

# **TREND ANALYSIS OF STOCK MARKET IN NEPAL**

**A Thesis**

**Submitted by**

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## **RECOMMENDATION**

This is to certify that the thesis:

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### **Trend Analysis of Stock Market of Nepal**

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

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# **VIVA VOCE SHEET**

We have conducted the viva-voce of the thesis presented by

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

## **Viva-voce Committee**

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Member (External Expert).....

## **DECLARATION**

I hereby declare that the thesis entitled "*Trend Analysis of Stock Market In Nepal*" submitted to *Shanker Dev Campus*, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies (M.B.S.) under the supervision of Asso. Prof. Shree Bhadra Neupane, professor of Shanker Dev Campus.

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*Santosh Kumar Dhakal*

*Researcher*



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## **ABBREVIATIONS**

AGM	=	Annual General Meeting
AMEX	=	American Stock Exchange
AOSEF	=	Asian and Oceania Stock Exchange Federation
BOD	=	Board of Directors
BFI	=	Bank and Financial institutions
CV	=	Coefficient of Variance
ETF	=	Exchange Traded Fund
FNCCI	=	Federation of Nepalese Chamber of Commerce and Industries
GNP	=	Gross Net Profit
IOSCO	=	International organization of Securities Commissions
ICAN	=	The Institute of Chartered Accountants of Nepal
KYC	=	Know Your Customer
MOF	=	Ministry of finance
NASD	=	Nepal Association of Security Dealers
NATS	=	NEPSE Automated Trading System
NEPSE	=	Nepal Security Exchange
NIDC	=	Nepal Industrial Development Corporation
NRB	=	Nepal Rastra Bank
OTC	=	Over The Counter
SAARC	=	South Asia Association for Regional Cooperation
SAFE	=	South Asian Federation of exchanges
SEBON	=	Securities Board of Nepal
SEC	=	Securities Exchange Center
WFE	=	World federation OF Exchange
WTO	=	World Trade Organization
WDM	=	Wholesale Debt Market

# CHAPTER I:

## INTRODUCTION

### 1.1 Background of the Study

As a competition among the global village, business and development process are been accelerated by many countries by increasing the welfare of their people. For the prosperity and development there should be sound investment. For the sound investment and thereby providing the necessary infrastructure to enable the investor to derive benefits it would require gearing up of savings, creating conducive and enabling investment atmosphere and developing efficient capital market to facilitate mobilization of both ownership and customer capital through appropriate instrument.

However, in the context of Nepal, because of the complex geographical situation it is not so easy. Various factors like, landlocked situation, inadequate recourse mobilization, lack of entrepreneurship, lack of institutional commitment, lack of ideal Government policies, internal conflict, political instability, instable and changing regulatory policies etc may be considered responsible factor that hurdles the development of Country.

The way business used to be carried has been changed vastly as compared to past. Today, the basis of the business growth and development of a nation are measured through its financial markets. Financial markets and institutions are the key to the development of any economy, whether developed or developing country. Developed economies usually already have a highly sophisticated financial market in place, whereas developing economies usually have no or rudimentary institutions in place. In this process a large number of financial markets have developed across the world, including in my home country Nepal also. Some of the emerging markets, especially India and China, have been able to attract huge amounts of foreign investments because these countries have been able to accelerate economic activities for economic growth.

Capital markets, which deal with securities such as stocks and bonds, are associated with financial resource mobilization on a long term basis. Capital markets also allow for wider ownership among the public, thereby distributing risks and wealth amongst smaller investors. As such, capital markets help the economy to generate more savings and productive investments. A basic feature of an efficient capital market is constant liquidity, i.e., an easy mechanism for entry and exit by investors. Typically in developing countries, for various economic and policy reasons, financial markets are underdeveloped. In those countries where

a capital market does exist, it is in a very rudimentary state. Private wealth and investments are concentrated among several large companies and individuals. As a result, these capital markets are very narrow based. They are constrained by limited investment opportunities and low income and savings rates. In many cases, the economy has high inflation, leading to a savings disincentive and capital flight. Industrial development began in Nepal only in the mid-sixties, when the Government Service began establishing manufacturing industries such as the jute industry, cement factories, cigarette factory and sugar factories. In order to support this industrialization process, government actively promoted financial institutions, such as commercial banks and capital market institutions.

In 1976, Nepali capital market had its beginnings with the establishment of the Securities Marketing Center. In 1984, the Securities Exchange Act was promulgated and the Securities Exchange Center (SEC) was established under the ownership of the Nepali Government, Nepal Rastra Bank (Central Bank) and the Nepal Industrial Development Corporation (NIDC)— a government owned industrial development bank. Later, Securities Exchange Center was converted into the Nepal Stock Exchange for securities trading by private brokers and the Securities Exchange Board was established for oversight functions as a regulatory body. This amendment also permitted private sector market intermediaries and set the operating guidelines for intermediary functions such as broking, market making, issue management, and portfolio management. The economic environment which provides the main stimulus for a healthy growth of the capital markets has also influenced this market quite considerably.

The main function of SEC was to assist in the development of a capital market by performing the role of a broker, underwriter and share issuer, and to sell government bonds. It operated an over the counter market for company shares and government bonds. After the inception of the Securities Exchange Center, shares of various manufacturing, trading and banking companies became listed. Interestingly, the listed shares were dominated by public enterprises during this stage. The government policy on capital market reform has greatly contributed to developed of primary and secondary market for the cooperate securities the rise as stock prices and the market liquidity for cooperate securities were immediately after the NEPSE for one year only this has positive immediate impact on primary market. NEPSE is a nonprofit organization operating under securities exchange act 1983. NEPSE commenced its operation on 13<sup>th</sup> January 1994.

## **1.2 Brief Introduction of Nepal Stock Exchange**

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. in 1976 were other significant development relating to capital market.

Nepal Stock Exchange, abbreviated as **NEPSE**, is established under the company act, operating under Securities Exchange Act, 1983. 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.

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

### **1.2.1 Member of NEPSE**

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 50 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, 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 underwriter for public issue of securities whereas securities trader (Dealer) works as individual portfolio manager. At present there are 11 sales and issue manager and 2 dealers (Secondary market). The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty.

### 1.2.2 Board of Directors:

The Board of Directors (BOD), which will govern NEPSE, 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, One from NIDC. Moreover, one member will be nominated by BOD as an expert in capital market. General Manager of NEPSE will serve as a director on the BOD.

**Table: 1.1**  
**List of Board Members of NEPSE**

S. No	Name	Designation
1	Mr. Bishnu Nepal	Act.Chairman
2	Dr. Min Bahadur Shrestha	Member
3	Dr. Basudev Sharma	Member
4	Mr. Arun Shrestha	Member
5	Vacant	Member
6	Mr. Sitaram Thapaliya	General Manager/Member
7.	Narayan Prasad Timsina	Company Secretary

Source: [www.nepalstock.com](http://www.nepalstock.com)

### 1.2.3 Capital Structure of NEPSE

**Table: 1.2**  
**Capital Structure of NEPSE**

S. No.	Shareholders	Rs in millions	Percentage (%)
1	Nepal Government	20.48	58.67
2	NRB	12.08	34.60
3	NIDC	2.14	6.13
4	Members	0.21	0.60
<b>Total</b>		<b>34.91</b>	<b>100</b>

Source: [www.nepalstock.com](http://www.nepalstock.com)

#### **1.2.4 Role and Function of NEPSE**

NEPSE Ltd is a nonprofit organization, operating under securities exchange Act, and 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transaction in its trading floor through market intermediaries such as brokers and market makers, etc. NEPSE opened its trading floor on January 13, 1994 through its newly appointed licensed members and has adopted an “open out- cry” system for the transaction securities and government bonds with the market intermediaries in buying and selling of such securities,

NEPSE provides an organized market place for the investors to buy 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.

NEPSE plays a notable part in the economic life of the country acting as a free market for securities, where prices are determined by the forces of demand and supply. The function of stock exchange is not only to provide market for securities but also assists in the raising of funds for government and industry. Thus, free and active market securities but also markets in the stock and shares have become a prerequisite for the mobilization and distribution of nation's saving as to support modern business.

The stock market is considered as one and only institution to mobilize significant portion of public activity and the public share volume in the market. This suggests that individual investors recognized the opportunities in these other markets and pursue them. Also in some cases, institutional investors are restricted from these markets because the stock is often too small to meet their criteria or legal requirement. Stock market is also considered as an indicator of the entire economic activities of an economy because the stock market affects various macroeconomic aspect of the economy as well as is affected by various sorts of macro and micro economic variables, money supply of economy and its relation with the stock price is of great debate in the financial literature. The stock market affects the functioning of the economy in two principle ways. First, market development may affect the national income through their influences on aggregate proper ties to consume, to save and to invest. Second, even with given level of saving and investment, market arrangement can result in a more or less efficient allocation of fund.

We know that, securities market is an important constituent of capital market. It has a wide embracing the buyers and sellers securities and all these agencies and institution, which assists the sale and resale of cooperate securities market.

The development of sound securities market with its constituent financial institution is one of the mechanisms which enable the efficient transformation of saving from the hand of surplus spending ones who can use them more productively and have less risk aversion. In this way due to the help of security market idle savings can be canalized to most productive purpose.

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

Without the institution like NEPSE saving of the community step of economic progress and the production efficiency would be used must wastefully then they are not. The task of mobilization and distributing of saving could be attempted in the old days by a much or less specialized institution than stock exchange. The business expanded and the economy is became a more complex so there is a need of permanent finance. So the investors want liquidity the facility to convert their investment into cash at any given time.

Every country wants its economy development which requires efficient transformation of saving and invertible resources into actual investment but people who initiate investment are not necessary these who have funds for the purpose. As the process of industrial development which started in board modern times self financing g becomes insufficient to support it. Private means a finance becomes not only limited but also uneconomic therefore, it become necessary funds. On the other hand there are other people generally who have surplus of funds but do not have desire and or capability to utilize them far investment activity. Under such circumstances the need for a market mechanism that facilitates the transfer of funds from surplus spending units becomes obvious.

Generally, underdeveloped countries come across a situation where entrepreneur do not find resources or productive investment while low social productivity. The Financial institutions remedy such a situation by soliciting the resources from savers by offering them a variety of financial securities differentiated in maturity, yield provides them to the most efficient users. Thus, more efficient allocating of inevitable funds results. So the need of securities market

important in developing nation like Nepal where host of traditional social and psychological consideration concise against the direction transaction between surplus units and deficit units.

Finally, NEPSE has a leading role in the economic development by providing capital formation which makes the borrowing and lending cheaper and to increase liquidity. This return encourages investment and may also increase overall spending in the economy.

### **1.3 Statement of the Problem:**

Currently Nepalese Capital market is in growing stage. The growing banking and financial institutions in the country and the hydropower companies Shares are matter of interest to many people today. In spite of this, the capital market needs lots of development to reach maturity. The basic reason for the situation is the capital mobilization. There are many reasons for not developing capital i.e. political, economical and policy level. The capital market of Nepal is in very small state comparing to developed countries. Private wealth is concentrated. The choice of market instrument is also very limited. The investment opportunities are very less, income is low.

The capital markets in Nepal are facing a crisis of trust. The current regulatory and governance structure of the capital markets and companies traded on them is not able to provide investors with confidence that they can invest in the market based on sound information. The great problem is the lack of reliable, current information regarding publicly offered and traded companies. This is the result of conflicting regulatory jurisdictions, inadequate financial and corporate disclosure rules, and the weak enforcement of such rules as do exist. The lack of reliable information results in market activity based on rumor instead of fact, mismanagement of corporate business, and the perception that the market for public companies is not fair or trustworthy.

The major concern is on identifying the NEPSE role in capital mobilization. Another major reason of the study is to identify the growth trend of Nepal Stock Exchange. In these points, attempt will be made to study the growth trend and analyze the performance of Nepalese securities market. The securities market plays an important and vital role in mobilizing savings, and channeling them into productive investment for the development of commerce and industry of the country. It basically assists the capital formation and economic growth of the country. In developing countries like Nepal, the undeveloped capital market is still prevailing in the economy. The Nepalese securities market still could not take its height. The further improvement of this market is very crucial.

The other issues in the statement of the problem is identifying the present status of the stock market and comparing it with the standards of international trends. Additional to the above statement of the problem following findings are to be made on the research.

- What is the Present status of the security market in Nepal?
- What is the impact of price trend, volume of stock traded?
- What is the listing rate of Joint stock companies in Nepal Stock Exchange?
- Which sector is effective in Nepalese security market?
- Whether the stock market efficient in pricing share or not?
- Do the investors are aware of it while making investment decisions?
- What is the current legal status of the Nepal security market?

#### **1.4 Objective of the Study**

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. The objective of the study is to identify and verify how effectively NEPSE is able to play its role. The main objective can be specified into further sub objectives.

- To assess the past and present behavior of business operation in the Nepal Stock Exchange
- To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
- To analyze how the performance of NEPSE benefit to Nepalese Investor

#### **1.5 Importance of the Study:**

On this study, there has not been done any systematic study so far. This study is useful in different areas. This study is related to show on the secondary market performance. The secondary market performance has been broadly classified here on new issue market and stock market and their relation with growth and future prospective which is still starting phase. When we start the research work, various shortcomings are sorted out which can be turned strength of the stock market. Graphs and data are presented at very simple way that

anyone can understand about stock market situation. Investors might be enriched with various topics which are last lead to investment in shares. Various samples are taken from different sectors and detail analysis was done which will be very useful for financial manager of the suspected companies. Followings are the importance of the study:

- To find out the problems and prospects in the near future. What policies can be made to develop it and make the market perfect functioning?
- To indicate the financial condition of the concerned market and institution.
- To find out the view of the investor and government and other financial institutions about the stock exchange market.

