
July- August 2008	3370	47.01	11356900	2209.9401	158423.7
August- September 2008	3112	43.75	9684544	1914.0625	136150
September – October 2008	3033	18.90	9199089	357.21	57323.7
October- November 2008	2352	5.01	5531904	25.1001	11783.52
November- December 2008	2095	3.79	4389025	14.3641	7940.05
December – January 2008	2026	9.45	4104676	89.3025	19145.7
January- February 2009	2015	12.85	4060225	165.1225	25892.75
February – March 2009	2040	10.42	4161600	108.5764	21256.8
March- April 2009	2230	10.58	4972900	111.9364	23593.4

April- May 2009	2125	16.03	4515625	256.9609	34063.75
May- June 2009	2345	18.03	5499025	325.0809	42280.35
June- July 2009	2455	18.42	6027025	339.2964	45221.1
N = 12	$\sum x =$ 29198	$\sum y =$ 214.24	$\sum x^2 =$ 73502538	$\sum y^2 =$ 5916.952	$\sum xy =$ 583074.82

We know that,

$$\text{Correlation Coefficient (r)} = \frac{N\sum xy - \sum x \sum y}{\sqrt{N\sum x^2 - (\sum x)^2} \sqrt{N\sum y^2 - (\sum y)^2}}$$

$$= \frac{12 \times 583074.82 - 29198 \times 214.24}{\sqrt{12 \times 73502538 - (29198)^2} \sqrt{12 \times 5916.9529 - (214.24)^2}}$$

$$= \frac{741518.32}{5423.0578 \times 158.4445}$$

$$= 0.8630$$

Calculation of Probable Error (P.E)

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.863^2}{\sqrt{12}}$$

$$= 0.04969$$

Probable Error (P.E) = 0.04969

6 P.E = 6 x 0.04969 = 0.2981

Note:

For the calculation of correlation coefficient (r) between monthly share price and amount traded and probable error (P.E) during FY 2008/09 of the other sample companies, same as above (Using the data of Appendix-3).

Appendix-5

Computation of predicted values of Annual Turnover using Time Series

Analysis:

Fiscal year (X)	Annual Turnover (Rs. in Million) (y)	$x = 2(X - 2000/01)$	x^2	xy
1993/94	441.56	-14	196	-6181.84
1994/95	1054.27	-12	144	-12651.24
1995/96	215.61	-10	100	-2156.1
1996/97	416.23	-8	64	-3329.84
1997/98	202.61	-6	36	-1215.66
1998/99	1499.89	-4	16	-5999.92
1999/00	1157.03	-2	4	-2314.06
2000/01	2344.16	0	0	0
2001/02	1540.63	2	4	3081.26
2002/03	575.8	4	16	2303.2

2003/04	2144.27	6	36	12865.62
2004/05	4507.68	8	84	36061.44
2005/06	3451.4	10	100	34514
2006/07	8360.1	12	144	100321.2
2007/08	22820.8	14	196	319491.2
2008/09	21681.14	16	256	346898.24
N=16	$\sum y = 44501.94$	$\sum x = 16$	$\sum x^2 = 1376$	$\sum xy = 821687.5$

Here,

$$Y_c = a + bx \dots \dots \dots (i)$$

Since,

$$\sum x = 0, a = \sum y/n = 2781.37$$

$$44501.94/16 =$$

$$b = \sum xy / \sum x^2 = 597.16$$

$$821687.5/1376$$

Putting the values of a and b in equation (i), we get

$$Y_c = 2781.37 + 597.16x$$

Now,

For the FY 2009/10, x = 18

$$Y_{2009/10} = 2781.37 + 597.16 \times 18 = 13530.25 \text{ million}$$

For the FY 2010/11, x = 20

$$Y_{2010/11} = 2781.37 + 597.16 \times 20 = 14724.57 \text{ million}$$

For the FY 2011/12, x = 22

$$Y_{2011/12} = 2781.37 + 597.16 \times 22$$

== 15918.89 million

For the FY 2012/13, x = 24

$$Y_{2012/13} = 2781.37 + 597.16 \times 24 = 17113.21 \text{ million}$$

Appendix-6

Computation of predicted values of Market Capitalization using Time Series

Analysis:

Fiscal year (X)	Market Capitalization n (Rs in	x = 2(X- 2000/01)	x²	xy
1993/94	13872	-14	196	-194208
1994/95	12963	-12	144	-155556
1995/96	12295	-10	100	-122950
1996/97	12698	-8	64	-101584
1997/98	14289	-6	36	-85734
1998/99	23508	-4	16	-94032
1999/00	43123.3	-2	4	-86246.6
2000/01	46349.4	0	0	0
2001/02	34703.9	2	4	69407.8
2002/03	35240.4	4	16	140961.6
2003/04	41424.77	6	36	248548.62
2004/05	61365.89	8	84	490927.12

2005/06	96763.7	10	100	967637
2006/07	186301.3	12	144	2235615.6
2007/08	366247.6	14	196	5127466.4
2008/09	512939.07	16	256	8207025.12
N=16				