## **1.6 Limitation of the Study**

This study is only to complete thesis for Master in Business Studies degree in management. It is a macro level study. This study explains only the role of Nepal stock exchange in Nepalese security market. So that it is not a comprehensive study. This study is not explained about sock price movement, stock price behavior etc. It is focused to analyze certain aspects of stock market in Nepal. This study has some limitation which is following:

- Time and financial constraints are major limitation of the study. Given time is not sufficient for detail study.
- The study covers the past and present status of the stock market of Nepal hence it does not make any projection about the future.
- All the data have been used from secondary (such as Annual report)

The study period to achieve the objective of study five (5) years is chosen from 2007-08 to FY 2012-13. Due to lack of proper information for FY 2012-13, it has not been considered.

## **1.7 Organization of the Study:**

The research has been categorized into different Chapters. Each chapter is devoted to some aspect of the study of “*Trend Analysis of Stock Market in Nepal*”. The different chapter is as follows:

### **Chapter I: Introduction**

This chapter presents about the problem in securities market in Nepal, background and the purpose of the thesis. It consists of background, focus of the study, statement of the problem, objective and need of study and finally organization of the study.

## **Chapter II: Review of literature**

This chapter presents the theoretical framework needed to understand the stock market's response to new information. Furthermore the financial statements and the research regarding the thesis subject are presented. The chapter also deals with review of the literature, which consists of conceptual framework, review of the books journals and review from empirical studies.

## **Chapter III: Research Methodology**

This chapter deals with research methodology; it includes nature of research, nature and sources of data, data collection procedure, static tools for analysis. The steps can be shown as follows.

## **Chapter IV: Data presentation and Analysis**

This chapter will try to analyze the data using the modern different analytical tools and interpret the result so obtained.

## **Chapter V: Summary, Conclusion and Recommendation**

This chapter sums up the result obtained through analysis and recommends some suggestion and is sub divided into three parts: summary, conclusion and recommendation.

Bibliography and appendix has been displayed after chapter end.

## **CHAPTER II**

### **LITERATURE REVIEW**

In this Part of study, review of existing literature has been made. To review the previous research, thesis, various articles published in newspaper, journal on this topic are the main subject matter of review of literature. The previous studies cannot be ignored because they provide foundation of the study. The relevant articles were reviewed and various published and unpublished data and materials are also available from sources. Review of literature is an essential part of all studies. It is a way to discover how previous researches are done in the area of our problems.

### **2.1 Conceptual Framework**

#### **2.1.1 Defining Security Market**

A securities market can be defined as a place for bringing together buyers and sellers of financial assets in order to facilitated trading. Securities markets are primary and secondary markets. Market indexes are the indicators of performance of the markets. For example, either the market is upward, downward or is stagnant. So far as security market is concerned, It is important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institution that assists 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.” One function of securities market is price discovery that is to cause security prices to reflect currently available information.” (*Sharpe, Alexander and Bailey 2003, 9*)

Security market is a place where people buy and sell financial instrument. A dealer is an individual or firms that put its capital at a risk by investing in a security and make an inventory of the security and make a market in it. Tremendous amount of capital is need for the business firms to finance their operation. Large amounts of many borrowed by government to provide the goods and services which is demanded by the populace, hence the security markets permit both business and government to rise to invest and earn a return, enhancing their welfare.

“The existence of markets for securities is of advantage to both issues and investors. As to their benefits to issuers May 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, saving 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 low cost”. (*Fishes and Jordon, 2000, 17*)

The history of security market in Nepal began with the floatation of shares by Biratnagar jute mill Ltd. And Nepal Bank Ltd, 1937 A.D. Introduction of the company act in 1951, the first issue of government bond in 1964 and the establishment of securities exchange center in 1976 were other significant developments relating to capital markets. Securities exchange center was established in 1976 with the objective of facilitating and promoting the growth of security market according to Wheeler. The securities include “activating relating to the organizational distribution and trading in of securities. It is the organization which facilitates these securities, Individuals and institution, which buy and sell securities, rules, regulation, customs and practices that control the organization and conduct business in the market.

## **2.1.2 Classification of Securities Market**

Securities markets are primary markets and secondary markets. The broadcast based upon whether the securities are already outstanding and owned by investors. New issues are made in the primary market and the securities that are already outstanding and owned by investor usually bought and sold through the security market called secondary market.

### **2.1.2.1 Primary market**

Primary market is the market for new securities is called “Primary market”. The term “Primary Market” is used to denote the market for the original sell of securities by an issuer to the public. The security market transfers the funds from saves to investors throughout the primary market. Hence, the transaction of the securities issued for the first time take place in this market. The issuer receives cash which may be invested in productive assets or retirement of debt. Primary market is the place where corporation and Government issues and new securities. All securities, whether in money or capital markets, are initially issued in the primary market this is the only market in which the transaction receives direct benefits from an 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, Sayers and investors they are come a part of the secondary market.

The Primary market is market through which new financial assets are issued as generated. They are the media through which the demanders and suppliers of today's funds, the creators and acceptors of financial claims, meet. In these primary markets, financial assets are created and exchanged; satisfying in the part of financial needs of both demanders adds suppliers of today's fund. It is the market for direct issuance of government securities, at the present concept. The primary market of the country is dominant by the government securities due to the existence of new issue market for individual securities.

Securities available for this first time are offered through the primary securities markets. The issues may be brand new company or one that has been in business for many years. The securities offered might be new type for the issuer 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 & Jordan, 2000, 90)*

The main function of primary market is to make the financial capital available to make new investment in building, equipment, and stock of necessary goods. The investment bankers perform the role of an expert in issuing new securities. These bankers make available advice to the business firms regarding the nature of security, maturity, and interest rate and underwrite the issue of securities. The commercial banks are not directly involved in this market. Usually, the business firms make private placement of securities. The direct sale of securities by the issue of securities to the buyers without underwriting is called private placement of securities.

The contribution of primary market to company financing by is direct in sense that provides additional funds to the issuing companies either for starting a new enterprises or for expansion or diversification of existing one. Before the establishment of security market center, the case of the new issue was very few. Issuing companies themselves undertook the issue management activities.

Before the establishment of Nepal stock exchange system, 26 public companies collected a total amount of Rs246.5 million from public issue within a starting Period of 13 years from 1979/80 AD to 1992/93 AD (Stock Exchange Record). The progress can be noticed from the collection of Rs 243 million by 14, 11 & 12 Public companies respectively 1993/94, 1994/95, 1995/96. (CEDA; A study of trends and potential of stock market in Nepal)

### **2.1.2.2 Secondary Market**

Secondary market is the market for the existing securities. Second hand securities are bought and sold in the secondary market. Secondary Market is the market where, unlike the primary market, an investor can buy a security directly from another investor in lieu of the issuer. It is also referred as "after market". The securities initially are issued in the primary market, and then they enter into the secondary market. In other words, secondary market is a place where any type of used goods is available. In the secondary market shares are maneuvered from one investor to other, that is, one investor buys an asset from another investor instead of an issuing corporation. So, the secondary market should be liquid. Secondary market is the market for the existing securities. Second hand securities are bought and sold in the secondary market.

The Secondary markets are markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides "liquidity" for financial assets making them more attractive. So secondary market is the place where securities once sold is purchased and repurchased to provide liquidity to government securities and the secondary market is operated by the securities exchange center. The trading of government securities in secondary market is very thin because of the securities. Securities exchange center in order to promote the market, used to support the market even involving itself in buying and selling activities if necessary. The secondary market ever operated in the country was on DBS. The SEC initiated the secondary market in the fiscal year 1975/76. Since then the volume traded in generally increasing year by year (*Pradhan, 1997, 5*).

### **2.1.3 Types of Securities Market**

#### **a) Capital Market**

The capital market is the market for long term finance. The market for trading long term debt is called Capital market. It is the market for long-term funds where securities such as common stock, preferred stock, and bonds are traded. Both the primary market for new issues and the secondary market for existing securities are part of the capital market.

The capital market is the heart of modern economy. The capital market is inevitable for the economy development of a country. The capital market mobilizes saving for economic development. Capital markets are the physical and electronic markets where equity and debt securities, commodities, and other investments are sold to investors. The markets in which

equity is raised and long-term loans (over one year) are originated and traded these include the stock market, the bond market, and the primary market. The primary market is any market in which the original issuer receives money, such as an investment house that purchases all securities for an original issue and then resells them on the stock market. Short-term debt instruments, for one year or less, are sold in the money markets, not the capital markets.

“The capital market is designed to finance long-term investment, financial instrument traded in the capital market have original maturities of more than one year (*Joshi, 2000, 67*).

“The market in which long-term financial instrument such as equities and bond are raised and traded” (*Joshi, 2002, 67*).

Therefore capital market plays great role in the mobilization of the constant flow of saving and changing these financial resources for expanding productive capacity in countries, which is very crucial role played by capital markets .security exchange center was one of only capital market institution before conversation in to NEPSE. It was established in 1976 with objective of facilitating and promoting the growth of capital markets, it also undertakes the job of brokering, underwriting, managing public issues, market making for government bonds another financial service

## **b) Money Market**

The money market is market for short term financial assets which can be turned over quickly at low cost. It provides an avenue for equilibrating the short term surplus funds offenders and the requirement of borrowers. It, thus, provides a reasonable access to the users of short term money to meet their requirements at realistic prices. Short term financial assets in this context may be constructed as any financial assets which can be quickly converted into money with minimum transaction cost within a period of one year and are termed as close substitute for money or near money.

The money market thus may be defined as a centre in which financial institutions congregate for the purpose of dealing impersonally in money assets. In a wider spectrum, a money market can be defined as a market for short term money and financial assets that are near substitute for money. The short term means generally a period up to one year and near substitute to money used to denote any financial assets which can be quickly converted into money with minimum transaction cost. This is a market for borrowing and lending short term

funds. Banks, financial institution, investing institution and corporate attempt to manage the mismatch between inflow and outflow of funds by lending in or borrowing from the money market.

### **c) OTC Market**

OTC is a mechanism in operation meeting the exchanging the securities. A security which is not traded on an exchange, usually due to an inability to meet listing requirements is traded through OTC markets. For such securities, market intermediaries negotiate directory with one another over computer network and by phone and their activities are monitored by the National Association of Security Dealers (NASD). OTC stocks are very risky since they are the stocks that are not considered large or stable enough to trade on a major exchange.

### **d) Commodity Market**

Commodity markets are markets where raw or primary products are exchanged. These raw commodities are traded on regulated commodities exchanges, in which they are bought and sold in standardized contracts.

The modern commodity markets have their roots in the trading of agricultural products. While wheat and corn, cattle and pigs, were widely traded using standard instruments in the 19th century in the United States, other basic foodstuffs such as soybeans were only added quite recently in most markets. For a commodity market to be established there must be very broad consensus on the variations in the product that make it acceptable for one purpose or another.

The economic impact of the development of commodity markets is hard to overestimate. Through the 19th century "the exchanges became effective spokesmen for, and innovators of, improvements in transportation, warehousing, and financing, which paved the way to expanded interstate and international trade."

The trading of commodities consists of direct physical trading and derivatives trading. Exchange traded commodities have seen an upturn in the volume of trading since the start of the decade. This was largely a result of the growing attraction of commodities as an asset class and a proliferation of investment options which has made it easier to access this market.

## **2.1.4 Securities Board of Nepal**

Security Board of Nepal (SEBO) was established on June 7, 1993 with its mission to facilitate the orderly development of a dynamic and competitive capital market and maintain its credibility, fairness, efficiency, transparency and responsiveness under the securities Exchange Act 1983 (SEBO). It is an apex regulator of the securities market in Nepal. It registers the securities and approves the public issue. Moreover, SEBO frames the policies and programs required to monitor the securities market, Provides license to operate stock exchange business and stock broker and supervises and monitors the stock exchange operations and securities business person.

A board composed seven members including a chairman governs SEBO. The board has representatives from government line minister and institution as well as private sectors. The chairman of SEBO is appointed by Nepal government for four years. It is the government's prerogative to re- appointed the chairman. Other member of the board include representatives one each from ministry of finance (MOF), Ministry of law, Federation of parliamentary affairs, commerce and supplies., Nepal Rastra Bank (NRB), Federation of Nepalese Chamber of Commerce & Industries (FNCCI) and Institute of Chartered Accountants in Nepal (ICAN).

### **2.1.4.1 Objectives of SEBON:**

Followings are the objective of SEBO:

- the main objective of SEBON is to regulate and develop the securities market and protect investor's rights.
- to render contribution to the development of capital market by making securities transaction fare healthy efficient and responsible.
- to promote and protect the interest of the investor by regulating the issuance sale and distribution of securities and purchase sale or exchange of securities.
- to supervise, look after and monitor the activities of the stock exchange and of corporate bodies carrying on securities business.
- Conduct research, studies, and awareness programmes regarding securities markets.
- Advice the Government of Nepal to formulate policies and programmes relating to securities market as required.

### **2.1.4.2 Function of SEBON:**

As per the Securities Related Act, 2006, the major functions, duties, and power of SEBON are as follows

- Register securities of public companies.
- Provide license to operate stock exchanges.
- Provide license to operate securities businesses.
- Permit the operation of collective investment schemes and investment fund programmed.
- Draft regulations, issue directives and guidelines.
- Supervise and monitor stock exchanges and securities business activities.
- Take legal action against the non-compliance companies according to the existing laws.
- Review reporting of issuer and listed companies, and securities businesspersons.
- Conduct research, study and awareness programs regarding securities markets.
- Coordinate and cooperate with other domestic as well as international securities related regulatory agencies.
- Formulate policies and programmers relating to securities markets and advise the Government of Nepal as and when required.
- To advise the government on the issue related to development of capital market and the protection of investor's interest.
- Register securities and grant issue approval.
- To approve stock exchange for the operation and oversee them for healthy trading of securities.
- To regulate public issues of securities and including mutual and trust funds.
- To monitor and supervise the securities transaction.
- To conduct research, and studies in the area of capital market.
- To conduct conference workshop and seminar are participating in such programmed conducted at regional or international level and join the forum and exchange with outside regulators.

## **2.1.5 Nepal Stock Exchange**

### **2.1.5.1 Trading Procedure of NEPSE**

NEPSE has 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 the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market makers quote their bid and offer price on their own board before the floor starts. Once the bid and offer price match, contracts between the buying and selling brokers or between the brokers and market makers are concluded on the floor. NEPSE operates on the ‘NEPSE Automated Trading System ‘(NATS), a fully screen based automated trading system, Trading System of Nepal Stock Exchange which adopts the principle of an order driven market.

### **2.1.5.2 Order Matching Rules**

The system adopts principle of order driven market. The best buy order is matched with the best sell order. An order may match partially with another order producing multiple trades. For order matching the best buy order is the one with the highest price and the best sell order is the one with the lowest price. This is because the system views all buy orders available from the point of view of the sellers and all sell orders from the point of view of the buyers in the market. So, of all buy orders available in the market at any point of time, a seller would obviously like to sell at the highest possible buy price that is offered. Hence, the best buy order is the order with the highest price and the best sell order is the order with the lowest price.

### **2.1.5.3 Trading Days and Hours**

NEPSE has fixed the trading days and hours during which the members are allowed to enter the floor to make the transactions. Trading on equities takes place on all days of week (except Saturdays and holidays declared by exchange in advance) from 12 Noon to 15:00 hrs. On Friday only odd lot trading is done.

#### **2.1.5.4 The Market Timings of the Equities**

Trading on equities takes place on all days of week (except Saturdays and holidays declared by exchange in advance). On Friday only odd lot trading is done. The market timings of the equities have be done on 12:00 Hours to 15:00 Hours. In case of Odd Lot Trading is done on Fridays on 12:00 Hours to 13:00 Hours.

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

#### **2.1.5.5 Trading Location**

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

#### **2.1.5.6 Trading Lot**

NEPSE has fixed the board lot of 10 shares if the face value is Rs. 100 or 100 shares if the face value is Rs. 10. The transactions on regular trading should be done on at least one board lot. The transactions of less than 10 shares are permitted only on odd lot trading hours.

#### **2.1.5.7 Price Range and Regulation**

The opening price of any day shall not be more or less than 10 percent of the previous trading day's closing price. Once the transactions are done within this range, the price can be changed within a limit of 2 percent in each consecutive transaction till it reaches to 10% of the previous close. In case of bond or debentures or government bond opening price shall not be more than or less than 0.20 percent of the previous trading day's closing price and a 0.10 percent for each consecutive transaction.

#### **2.1.5.8 Circuit Breakers**

NEPSE has implemented index-based circuit breakers with effect from 2064/6/4 (21 September 2007). In addition to the circuit breakers, price range is also applicable on individual securities.

### *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

#### **2.1.5.9 Settlement**

NEPSE has adopted a T +3 systems which mean that settlement of transaction should be done within 3 working days following the transactions day. 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.

#### **2.1.5.10 Blank Transfer**

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.

- The buyer may decide to have market benefit either to have capital gains or to minimize the loss.

- In order to do this s/he may partly send for name transfer or may register it in blank transfer.
- If s/he 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.

### 2.1.5.11 Brokerage

The rate or brokerage on equity transactions ranges from 1 percent to 1.5 percent depending on the traded amount, rate of brokerage commission for the corporate bond ranges from 0.50 percent to 0.10 percent. The brokerage commission for the government bond is charging maximum of 0.20 percent. Brokerage charge: As per the security exchange rules 2067. The rate of brokerage that can be charged by the brokers to the investors is given below:

**Table: 1.3**  
**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](http://www.nepalstock.com)*

**Table: 1.4**  
**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](http://www.nepalstock.com)*

**Table 6**  
**Brokerage for all other Stocks which is not listed in table 1.4 and 1.5**

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

*Source: [www.nepalstock.com](http://www.nepalstock.com)*

### **2.1.6 Problems of Nepalese Securities Market**

The market is at early stage of development in Nepal so we can say that, current status of stock in Nepal is not satisfactory. It gives wrong impression when we look at overwhelming response of the investor's response of the majority of the public issue. However, we analyze of the present status of Nepalese stock market, almost every public issue had been oversubscribed during the past ten years. The government creates the right policy environment to facilitate the creation of a critical mass of financial instrument issues and investors. Therefore, government needs to create incentives for capital mobilization, remove impediments to private sector development educate investors and provide legal and regulatory reforms.

Until now the stock market development in Nepal has not reaches its full potential for much reason, which is described below.

- 1. Agro Based Economy:-** Although, Nepal has changed really since 1950, it is still an early stage of economic development. More than 90percent of the total population depend on agriculture. 41% of GDP is supported by agriculture and 80% of population lives in the country side. The absolute size of the urban economy is very small. It is one of the poorest country in the world i.e. 40% are still below Poverty line. Therefore, the size of the stock market is simply too small. Nepalese capital market is limited by size and population, it is itself a big problems.
- 2. Political Instability:** The establishment of parliamentary democracy in 1990 opened the way for sweeping economic reform and a program of great scope was carried out between 1991 and 1994. This embraced policies on finance, foreign and domestic trade and investment, industry and foreign exchange and a start to privatization.

Presently, Nepal is suffering from poor law and order situation: killing terror and violence obstructed the regular movement of activities of government. In fact the government was forced to declare the state emergency in the country for long period. All the mentioned factors definitely affect the smooth development of the stock market. Thus, political instability changes the investor's expectations about the prospects for the economy in a certain environment.

- 3. Low Investors Confidence:** Investor's confidence in the Nepalese stock Market is relatively low because of the volatility of share price, low return on investment, inadequate information on which is to base decision, lack of understanding about the operation of financial market and instrument and a fare game. However, considerable progress has been made but it is not a adequate to return in the form of both dividend rate and market gain must be reasonable enough to attract them.

Therefore transparency and openness of transaction, quality professional services, adequate cooperation financial disclosures and improved legal regulatory and supervisory frameworks are the direct needs of investors in Nepal Stock Exchange or market today.

- 4. Lack of Efficient and Suitable Tax Policy:** Tax Policy has an important on the methods and cost of capital. In Nepal, tax policy appears to have contributed to high cost of capital for private sector and over reliance on short term debt financing. Tax policy has stuck the development of stock market by increasing transaction cost and creating disincentives for equity and private bond market. Capital gain on securities transaction are taxed as ordinary income to cooperation and individual investors while most emerging market in Nepal, capital gains on investments in stock and bonds, are not taxed. Also there is no tax incentives taking on the burdens associated with the offering of share and disclosures of the information of the public. To rationalize the policies towards capital formation, to encourage private sector and secondary market transaction is also needed. There is the high level of taxation of transaction executed on the stock exchange. Stockholders pay about one third of commission earned in the form (NEPSE). High transaction casts and capital gain taxes discourage investment in the stock market and tend to reduce market liquidity.
- 5. Lack of Institutional Investors:** In Nepal the institutional investors base is small banking sector have dominated the financial sector. Institutional investor can

mobilize saving in a cost effective manner for individual savers who otherwise might not participate in the stock. In Nepal, there are limited numbers of institutional investors in Nepalese capital market which are as follows:

- Citizen investment trust
- Provident fund
- Pension Fund
- Commercial Bank
- Finance and Insurance Companies
- Each type of institutional investors potentially offers a large pool of funds that could be invested in the money market and stock market.

**6. Weak Legal affairs for stock market regulation and enforcement:** At present time there are thirteen Acts, regulation and guidelines related to the stock market activities in Nepal, they are

- Securities Exchange Act, 2063
- Securities Exchange Rules and Regulation 2066
- Company Act, 2063
- Bank and Financial Institution Act, 2063
- Foreign Exchange Regulation Act, 1962
- Foreign Investment and Technology Transfer Act, 2049
- Membership of Stock Exchange and Transaction bye-laws 2063
- Securities listing bye-laws 2008
- New issue management guidelines, 2009
- Securities allotment guideline. 2010
- Securities registration and issue Approval guidelines, 2009
- Mutual Fund Regulations, 2010
- Bye Laws of CDS and Clearing Ltd

- 7. Limited use of Credit Rating Agencies:** A credit rating agency is an essential to the successful operation of money and bond market for private issuers. A credit rating is an opinion about credit risk, or an assessment of ability of issuers of debt securities to make timely payment of principle and interest in a security over the life of the instrument. Credit rating agencies are also able to rate the claims paying ability of insurance company and the solvency of banks and other establishment of Nepalese credit rating agency. SEBON has licensed ICRA Nepal Limited in FY 2011/12 as the first Nepalese credit rating agency to operate credit rating business. With the licensing for operating credit rating business in the country, provisions have been made for compulsory rating to the securities to be issued amounting to Rs.30 million or more. With the operation of credit rating business in the country, investors can make more informed decisions while selecting securities. Similarly, SEBON believes with the operation of credit rating business that the companies will have more attention to improve their credit rating status and to be more competitive in the market.
- 8. Lack of Money and Bond Market:** There is an absence of private money market debt instrument and corporate debt securities in Nepal. Because of there has been a tendency for banks to dominate primary market. It is essential to have a critical mass of financial instrument that is need for an economically viable securities market. Development of money market in commercial paper and other renegotiable debt instrument would provide an alternative source of funding for the private sector and would faster, greater competition in the financial sector.
- 9. Low Capital Formation:** There is low formation of capital in Nepal. Capital required for investment in business is raised from capital formation. The capital is formed from the saving of people. More than 90% of whole population of Nepal is still depended on agriculture being a developing country. Even saving is spent in unproductive activities rather than in commercial or industrial activities. Due to low saving, capital formation is also low and the primary market could not develop in Nepal.
- 10. Shortcoming of existing Securities Law and Regulation:** Existing Securities law and regulation do not clearly define the regulatory, supervisory and enforcement function of the stock exchange and securities board. The securities exchange act and companies all are not clear on the division of authorities between the register of

companies and the securities board regarding the prospectus and periodic disclosure requirement by public companies. The prospectus registration (securities exchange act) and listing (securities exchange regulation & NEPSE bye-laws) Provision involve a multiplicity of application with separate but overlapping requirements. Such multiplicity and absences of window policy creates unnecessary burbles, expenses, confusion, complications and delay act as a disincentives to companies thinking of coming to the market by the way of public issue of stock.

**11. Investment of Saving in Bank Deposit and Government Securities:** In context of Nepal, stock market is new and the investors do not properly understand the risk and reward of investing in the stock market because of this both individuals and institution are putting their saving into bank deposits and fixed interest government securities. Thus, long-term savings (stock market) are going in to short term instrument.

### **2.1.7 Prospects of Nepalese Stock Market:**

Nepal is still at early stage of economic and social development. The establishment of parliamentary democracy in 1990 opened the way of sweeping economic reforms. Joint venture with foreign financial and other organization were encouraged to some extent and privately owned industrial and commercial enterprises were permitted to develop in some fields.

NEPSE started of trading securities through the member broker in its own floor, after the conversation of SEC into NEPSE in 1993. The Nepalese stock market has witnessed both boom and boost cycle. The market passed the boom phase only for a few months after introduction of the new trading mechanism, then after the market running smoothly, even though ups and downs in Sharpe price and NEPSE index was seen different year. The amendment in the securities exchange act and guidelines were some PF the measures taken to improve in the legal and statutory framework. Nowadays different measures have been taken to improve the performance of stock market in Nepal, which are as follows.

- 1. Improvement in legal Provisions:** Some amendment has been made in “Securities Regulation and issue guidelines 2000” which is regarding the accordingly of information disclosed in the prospectus, regarding the risk of changes in the share prices, exemption Annual General Meeting (AGM) Provision and declaration regarding the complimented. “It is regarding the provision that brokers cannot

transfer their ownership until five years from the date of getting NEPSE membership. The amendment is also made a provision that only up to 49% of ownership can be transformed to a cooperate body. As per the amendment, after ownership transfer one cannot again transfer the ownership for at least three years.

2. **Trading Government Securities through Stock Exchange:** With the view to implement Nepal Government program for the trading of government securities. In the stock exchange as announced in the budget a high level committee has been formed under the governorship of ministry of finance with representation from SEBO, N EPSE and Nepal Rastra Bank, the “Public Debt Act”2000 has delegated authority to the Nepal Rastra Bank for necessary arrangement of primary and secondary transaction, in this context SEBO has also draft “government securities trading bylaws “based on the draft regulation proposed by Nepal Rastra Bank.
3. **Supervision & Monitoring:** In the fiscal year 2011/12, SEBON formed two onsite inspection committees for the inspection of stock broker's activities. The team visited 25 stock brokers and the visit concentrated on record keepings of 20brokers, KYC forms, and recordings of purchase and sells orders, compliance to SEBON regulation regarding disclosure etc . During the inspection, SEBON found out that most of the details kept by stockbrokers were according to laws and regulations.

SEBO monitors whether the issue managers perform issue management activities like allotment of securities, refunding and listing of securities and submission of their report to SEBO with time prescribed by the securities rules and regulation. As per the provisions of securities Exchange ACT, 1983” stock broke are required to submit their annual report including profit and loss account, balance sheet, cash flow statement and securities trading report to SEBO with in 3 month after the expiry of fiscal year.