Here,

$$Y_c = a + bx \dots \dots \dots (i)$$

Since,

$$\sum x = 0, a = \sum y/n = 1514084.33/16 = 94630.27$$

$$b = \sum xy/\sum x^2 = 16647278.66/1376 = 12098.31$$

Substituting the value of a and b in equation (i), we get

$$Y_c = 94630.27 + 12098.31x$$

Now,

For the FY 2009/10, x = 18

$$Y_{2009/10} = 94630.27 + 12098.31x \ 18 = 312399.85 \text{ million}$$

For the FY 2010/11, x = 20

$$Y_{2010/11} = 94630.27 + 12098.31x \ 20 = 336596.47 \text{ million}$$

For the FY 2011/12, x = 22

$$Y_{2011/12} = 94630.27 + 12098.31x \ 22 = 360793.09 \text{ million}$$

For the FY 2012/13, x = 24

$$Y_{2012/13} = 94630.27 + 12098.31x \ 24 = 384989.71 \text{ million}$$

Appendix-7

Computation of predicted values of NEPSE index using Time Series Analysis

Fiscal Year (x)	NEPSE Index (y)	$x = 2(X - 2000/01)$	x^2	xy
1993/94	226.03	-14	196	-3164.42
1994/95	195.48	-12	144	-2345.76
1995/96	185.61	-10	100	-1856.1
1996/97	176.31	-8	64	-1410.48
1997/98	163.35	-6	36	-980.10
1998/99	216.92	-4	16	-867.68
1999/00	360.70	-2	4	-721.4
2000/01	348.43	0	0	0
2001/02	227.54	2	4	455.08
2002/03	204.86	4	16	819.44
2003/04	222.04	6	36	1332.24
2004/05	286.67	8	84	2293.36
2005/06	386.80	10	100	3868
2006/07	684	12	144	8208
2007/08	963.4	14	196	13487.6
2008/09	749	16	256	11984

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Here,

$$Y_c = a + bx \dots\dots\dots(i)$$

Since,

$$\sum x = 0, a = \sum y/n = 5597.14/16 = 349.82$$

$$b = \sum xy/\sum x^2 = 31101.78/1376 = 22.7$$

Putting the values of a and b in equation (i)

We get,

$$Y_c = 349.82 + 22.7 x$$

Now,

For the FY 2009/10, x = 18

$$Y_{2009/10} = 349.82 + 22.7 \times 18 = 758.42 \text{ points}$$

For the FY 2010/11, x = 20

$$Y_{2010/11} = 349.82 + 22.7 \times 20 = 803.8 \text{ points}$$

For the FY 2011/12, x = 22

$$Y_{2011/12} = 349.82 + 22.7 \times 22 = 849.22 \text{ points}$$

For the FY 2012/13, x = 24

$$Y_{2012/13} = 349.82 + 22.7 \times 24 = 894.62 \text{ points}$$

For the FY 2013/14, $x=26$

$Y_{2012/13} = 349.82 + 22.7 \times 26 = 940.02$ points

Appendix-8

Calculation of correlation coefficient between Market Capitalization and GDP

Fiscal Year	Market Capitalization '000000000' (x)	GDP '000000000' (y)	X ²	y ²	xy
1993/94	13.872	191.596	192.43	36709.03	2657.82
1994/95	12.963	209.974	168.04	44089.08	2721.89
1995/96	12.295	239.388	151.17	57306.61	2943.28
1996/97	12.698	269.57	161.24	72667.98	3423
1997/98	14.289	289.798	204.18	83982.88	4140.92
1998/99	23.508	330.018	552.63	108911.88	7758.06
1999/00	43.1233	366.251	1859.62	134139.8	15793.95
2000/01	46.3494	393.994	2148.27	155231.27	18261.39
2001/02	34.7039	406.007	1204.36	164841.68	14090.03
2002/03	35.2404	437.072	1241.89	191031.93	15402.59
2003/04	41.4248	473.876	1716.01	224558.46	19630.22
2004/05	61.3659	504.101	3765.77	254117.82	30934.61
2005/06	96.7637	534.46	9363.21	285647.49	51716.33
2006/07	186.3013	560.89	34708.17	314597.59	104494.54
2007/08	366.2476	595.85	134137.3043	355037.22	218228.63

2008/09	512.93907	705.460	263106.49	497673.8	361857.99
N=16	$\sum x = 1514.09$	$\sum y = 6508.31$	$\sum X^2 = 454680.78$	$\sum y^2 = 2980544.52$	$\sum xy = 874055.25$

We know that,

$$\begin{aligned}
 \text{Correlation Coefficient (r)} &= \frac{N\sum xy - \sum x \sum y}{\sqrt{N\sum x^2 - (\sum x)^2} \sqrt{N\sum y^2 - (\sum y)^2}} \\
 &= \frac{16 \times 874055.25 - 1514.09 \times 6508.31}{\sqrt{16 \times 454680.78 - (1514.09)^2} \sqrt{16 \times 2980544.52 - (6508.31)^2}} \\
 &= \frac{4130716.912}{2232.13 \times 2308.81} \\
 &= 0.8016
 \end{aligned}$$

Calculation of Probable Error (P.E)

$$\begin{aligned}
 \text{P.E} &= 0.6745 \times \frac{1 - r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1 - 0.8016^2}{\sqrt{16}} \\
 &= 0.06027
 \end{aligned}$$

Probable Error (P.E) = 0.06027

$$6 \text{ P.E} = 6 \times 0.06027 = 0.36162$$