4. **New Trading Systems in NEPSE:** NEPSE operates on the ‘NEPSE Automated Trading System ‘(NATS), a fully screen based automated trading system, which adopts the principle of an order driven market. Purchase & Sell of Physical Share certificates is done through NATS. The Automated Trading System was started from 24 August 2007.

- 5. Regulation with Securities Regulators:** Viewing the importance of cooperation with the order securities market regulations SEBO has made efforts in future enhancing the relationship with them. During this year efforts have made to harmonize the listing rules of the SAARC region. SEBO provided comments on the study conducted in this regard by south Asian Federation of exchanges (SAFE). In this year high level team of SEBO visited securities exchange board of India to exchange market experience and explore the area of mutual cooperation likewise in this sponsorship of World Bank office in Nepal, a team of SEBO, NEPSE and line ministry.
- 6. Mutual Fund Regulations, 2010:** In the fiscal year 2011/12, under the provisions of Mutual Funds Regulation, 2010 two mutual fund companies were licensed by SEBON and two more are in the pipeline. It is expected that these mutual funds could play the role of institutional investor which is still absent in the Nepalese market. Entry of few more mutual funds could put a check in high volatility seen in the secondary market. In order to encourage mutual funds companies, SEBON has recommended to the Ministry of Finance, Government of Nepal for making tax-free to the income of mutual funds companies as well as to the dividends distributed to the shareholders by mutual funds companies. In addition, SEBON has made new provisions for opening secondary markets for non-resident Nepalese by making necessary amendments in the Mutual Funds Regulations, 2010
- 7. Central Securities Depository Services:** In the fiscal year 2011/12, SEBON approved the Bye Laws of CDS and Clearing Ltd. licensed in the last fiscal year to operate central securities depository services. It has opened up for providing central securities depository services and with this development, SEBON believes that existing manual process of clearing and ownership transfer will be replaced by automated system Presently, dematerialization process of securities has moved forward..
- 8. Capital market and Infrastructure Development Plan:** Asian Development Bank and Securities Board of Nepal (SEBON) signed an agreement on June 27, 2011 amounting of \$ 5.0 million with an objective to prepare regulatory and corporate structure for the development of Nepalese bond market, policies to increase private sector involvement in infrastructure development and to increase institutional and regulatory capabilities of Securities Board of Nepal

- 9. Publications:** SEBON published securities market review for each quarter and also placed in its website.
- **Annual Report:** In pursuant to the section 26 of the securities exchange act 2007, SEBO has published its annual report for the fiscal year 2011/12.
  - **Investor's Educational Materials:** SEBON published various tips in different newspapers and television in order to increase awareness of the investors regarding in securities. On the website of SEBON there is a column of investor education. In 2011/12, SEBON published the informative booklets to investors named "Things Investors need to Know" in order to increase awareness of the investors regarding investment in securities. Likewise, Securities Board of Nepal (SEBON) published and distributed pamphlets relating to the basic aspects of securities investment before investing in capital market.
  - **Investor's Education Program:** In the fiscal year, 2011/12, SEBON conducted investor education programmes in 21 districts of the country. The objective of the programme was to make investors aware of basic securities market infrastructures such as mutual funds, Central Securities Depository, and Credit Rating Company, and for securities investment.
  - **Websites:** With an objective of acquainting the stakeholders with the up-to-date information and market scenario, SEBON has been updating its website regularly. Securities Act, regulations and guidelines, introduction of SEBON, annual report, securities market trimester review, grievance submission formats, market news and information and awareness materials for the investors are available on the website. The website address of SEBON is <http://www.sebonp.com>. Among the two websites registered in the name of SEBON as per the international practices in the area of the securities markets, the Board prepared to use [www.sebon.gov.np](http://www.sebon.gov.np) to replace the existing website [www.sebonp.com](http://www.sebonp.com) and [www.sedfar.gov.np](http://www.sedfar.gov.np) to use for the online reporting by the market participants.
  - **Research & Study:** In the fiscal year 2012/13, SEBON provided various types of information and publications related to the securities market through its library to 1594 visitors such as investors, students, researchers and lecturer of the universities conducting research and study in the area of capital market with the objective of encouraging studies especially in the field of securities market, SEBO

has been supporting the master's level students by providing grant for write thesis as a part of their academic requirement. Beside SEBO provides various types of information about the securities market through library and publication to investor's students, researchers and lecturers of this university in fiscal year 2012/13.

### **2.1.8 Clearing & Settlement:**

A financial instrument is commonly considered liquid if it is traded in a market with a sufficient number of participants to make feasible purchase and sale on short notice at price near the contemporaneous equilibrium value of the instrument.

The curial function of trading mechanism is to transform latent demand of investors into realize transaction. The key to this price formation is price discovery, the process of finding market clearing prices. The key to this price formation is price discovery, the process of finding market clearing prices. No two trading mechanism are alone in the performance of price discovery, they different in the price of order permitted, the times at which trading can occur the quantity and quality market information made available to investor at the time of order submission and the reliance upon market makers to provide liquidity.

If transaction is at the heart of security market, then clearance and settlement are the veins and arteries. Each are executed trade is completed only after share are exchanged clearance and settlement process is organized has a great impact on the efficiency, fairness and stability of a system as a whole.

Clearing and settlement system are providing the process of presenting and exchanging data or documents in order to calculate the obligations of the participant in the system to allow for the settlement of these obligations and the process of transferring fund and securities.

A clearance system determines what securities trading counter parties owe and what they are due to received. It contains of comparisons of the details is a trade as reported by each party to determine if they are agree, and then calculation of the amount owed to each clearance is followed by settlement the exchange of securities and funds to complete the transactions.

## 2.2 Review of Related Studies

### 2.2.1 Review of International Studies:

Various research studies have been performed internationally on the stock market. The finding of some of some of the research studies are as follows.

A number of studies on the relationship between stock price and the national economy have been found that change in the stock market tend to precede in business condition by an average of about four month. As a result the stock price index is major components of index leading economic indicators which consistently provide warning about change in economic activity.

**Donald E Fishes and Ronald J Jordan** have distinguished investment from speculation in SM by the time of horizon of the investors: and often by risk return characteristics of investment. The true investors are interested to seek a good rate PF return for a relatively long period of time. The true speculators seeks opportunities of very large return to earn rather quickly, thus the same stock can be purchased as a speculation or as investment, depending on the motivation of purchaser(*Fishers & Jordan, 2000, 98*).

There are the important aspect of capital market, namely, the raising of funds in form of shares and debentures and trading in the securities already issued by the companies while the first aspect is obviously is much more important from the point of view of economic growth the second aspect is also considerable importance. In fact, if facilities for transfer of existing securities are abundant, the raising of new capital considered assisted for buying of new issue of security is confident that whenever he wants to get cash, he can find buyer without much difficulty. This aspect is called the liquidity of stock market. Thus, the liquidity of stock market affects the raising of new capital from the market (*Knut and Levine, 1996, 66*).

Common stock represents on ownership position. The holders of common stock of the firm have the voting power that among other things elects the board of directors and have a right to the earning of the firm after all expenses and obligations have been paid but they also run the risk of receiving nothing if earning are insufficient to cover all obligations.

### 2.2.2 Theoretical Reviews:

There are so many books considered to be here, in regards with the investor's protection.

**Shrestha (1992)** in his book “*Shareholder’s Democracy & AGM Feedback* has focused various issue related to protecting of their owners but how this accomplished can is main question. Thus it is necessary to develop a possible guidance effort enhancing the efficiency for public limited companies to contribute directly in the growth of national economy on one hand and ensuring handsome return to the stakeholders on the other hand to make their investment meaningful and worthwhile. At present, the overall shareholder’s democracy in term or the protection of their interest is basically focused on the payment of satisfactory dividend and the maximization of shareholder’s wealth by appreciating the value of share they hold”, the prices, turnovers of stocks increased tremendously after the opening of trading floor. Even prices of stock with huge accumulate losses and the companies established only a couple of month back went up and up which is not conducive for the healthy growth of market. Such unnatural high prices are accounted for the poor transparency and pouring of large number of people without having a minimum knowledge of shares in the market

According to the journal of SEBO, it was clearly defined the policy development regarding to the growth of the market. These policies consist of:

- Improvement in the statutory and framework of the capital market.
- Development of widely participated capital market.

SEBO also made some improvement bond’s institutional capacity. SEBO also made some improvements in the statutory and regulatory frameworks of capital market have to be revised to rationalize and simplify the regulatory system. Such improvement contributed to the development of capital market in the following ways.

- Brings clear demarcation in the role and responsibilities born by the securities board and other regulatory agencies i.e. stock exchange, NRB, ORC etc.
- Shows the ways of coordinates between the service board and other regulatory agencies.
- Empower the securities board to audit the registered corporate bodies, mutual funds, as custodians and clearing houses in relation to their financial reporting issues.
- Gives focused attention for the establishment and up grading of necessary legislative infrastructure to address ongoing needs.
- Establishes securities board as a central markets regulators and rest it with insider investigation and enforcement power.

- Promotes the development of full –service securities house.
- Promotes public confidence in the regulatory system and market structure.
- Reduce the duplication in the role and responsibilities of board and other regulatory agencies

**Implementation of the policy:**

- Enactment of news securities act and sub coordinated there on
- Amendment of securities investment trust act and a sub coordinate legislation there on and
- Preparation of new guidelines and directives to accommodate changing needs and circumstances under the new provisions.

**While implementing this policy the securities board**

- Advise the government regarding the development of a secondary market for government securities and the opening for foreign portfolio investment.
- Co-ordinate with NRB to formulate prudential standards for the primary issue as well as secondary trading of government bonds.
- Studies the possibility of introducing broker in order to facilitate easy entry and exit process for the benefit of investors.

**2.2.3 Review of Related Articles and Journals**

**Shrestha (1993)** wrote an article in the title of ‘*Shareholder's Democracy and Annual General Meeting*’. Shrestha prefers to consider this book as assemblage of opinions which he had express in different occasions of various annual general meeting where he has critically analyzed the situation of common stock investors and the situations that is not improving till date. The content of the book have been divided into two parts. The first part includes views on the rights of the shareholders regarding how they can exercise them in democratic perspective, where as the second part consists of feedback and the issues raised by shareholders at different annual general meeting of the public limited companies and financial institutions.

**Pokharel (1999)** has published an article entitled “*Stock Market Doing Pretty Well*” in business age. In this article he has written that the investment on the shares of manufacturing and processing was more attractive than of the banks. He found that the share of individual

companies showed very good performance from October 1998 to 1999. NEPSE index showed upward trend for all the shares in this period. He gave following reasons behind the appreciation of share price.

- Companies have rewarded shareholders.
- Reduction of interest rate of money market.
- Healthy speculation and loan has made the market interesting by providing loan to the stock investors their share as collateral.
- Investors are appearing more rational in their investment decision.

Finally, he concludes that the capital market needs more infrastructure investment than institution investment once the required infrastructure can facilitate the market, the size of the market could be made even bigger by introducing new instruments such as government bonds.

**Ghimire (June 2001)** has put his effort in the article entitled '*Nepal Share Market and Investors Prospect*'. In his article he pointed out some important trends of our capital market. He has concluded that the Nepalese share price is decreasing because of many unbalanced factors. The major reason behind the movement in the index is the domination of the banking sector scrip in the Nepalese stock market transactions. Mismanagement practices cannot help the growth of share market. The general public has invested recklessly. They just believe what one broker or the investor says about scrip. One of the prime motives for the investment is to earn return on it. Finally, he concludes that the general investors should be alert and aware of the situation. They must receive the financial information before they make investment and act rationally.

**Timilsina (2004)** conducted the research on "*Capital Market Development and StockP Behaviors in Nepal*". He published an article with a heading Capital Market. Major findings of the study are the coefficient of correlation between earning per share (EPS) and observed market value of the share and also the dividend per share (DPS) and the observed market value of the share was computed. A positive correlation was found to be exist between EPS and the market value of the share. The coefficient of correlation between dividend per share and the market price was also computed taking DPS as independent variable and market price as dependent variable.

**Chitrakar (2011)** published article in Business age titled “*Waiting for 350*”. He mentioned that the NEPSE Index needs to cross 350 to inspire the investors, shows this analysis. With NEPSE Index continuously sliding down, the month striding over August-September period was a month of decline in the Nepali bourse. This was in spite of healthy earnings reports and dividend declaration by the companies. The entry of Maoists as the leader of the government helped in sending the mood in the exchange down because of lack of clarity about the policy of the new government. The benchmark Nepse index plummeted 29.76 points or 9.30 per cent to respite at 320.08 during 22 August-20 September. While the highest points for the period was on 22 August with 349.84 and the lowest was on 19 September with 317.70.

#### **2.2.4 Review of Thesis:**

Mr. Poudel (2007) has made an study titled with, “*Role of NEPSE in Nepalese Securities Market*”. The objective of this thesis was to evaluate stock price behavior in Nepal, to analyze the rate of newly listed companies and inter sector comparisons, to examine the future of business and economic activity of NEPSE

The major findings of this study are as follows

- Studying the annual trends analysis of Nepalese stock price market, it was found that stock price trends is decreasing from many years as smoothly but from one year price of stock is decreasing as rapidly.
- Most of the investor was asked for their preference of investment sector and they said that they were attracted towards banking and financial for making investment.
- Studying the sector wise monthly trend analysis one year the systematic activities of Nepalese stock price market were found, no experts can certainly forecast about the stock price.
- It was found that investor’s motive owing shares of company is to receive the dividend from the shares.
- While analyzing the rate of listing of new companies showed that increasing trend from the year 1997 to 2001 but decreasing in year 2002 and again it is in increment trend to 2005.

Pokhrel (2008) carried study on “*A Study of Securities Market in Nepal*”. The main objectives of her study were as follows:

- To find out and analyze the risk and return of different sectors of securities market.
- To analyze the inter relationship between the risk and return of each sectors.
- To examine the trend of different sectors in terms of their total paid up value, annual turnover, capitalization and forecast their trend for future.

Study was made in different sectors like Bank, Finance, insurance, manufacturing and service organization according to her “Among all sectors listed in securities market, banking sector has the highest expected return. (50-33%) finance sector with (47-36%). The sector having the lowest expected return are the one categorized as other just 10.3% and the trading sector with 10.65%. Ms. Pokhrel has used different tools and techniques to analyze and interpret the data to meet the concrete report about securities market but she has not centralized her study on specific subject matter.

Shakya (2009) carried study on the topic “*Risk and Return Analysis of the Commercial Banks with Reference to Six Commercial Banks*”. The major objectives of this study was to study the risk and return of the sampled commercial banks ( 6 out of 27 banks) and also analyze their coefficient of variance, to perform the comparative analysis of the risk and return on the common stocks of the selected banks, to find out how sensitive the stock price of the selected commercial banks and the banking sector as a whole with that of the NEPSE, to provide the valuable suggestions about the risk and returns on stocks of the commercial banks that could be the deciding factors for the investors in their investment.

The major findings of her study are as follows;

- Expected return on common stock of NABIL is maximum (56.7%). Similarly expected return of NIBL, SCBL, HBL, EBL and BOK are 37.9%, 28.26%, 29.52%, 52.79% and 37.1% respectively.
- On the basis of standard deviation, common stock of NABIL is most risky since it has high S.D i.e. 0.91. Common stock of SCBL has least risk because of its low S.D of 0.33.
- On the basis of CV, common stock of EBL is best among all other banks. EBL has 1.04 unit of risk per 1 unit of return. But common stock of BOK has the highest risk per unit of return.

Marahatha (2010) studied on a topic “*Risk and Return Analysis of Listed Commercial Banks of Nepal with References to Five Commercial Banks*”. The objective of the study was to see the position of risk and return of the sampled commercial banks and also analyze their coefficient of variance, to see how sensitive the stock prices of the selected commercial banks are.

The major findings of his study are as follows;

- Expected return of SBL is maximum (55%). Similarly expected return of NABIL, EBL, SBI and BOK are 48% 40% 49% and 49%.
- On the basis of CV common stock of BOK is best among all other banks.
- The beta coefficient of SBI has higher i.e. 1.083 that means the beta measured that risk with the market is lower beta for the bank of BOK is -1.729.

Thapa (2011) carried out a study on “*An Impact of Stock Price Behavior in Nepal Stock Exchange*”. The objectives of this study was to examine the qualitative as well quantitative factors affecting the stock price in NEPSE with focus in commercial banks, to analyze the effect of earning and book value on stock price, to examine the effect of dividend on the stock price, to analyze the market trends of MPS with financial indicators.

The major findings of the study are as follows:

- The CV of DPS in EBL is the highest and SCBNL has the lowest. The BOKL and SBL have the high coefficient of variation. Thus, it can be concluded that EBL has higher fluctuations in DPS among all the banks.
- The EBL has the highest and SCBNL has the lowest CV of BVPS respectively. The CV of EBL shows that there is fluctuation in BVPS and CV of SCBNL shows lower fluctuation among the sampled banks.

Giri (2012) carried out a study on “*Risk and Return Analysis of Common Stock Investment of Listed Commercial Banks (with reference of NIBL, HBL and EBL)*”. The objectives of this study were to analyze the common stock in terms of risks and return, to identify the optimum portfolio of the selected commercial banks, to analyse the systematic and unsystematic risk of the selected commercial banks. The major findings of the study are as follows:

- Upto fiscal year 2007/08 NIBL pays the both cash and stock dividend to shareholders but in the fiscal year 2008/09 to 2009/10 NIBL did not distribute any dividend to shareholders whereas, HBL pays both cash and stock dividend till FY 2009/10. Likewise EBL pays both cash and stock dividend only from the year 2006/07 and is paying stable stock dividend at 30%.
- Market price of the stock of all three bank is decreasing from the FY 2008/09.

Bista (2013) carried study on “*Dividend Policy and its Impact on Market Price of Stock*”.

The basic objectives of this study are to make comparative analysis of dividend policy of selected two banks and include - to examine the prevailing dividend policy adopted by sample banks, to analyze the impact of dividend on market price of share, to analyze the relationship of financial indicators such as DPS, EPS, DPR, PE ratio, Liquidity Ratio, Profitability Ratio and market Value Per share, to examine the uniformity among DPS, EPS and DPR of two sample banks. The major findings were:

- Dividends per market price of all concerned banks are satisfactory. SCBNL paid the highest average DPS to its market price Rs 124.
- An average earnings per share market price for the period covered by the study is also satisfactory. At the same time, average EPS of SCBNL is highest Rs 145.65
- Analysis of coefficient of variation that there are fluctuations in DPS and EPS of NABIL and SCBNL

## **CHAPTER III**

### **RESEARCH METHODOLOGIES**

This chapter deals to the research methodology and includes the design of research, determination of the population and sample size, data collection and methodology used for the analysis of data.

This research attempts to analyze the historical data related to Stock Market in Nepal. It includes natures of data, specification of the method of the proposed study and detail plan for carrying out the study with various practical data for the analysis of problems etc. Thus, the design is basically base on presentation, analysis and interpretation of result. First the data are presented in table (or diagram), second presented data are analyzed by using various financial and statistical tools and at last analyzed data are compared and interpreted for the conclusion. Further, descriptive analysis is used because the secondary sources of empirical data have been employed to analyze the using variables, which is related to condition and growth and prospects of stock market

#### **3.1 Research Design:**

This study is conducted with the view of gaining somewhat clear outlook about the major role/trend of NEPSE in the Nepalese securities market. This study seems to involving investigation by the use of financial and statistical models to explain the whole phenomenon of the performance of the NEPSE in the securities market and have predetermined aims of measurement, analysis and evaluation of all the relevant details and information collected in an efficient manner as possible from Nepal Stock Exchange (NEPSE), SEBO (Security Board in Nepal) and other sources.

#### **3.2 Population and Sample**

The analysis of Performance of Nepal Stock Exchange in Security Market and its impact to the growth of economy largely depends on the number of companies listed in the Nepal Stock Exchange, share issuance by these companies and contribution of stock market to capital mobilization. Therefore, all the companies listed in the stock exchange and major economic indicator (GDP, Turnover etc) is taken as total population. Moreover the companies that are in existence and doing share transaction in NEPSE (altogether there were

216 companies listed in the NEPSE) in last 5 years from FY 2007/08 to 2011/12 are considered as the sample of the study.

### **3.3 Sources and Techniques of Data Collection:**

In order to satisfy our objectives the required data have been collected from secondary sources. Secondary data are mainly based on website, booklets and reports. Major sources of data were:

- Website of the NEPSE and SEBON.
- Annual Reports of SEBON and NEPSE
- Trading Report of NEPSE

The monthly NEPSE index is derived from various annual reports and trading published by Nepal Stock Exchange. Besides this, some well known information are collected from magazines and journals. The library of various books and writers as well as from the office copies of the publication maintained by the exchange have also been consulted for the collection of additional information in completing this study more steadily. The website of NEPSE, [www.nepalstock.com](http://www.nepalstock.com) and some other website are also used for references.

### **3.4 Methods for Analysis and Interpretation:**

The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. Method of analysis is applied as simple as possible. Results are presented in tabular form and clear interpretation or it is given simultaneously. Detail calculations are presented in appendices at the end of the study. The method of analysis employed in this study, consists of analytical tools and techniques as follows:

#### **a) Statistical Tools**

Data have been simply presented in tabular form and interrelated in percentage and simple average, simple bar diagram and both financial and statistical tools performs details analysis of different variables.

#### **b) Percentage Analysis**

The percentage analysis is done to compare the two or more data for general information. It is used as a method to divide the opinions of the related sectors into two or more sectors.

- Financial Methods
- Market Price of Stock

One of the major data of this study is market price of stock and the closing price is used as market price of stock, which has a specific time span of one year and the study has focused in an annual basis.

### c) Expected Returns on Common Stock

The study also aims to find out the expected returns on investment in common stock. Usually this rate is obtained by arithmetic mean (AM) of past year's return. Symbolically; R can be define as follows.

$$R = \sum R_n / N$$

#### Where

R = Expected Rate of Return

N = number of year that the return is taken

$\sum$  = Sign of summation

### d) Return of Common Stock Investment

Return is the common income received on an investment plus any change in market price, usually expressed as a percent of the beginning market price of the investment.

The return is total gain or loss experienced on an investment over a period of time. It is commonly measured as the change in value plus any cash distribution during the period expressed as a percentage of the beginning of period investment value. Symbolically return (Ro) can be expressed as follows.

$$R_j = \frac{(P_{t+1} - P_{t-1}) + D_t}{(P_{t-1})}$$

The required rate of return on an individual security is represented by a risk free rate of interest plus a risk premium. Capital market theory shows the risk premium to be equal to share of company by comparing it with the expected rate of return of the company. The expected rate of return is calculation as follows;

$$\text{Required Rate of Return} = R_f + (E(R_m) - R_f) \cdot B_j$$

Where,

$R_f$  = Risk free rate

$E(R_m)$  = Expected market return

$B_j$  = beta coefficient on stock 1

### e) Standard Deviation

This is a measure of the dispersion of forecast returns when such returns approximate a normal probability distribution. It is a statistical concept and is widely used to measure risk holding single assets. The standard deviation is derived so that a high risk. On the other hand a low deviation is a small dispersion and represents low risk; the standard deviation is the square deviation of the variance and measure the risk on stock investment. Standard deviation is an estimate of the likely divergence of an actual return from an expected return. It is statistically measures of the variable of a distribution of return around its mean. Mathematically it is denoted by ( $\sigma$ ). It is the square root of the variance and measured the unsystematic risk of stock investment. Symbolically can be expressed as follows;

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum (R_j - \bar{R}_j)^2}{n-1}}$$

### f) Variance of stock

The variance is a measure of the dispersion from the average value. It is the squared deviation from the mean deviation divided by the number of observation less one. One divided by (n-1) since the deviations are measure from the mean so one degree of freedom is lost.

$$\text{Variance } (\sigma^2) = \frac{\sum (R_j - \bar{R}_j)^2}{n-1}$$

### g) Coefficient of Variance

The coefficient of variance CV is a measure of relative dispersion (risk) that is useful in comparing the risk of assets with different expected returns. The higher the coefficient of variance, the greater the risk symbolically, CV can be expressed as follows;

$$\text{Coefficient of variance (CV)} = \sigma_m / R_m$$

**Where,**

CV = Coefficient of variance

$\sigma$  = Standard Deviation of returns on stock j

R = Expected rate of Return on stock j

**h) Covariance**

Covariance is a statistical measure of relationship between two random variables. It measures how two random variables such as return on securities j and market returns are related to each other. A positive value for covariance indicates that the securities returns tend to move in the same direction with other. A negative covariance indicates the tendency for the returns to offset one another. A relatively small or zero value for the covariance indicates that there is little or no relationship between the returns for the two securities.

It is calculated as follows

$$\text{Covariance } R_m R_j = \sum (R_j - R_j) * (R_m - R_m) / n - 1$$

## CHAPTER IV

### Data Presentation and Analysis

This chapter deals with analysis of data collected and their presentation. NEPSE has categorized its listed companies under eight different heading and samples were taken according to the sectors. Appropriate statistical and financial tools had been used to perform the analysis as described in the research methodology chapter.

#### 4.1 Analysis of yearly Volume, Value of traded stock & NEPSE Index:

Table -4.1

Yearly Volume and Value of Traded Stock and NEPSE Index

Year	No .of companies	No. of share transaction(000)	Market capitalization Rs.(million)	Total traded Share Units ('000)	Annual total turnover value in Rs (million)	Yearly NEPSE
2007-08	136	150800	366247.5	28599.77	22820.8	963.36
2008-09	170	209091	512939.07	30547.16	21681.14	749.10
2009-10	198	213733	376871.37	26231.35	11851.11	477.73
2010-11	222	302364	323484.34	26240.39	6665.33	362.85
2011-12	230	293489	368262.13	41885.4	10279.29	389.74

*Source: Annual Report NEPSE*

In the fiscal year 2010/11, annual turnover increased to be Rs. 6666.33 million as compared to turnover of Rs. 22,820.8 million in the fiscal year 2007/08 though units of traded share did not changes significantly as compared to value. In the fiscal year 2009/10, the market capitalization of the listed companies decreased to be Rs. 3,76,871.37 million as compared to market capitalization of Rs. 5,12,939.07 million in the fiscal year 2008/09. Since the fiscal year 2007/08, the price index of the listed securities in Nepal Stock Exchange Ltd. (NEPSE Index) decreased to 362.85 from 963.36 in FY 2007-08.

## 4.2 Sector wise paid up value in fiscal year 2007/08 to 2011/12

Table : 4.2

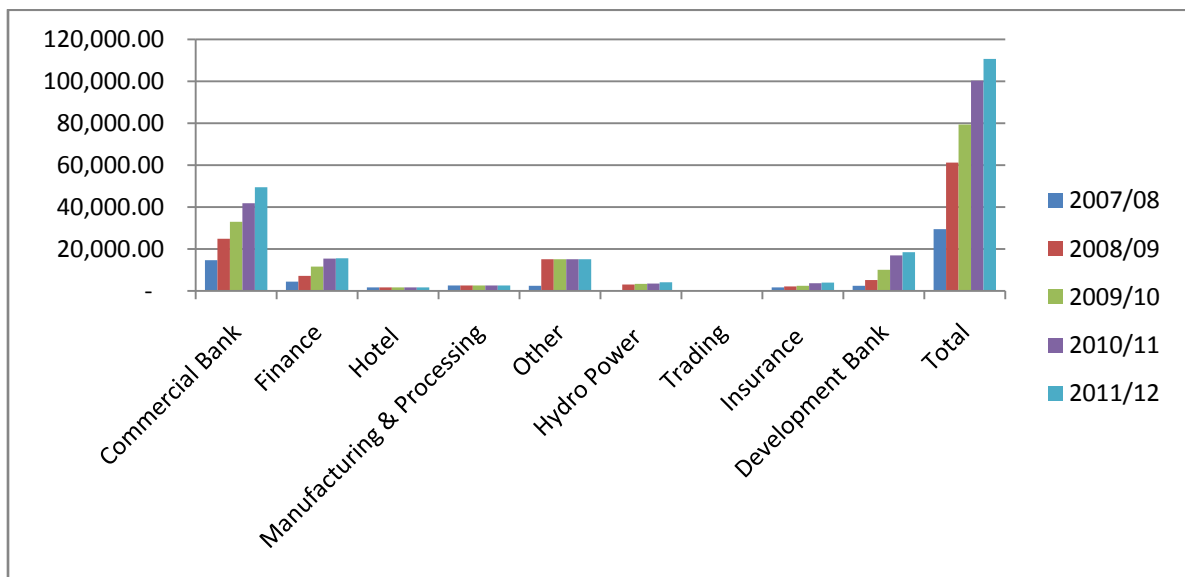
### Sector wise Paid of Value

S. No	Sector	2007-08	2008-09	2009-10	2010-11	2011-12
1	Commercial Bank	14,667.23	24,757.87	32,900.64	41,806.19	49,410.77
2	Finance	4,317.30	7,100.90	11,466.39	15,301.08	15,470.39
3	Hotel	1,552.90	1,561.57	1,580.71	1,615.15	1,645.00
4	Manufacturing & Processing	2,539.70	2,539.70	2,539.74	2,539.74	2,539.74
5	Other	2,317.80	15,049.13	15,049.13	15,049.13	15,049.13
6	Hydro Power		2,953.84	3,277.84	3,394.16	4,008.56
7	Trading	78.40	78.46	82.18	83.42	106.97
8	Insurance	1,669.70	1,997.75	2,432.94	3,585.29	3,960.80
9	Development Bank	2,322.70	5,101.17	10,027.14	16,864.69	18,419.59
	<b>Total</b>	<b>29,465.73</b>	<b>61,140.39</b>	<b>79,356.71</b>	<b>100,238.84</b>	<b>110,610.94</b>

Source: Annual Report of NEPSE

Figure: 4.1

### Sector wise Paid up Value



The above table shows the paid up value of in the Fiscal Year 2007/08 to 2011/12. The table and the graph clearly indicates that commercial bank paid of values has been increasing from 2007/08 (the latest data available) where as paid up value for development bank and insurance companies is also following the same growth but the rate of growth is very slow as compared to commercial bank. It can be observed that the paid up value for Hotel, Trading, manufacturing and processing and other sectors are not as impressive as that of commercial banks. This may be resulted due to directives of central bank to increase the paid up value.

### 4.3 Analysis of Sector wise Turnover:

Annual turnover constitutes an important indicator for measuring the economic activities of nation. It also reflects the stock market liquidity as the higher amount of trading of stock greater the stock market liquid.

#### 4.3.1 Sector wise Annual Turnover (in percentage):

Proportion of sector wise annual turnover to total turnover in yearly basis:

**Table: 4.3**

#### Sector wise annual turnover to total turnover on the basis of amount traded Yearly (%)

S.N.	Sector	2007/08	2008/09	2009/10	2010/11	2011/12
1	Commercial Bank	60.57%	57.22%	61.05%	51.49%	54.63%
2	Finance	10.11%	12.06%	10.72%	9.46%	2.72%
3	Hotel	0.12%	0.09%	0.09%	2.28%	1.80%
4	Manufacturing & Processing	1.50%	0.12%	0.32%	5.45%	7.89%
5	Other	0.00%	2.28%	1.85%	1.84%	1.99%
6	Hydro Power	14.02%	4.11%	6.38%	5.15%	12.10%
7	Trading	0.15%	0.15%	0.30%	0.41%	0.22%
8	Insurance	1.16%	0.98%	1.56%	5.66%	3.25%
9	Development Bank	8.68%	12.64%	11.23%	12.20%	6.30%
10	Mutual Fund	0.03%	0.10%	0.04%	0.22%	0.02%
11	Other Company's*	3.66%	10%	6%	6%	9%
	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Source: Annual report of NEPSE*

*\*Amount of preference share and mutual fund*

Above table 4.3 1 shows that the commercial banks hold the major share of turnover with highest % (60.57%) on F/Y 2007/08 after that it is decreased respectively in other year. Table no. 4.3.1 shows that manufacturing and processing has made tremendous improvement and reached to 7.89% on FY 2012-13. And the other hand development bank and the finance companies were rapidly increased where as the hotel, trading and other sectors result was not seen satisfactory so far.

#### 4.3.2 No. of Listed Companies & Transacted security:

**Table: 4.4**

**No of listed companies & transacted Security**

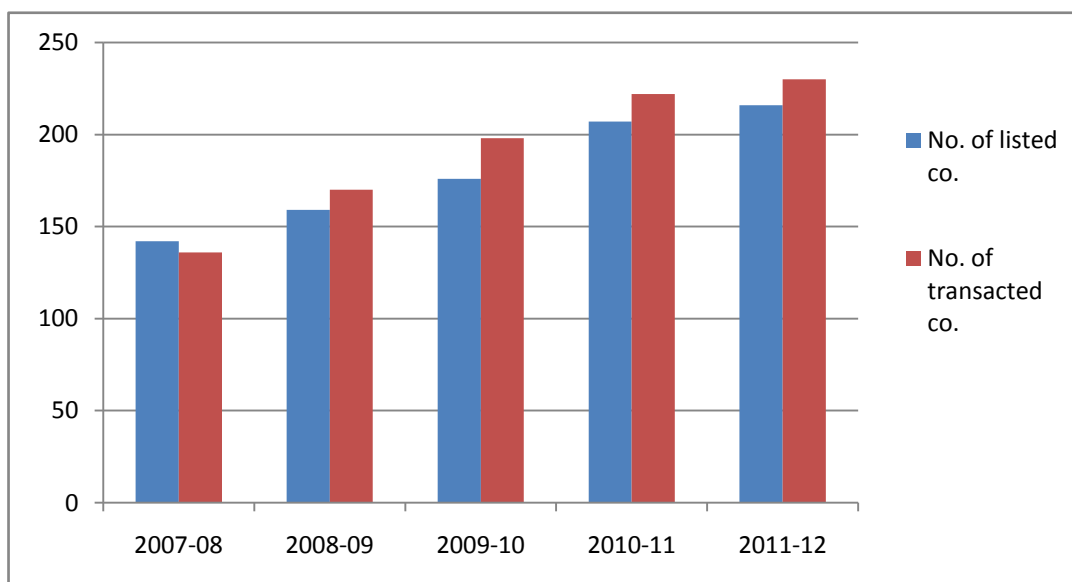
Year	No. of listed co.	No. of security*
2007-08	142	136
2008-09	159	170
2009-10	176	198
2010-11	207	222
2011-12	216	230

*Source: Annual Report of NEPSE*

\*No of security transacted includes the share of listed company, government bonds, Debentures and mutual funds

**Figure: 4.2**

**No of listed companies and Transaction companies**



The number of listed companies always exceeded the no. of transacted companies except in FY 2007-08 in which the no. of transacted co, is higher than the listed companies.

### 4.3.3 Monthly Turnover for the year 2009-10 to 2011-12:

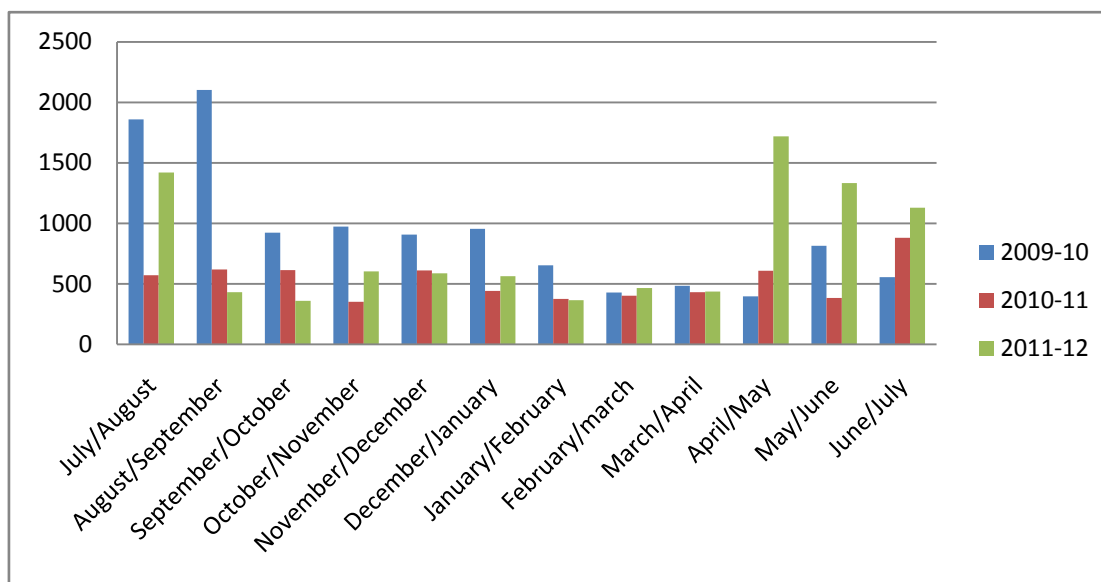
Monthly turnover in fiscal years 2009-10 to 2011-12 is presented in table 11. On general trend the turnover increase at the beginning and end of the year whereas during the period it fluctuated.

**Table: 4.5**  
**Monthly turn over for the year 2009-10 to 2011-12**

Months	2009-10	2010-11	2011-12
July/August	1858.81	572.504	1421.67
August/September	2101.86	618.673	432.378
September/October	922.51	612.507	360.379
October/November	973.49	352.525	603.195
November/December	906.56	610.914	586.922
December/January	954.08	443.08	563.975
January/February	652.25	376.422	365.294
February/march	428.75	401.399	464.745
March/April	484.93	431.47	437.537
April/May	397.9	609.184	1720.24
May/June	815.8	384.384	1332.83
June/July	555.46	880.209	1130.83

*Source: NEPSE Annual Report*

**Figure: 4.3**  
**Monthly Turnover for the year 2009-10 to 2011-12**



The above graph shows monthly turnover has the maximum improvement in the month of July-August where as the lowest in the month of April-May.

#### **4.4 Paid-up Value and Market Capitalization of Listed Stock in NEPSE:**

Total paid up value is the function of the number of listed share and companies and paid up value per listed share. Thus, the total paid up value is derived from by multiplying no. of listed shares of these traded companies by the paid up value of all of them. Similarly the multiplying the no. of listed share of all these companies by closing market price of corresponding shares and summing up them derive the market capitalization. Thus, the market capitalization is directly or proportionately related to the closing price of the stocks. Paid up value indicates the actual amount of the investment in assets where as market capitalization is the present value of the investment. It means the value of market capitalization is differing from the paid up capital because the value of market capitalization is related with the market price of the share. The value of the market capitalization changes due to the changing sentiment of the capital market. If the market condition is favorable, the market value of the assets increases substantially so that the value of the company is increased and vice versa. The increase markets value for the suggested the good performance of the concerned companies. So the investors are highly interested to such companies.

Paid up value and market capitalization both serves as a means to evaluate the important of the stock market. In Nepal paid up value has increased since 1996/97 after the trading floor began and almost reached to 4 times than that of 2007-08. In respect of market capitalization there was increment trend and reached to highest at Rs 512,939.1 Million in 2008/09 which decreased for two consecutively fiscal year before again started for increment.

#### 4.4.1 Paid-up Value and Market Capitalization

**Table: 4.6**  
**Paid of value and market capitalization**

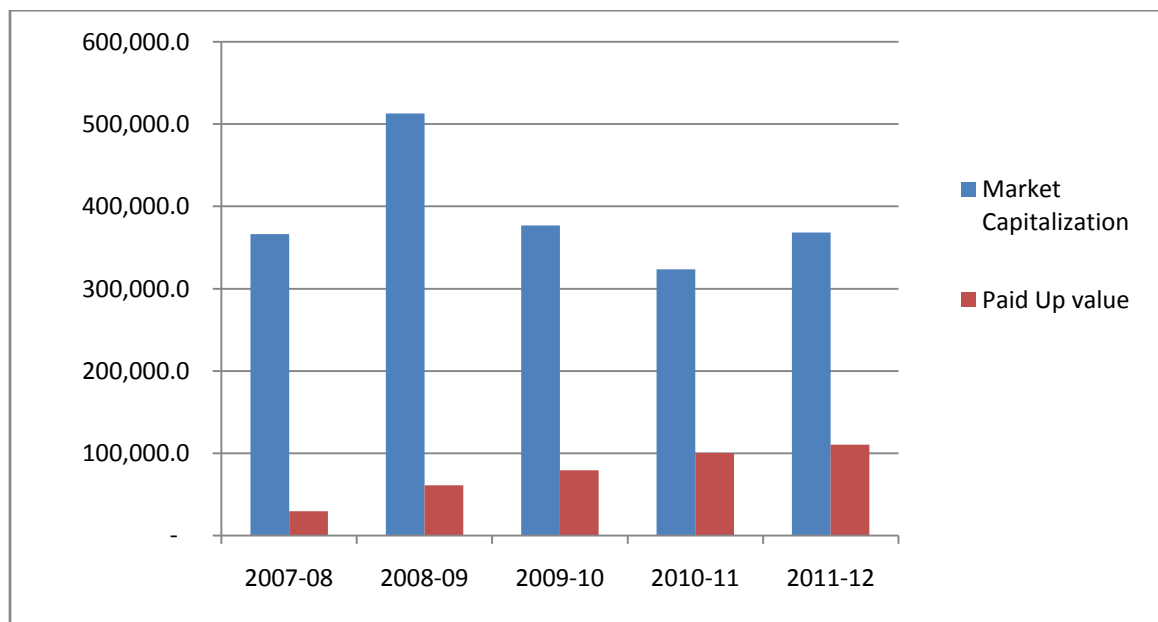
*(NRs. in Millions)*

<i>Fiscal Year</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
Market Capitalization	366,247.5	512,939.1	376,871.4	323,484.3	368,262.1
Paid Up value	29,465.0	61,140.0	79,356.0	100,238.0	110,610.0

*Source: NEPSE Annual Report*

**Figure: 4.4**

**The paid of value and market capitalization in last 5 years**



The above finding shows that market capitalization is much higher than the paid up value throughout the period though the paid up value has gradual growth in contrast to market capitalization.

#### 4.4.2 Current Development of Stock Market in Nepal:

Table: 4.7

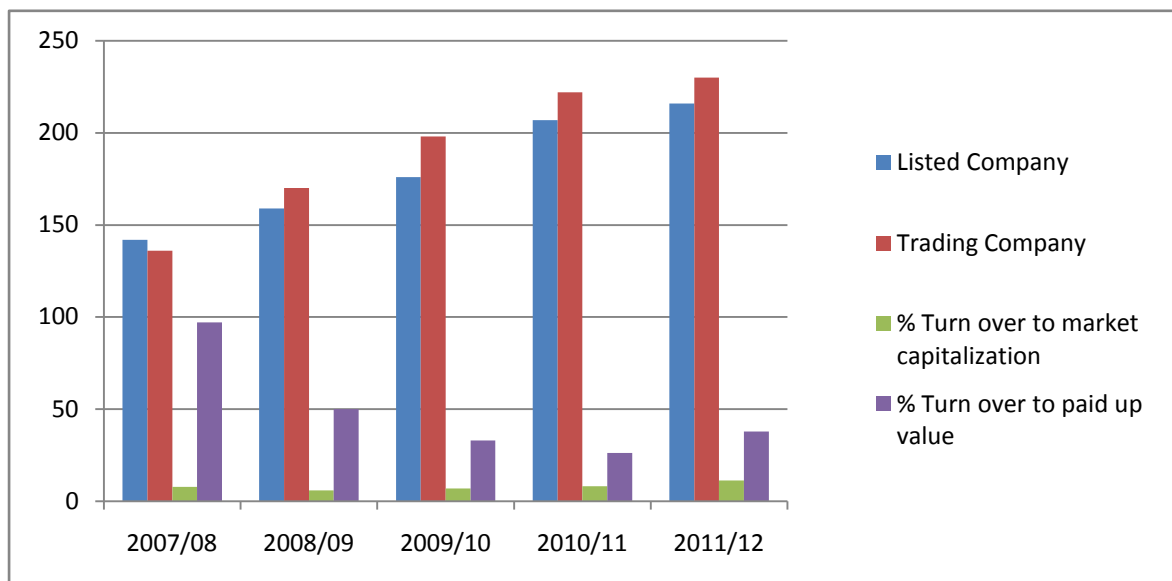
##### Development of stock market in Nepal

Year	Listed Company	Trading Company	% Turn over to market capitalization	% Turn over to paid up value
2007/08	142	136	7.81%	97.06%
2008/09	159	170	5.96%	49.96%
2009/10	176	198	6.96%	33.06%
2010/11	207	222	8.11%	26.18%
2011/12	216	230	11.37%	37.87%

Source: NEPSE Annual Report

Figure: 4.5

##### Development of Stock Market in Nepal



The above graph shows that from the fiscal year 2007-08 the ratio of turn over to paid up value has decreased constantly whereas the pattern of Turn over to market capitalization fluctuates greatly.

## 4.5 Market Capitalization:

By the end of fiscal year 2008-09 the market capitalization of the listed securities reached to Rs. 512939.07 million. The capitalization was Rs. 366247.5 million in the fiscal year 2007-08. In the fiscal year 2009/10, the market capitalization of the listed companies decreased by 26.5percent to be Rs. 3,76,871.37 million as compared to market capitalization of Rs. 5,12,939.07 million in the fiscal year 2008/09. In the fiscal year 2011/12, the preliminary estimate of the contribution of market capitalization to the GDP is 23.63 percent.

**Table: 4.8**  
**Sector wise Market Capitalization from 2007-08 to 2011-12**

*(Rs. in Millions)*

S. No.	Sector	2007-08	2008-09	2009-10	2010-11	2011-12
1	Commercial Bank	259,955.3	302,223.7	206,282.5	165,775.7	192,836.2
2	Development Bank	17,997.8	27,134.5	27,488.9	25,738.9	23,442.7
3	Finance Companies	37,674.4	42,984.3	29,869.6	27,477.0	24,860.4
4	Insurance Companies	11,241.4	10,515.3	9,756.6	9,034.7	12,593.6
5	Hotels	4,809.6	4,872.9	5,285.6	5,448.4	6,457.9
6	Manufacturing & processing companies	7,516.9	5,385.9	7,592.0	10,495.1	11,830.2
7	Trading company	1,170.2	1,692.7	1,617.5	1,387.5	1,116.9
8	Other	25,881.9	115,770.4	88,978.7	78,127.2	95,124.3
	<b>Total</b>	<b>366,247.5</b>	<b>512,939.1</b>	<b>376,871.4</b>	<b>323,484.3</b>	<b>368,262.1</b>

Market capitalization identifies the fluctuation in number of companies listed and also results the changes in market of capitalization. Although it indicates the relationship between price and the no. of shares listed, if the price increased and the shares are splits then also market capitalization increased.

#### 4.6 Sector wise number of Share Traded from 2007-08 to 2011-12:

**Table: 4.9**  
Sector wise number of Share Traded

*in (000)*

S. No.	Sector	2007-08	2008-09	2009-10	2010-11	2011-12
1	Commercial Bank	11241.4	13301.4	9680.62	8534.28	15415.7
2	Development Bank	2534.88	3631.81	3535.07	5158.66	5419.46
3	Finance Companies	3094.26	3552.01	3265.92	3591.18	2196.89
4	Insurance Companies	433.26	418.43	629.9	1590.58	1521.54
5	Hotels	158.07	95.89	50.28	1584.59	1387.77
6	Mfg. & processing companies	1655.08	95.12	360.68	1128.51	1132.46
7	Trading company	14.97	14.65	12.01	37.77	9.82
8	Other	7258.91	4242.94	5199.83	4329.64	14345.8

#### 4.7 Sector wise turnover of share traded from 2007-08 to 2011-12:

**Table: 4.10**  
Sector wise amount of share traded in last five years.

*(Rs. in Millions)*

S. No.	Sector	2007/08	2008/09	2009/10	2010/11	2011/12
1	Commercial Bank	13822.14	12406.45	7196.24	3,431.82	5615.37
2	Finance	2307.53	2615.40	1263.94	630.69	279.85
3	Hotel	27.67	18.69	10.15	151.93	185.43
4	Manufacturing & Processing	343.44	26.08	37.74	363.06	811.25
5	Other	0.29	494.39	217.83	122.67	204.81
6	Hydro Power	3199.94	890.30	752.45	343.00	1243.38
7	Trading	33.65	33.49	35.43	27.53	22.91
8	Insurance	264.86	212.80	183.47	377.15	334.28
9	Development Bank	1981.05	2740.36	1323.53	813.24	647.40
10	Mutual Fund	6.09	22.40	5.21	14.68	1.81
11	Other Company	834.10	2220.78	761.39	389.56	932.80
	<b>Total</b>	<b>22820.76</b>	<b>21681.14</b>	<b>11787.38</b>	<b>6665.33</b>	<b>10279.29</b>

*Source Annual Report of NEPSE*

## 4.8 Top Ten Companies from 2007/08 to 2011/12:

### 4.8.1.1 Top 10 companies on the basis of traded amount in the year 2007/08:

In the fiscal year 2007-08 National Hydro Power Company limited was in the first position similarly Nabil Bank and bank of Kathmandu were in the second and third position respectively.

**Table: 4.11**

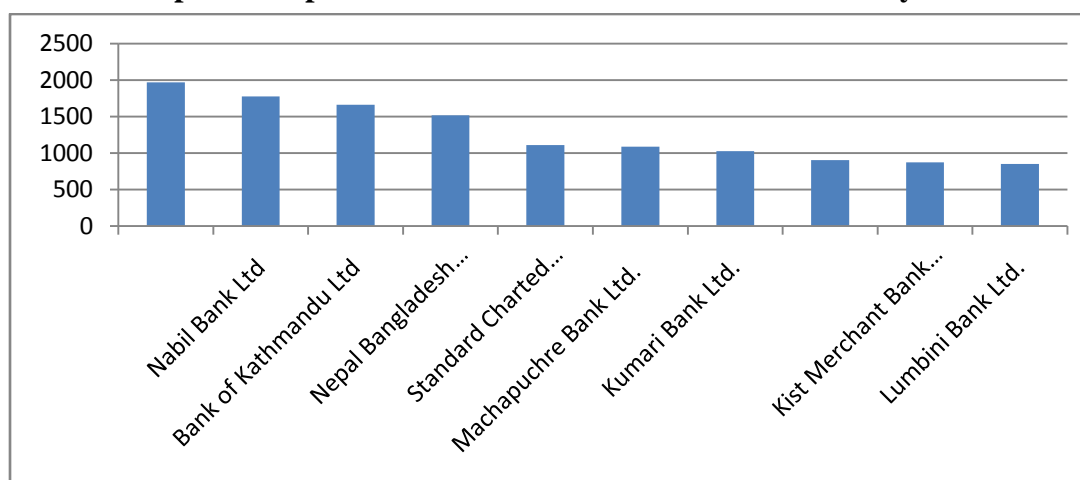
**Top 10 companies on the basis of traded amount in the year 2007/08**

S. No.	Name of Companies	Traded amount (Rs. in Millions)
1	National Hydro Power Company Ltd.	1969.85
2	Nabil Bank Ltd	1777.02
3	Bank of Kathmandu Ltd	1663.84
4	Nepal Bangladesh Bank Ltd.	1519.69
5	Standard Chartered Bank Ltd.	1110.8
6	Machapuchre Bank Ltd.	1089.68
7	Kumari Bank Ltd.	1024.18
8	Chilime hydropower company ltd.	905.43
9	Kist Merchant Bank and Finance Ltd.	871.03
10	Lumbini Bank Ltd.	851.33

*Source: NEPSE Annual Report*

**Figure: 4.6**

**Top 10 Companies on the basis of traded amount in the year 2007-08**



#### 4.8.1.2 Top Ten Companies on the basis of Share Traded FY 2007-08:

In the fiscal year 2007-08 National Hydropower Co. Ltd took the first position where as Gorkha Development Bank was in last position to trade the share.

**Table: 4.12**

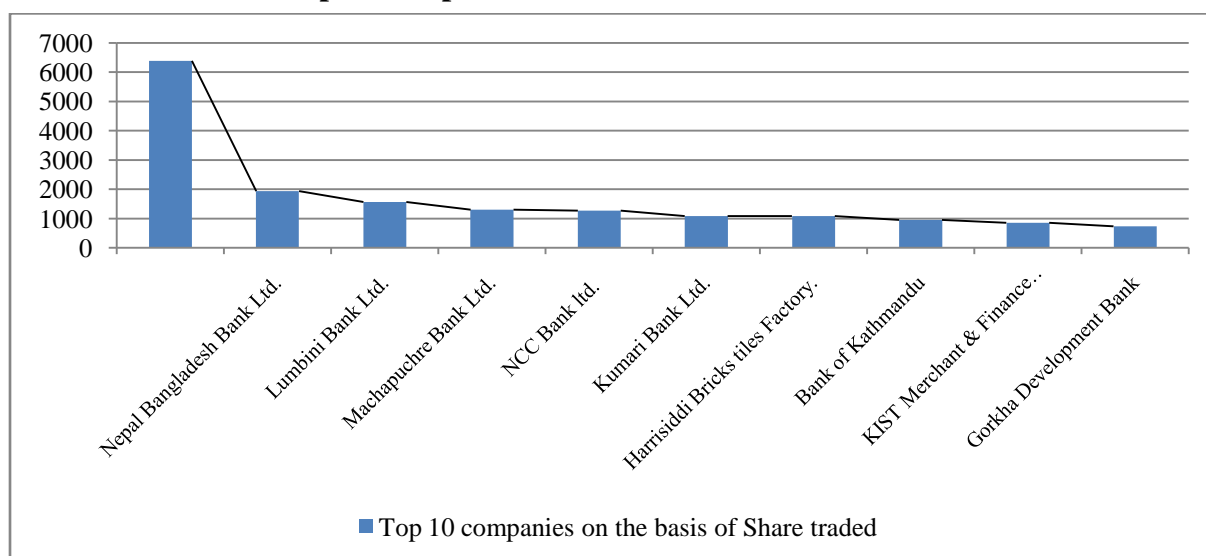
#### Top 10 companies on the basis of Share traded FY 2007-08

S. No.	Name of Companies	No of Share Traded ('000)
1	National Hydro Power Company Ltd.	6384
2	Nepal Bangladesh Bank Ltd.	1936
3	Lumbini Bank Ltd.	1567
4	Machapuchre Bank Ltd.	1304
5	NCC Bank ltd.	1269
6	Kumari Bank Ltd.	1087
7	Hari siddi Bricks tiles Factory.	1082
8	Bank of Kathmandu	956
9	KIST Merchant & Finance Co. Ltd.	855
10	Gorkha Development Bank	733

Source: NEPSE Annual Report 2007/08

**Figure: 4.7**

#### Top 10 companies on the basis of Share Traded



#### 4.8.1.3 Top 10 Companies on the basis of Market Capitalization for FY 2007-08:

In the fiscal year 2007-08 in the basis of market capitalization Standard chartered bank ltd, Nabil bank ltd and Nepal Investment bank ltd are in first , second and third position respectively. The details are shown as below:

**Table: 4.13**

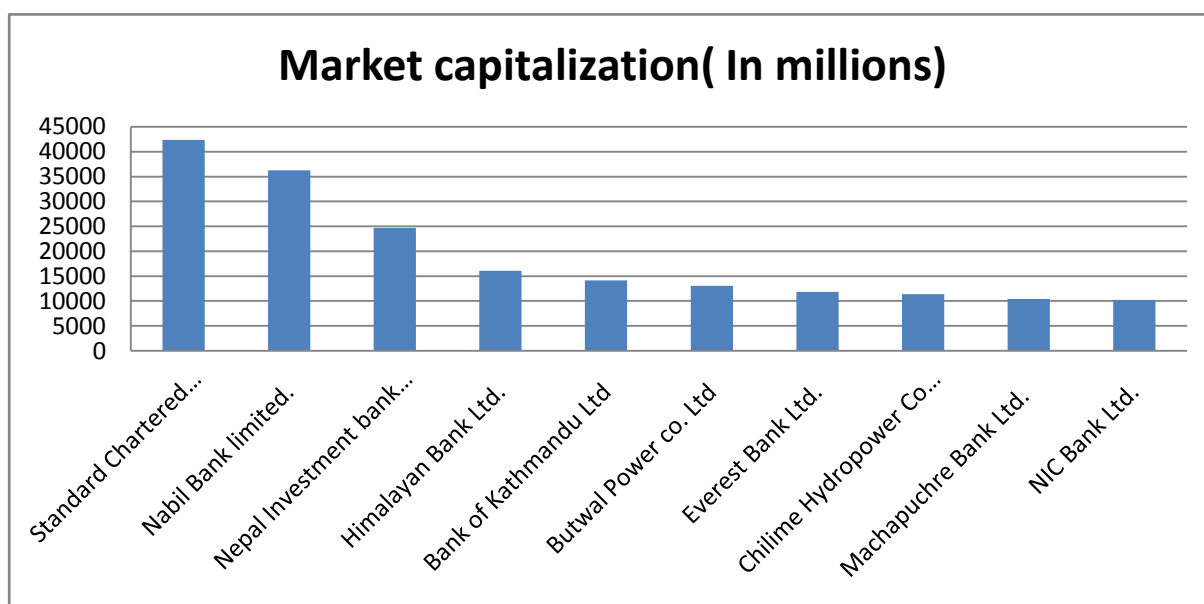
**Top 10 Companies on the basis of Market Capitalization FY 2007-08**

S. No.	Name of Companies	Market Capitalization( Rs. in Millions)
1	Standard Chartered Bank Ltd.	42337.95
2	Nabil Bank limited.	36259.98
3	Nepal Investment bank Ltd	24654.54
4	Himalayan Bank Ltd.	16054.04
5	Bank of Kathmandu Ltd	14173.82
6	Butwal Power co. Ltd	13080.91
7	Everest Bank Ltd.	11838.96
8	Chilime Hydropower Co Ltd.	11396.35
9	Machapuchre Bank Ltd.	10393.89
10	NIC Bank Ltd.	10169.28

*Source: NEPSE Annual Report*

**Figure: 4.8**

**Top 10 companies on the basis of Market Capitalization**



#### 4.8.2.1 Top 10 Companies on the basis of Traded Amount in 2008-09:

In the fiscal year 2008-09 Nepal Bangladesh Bank limited was in the first position similarly Bank of Kathmandu and KIST Bank Ltd. were in the second and third position respectively.

**Table: 4.14**

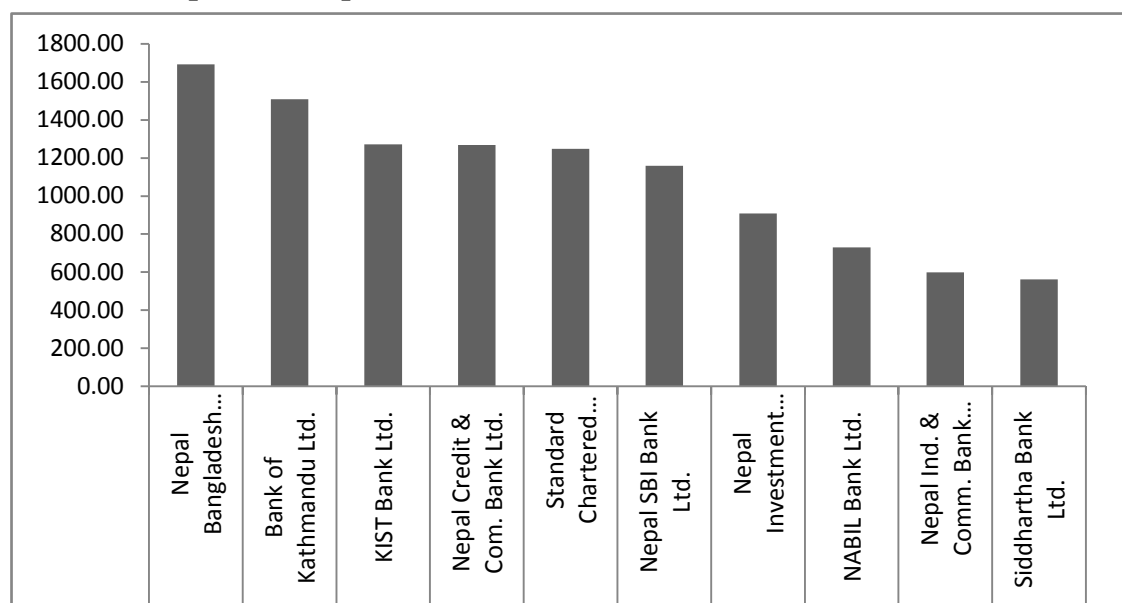
##### Top Ten Companies On The basis of traded amount in 2008-09

S. No.	Name of Companies	Shared Traded(Rs in Millions)
1	Nepal Bangladesh Bank Ltd.	1693.13
2	Bank of Kathmandu Ltd.	1509.25
3	KIST Bank Ltd.	1271.5
4	NCC Bank Ltd.	1268.7
5	Standard Chartered Bank Ltd.	1248.54
6.	Nepal SBI Bank Ltd.	1158.71
7.	Nepal Investment Bank ltd.	908.59
8	Nabil Bank Ltd.	730.65
9	NIC Bank Ltd.	598.86
10	Siddhartha Bank ltd.	561.69

*Source: NEPSE Annual Report 2008/09*

**Figure: 4.9**

##### Top Ten Companies on the basis of traded amount in 2008-09



#### 4.8.2.2 Top 10 companies on the Basis of Share Traded in 2008-09:

In the fiscal year 2008-09 Was first to trade maximum no of share where as National Hydropower Co Ltd. and Nepal Bangladesh Bank were in second and third.

**Table: 4.15**

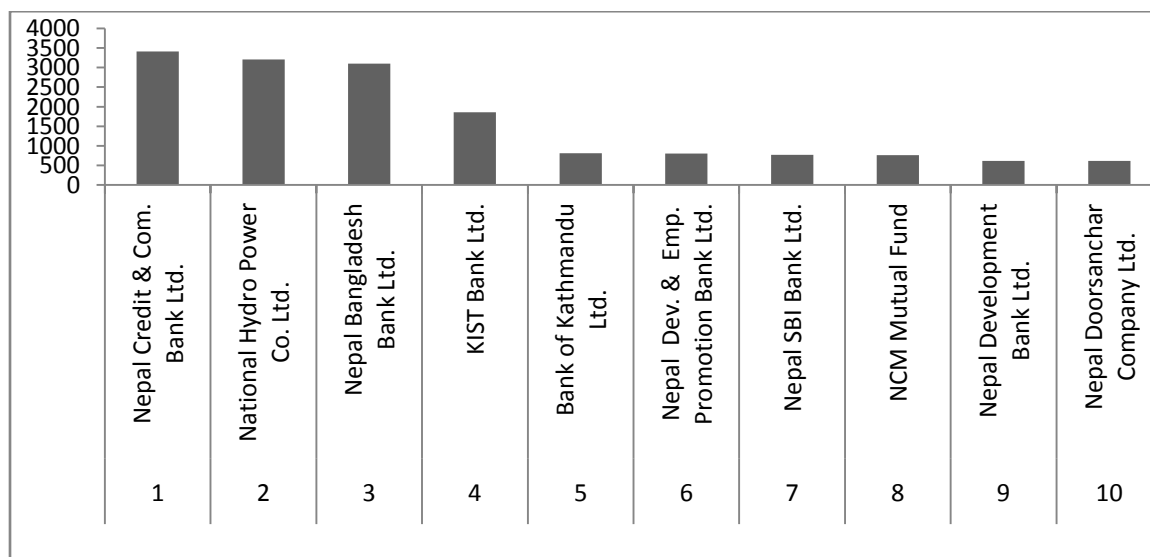
**Top 10 companies on the Basis of Share Traded in 2008-09**

S. No.	Name of Companies	No of Share Traded ('000)
1	Nepal Credit & Com. Bank Ltd	3411
2	National Hydro Power Co. Ltd.	3207
3	Nepal Bangladesh Bank Ltd.	3100
4	KIST Bank Ltd.	1858
5	Bank of Kathmandu Ltd.	808
6	Nepal Dev. & Emp. Promotion Bank Ltd.	799
7	Nepal SBI Bank Ltd.	768
8	NCM Mutual Fund	758
9	Nepal Development Bank Ltd.	613
10	Nepal Doorsanchar Company Ltd.	611

*Source: NEPSE Annual Report*

**Figure: 4.10**

**Top Ten Companies on the basis of traded amount in 2008-09**



### 4.8.2.3 Top Ten on the Basis of Market Capitalization in 2008-09:

In the fiscal year 2008-09 in the basis of market capitalization Nepal Doorsanchar Co. Ltd, Standard Chartered Bank and Nabil Bank Ltd are in first, second and third position respectively. The details are shown as below.

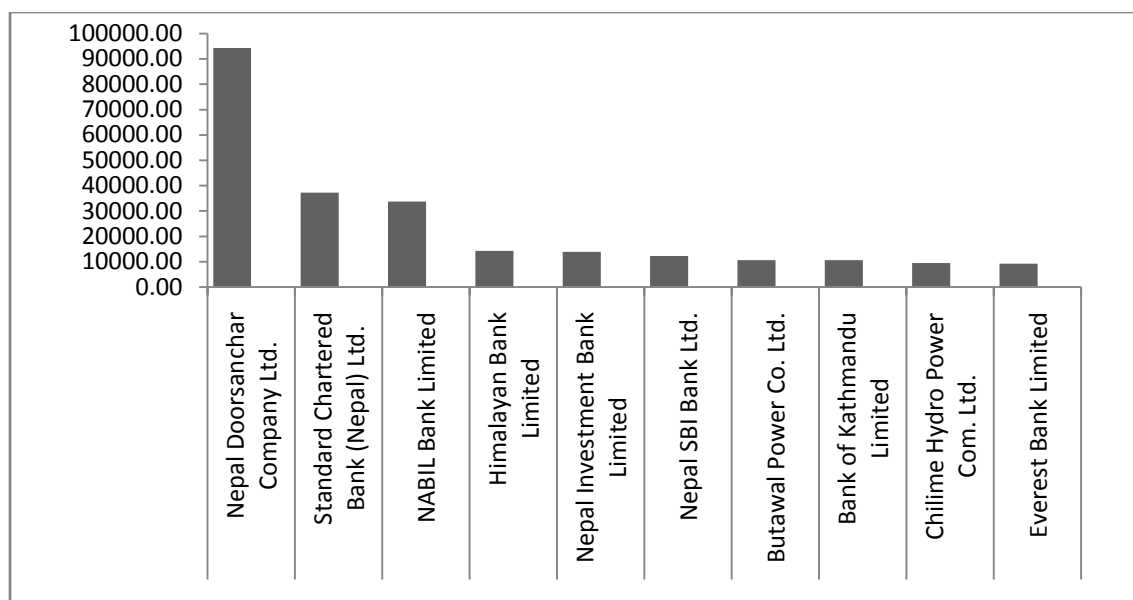
**Table: 4.16**  
**Top 10 Companies on the basis of market capitalization in 2008-09**

S. No.	Name of Companies	Market capitalization( Rs. in millions)
1.	Nepal Door Sanchar Company Ltd.	94350
2.	Standard Chartered Bank ltd.	37254.92
3.	Nabil Bank Ltd	33675.38
4.	Himalayan bank Ltd	14270.26
5.	Nepal investment Bank ltd.	13916.56
6.	Nepal SBI Bank limited	12308.26
7.	Butwal Power Company Limited	10554.97
8.	Bank of Kathmandu Limited	10554.97
9.	Chilime Hydropower Company Ltd.	9455.62
10.	Everest Bank limited	9279.90

*Source: NEPSE Annual Report*

**Figure: 4.11**

**Top 10 Companies on the basis of Market Capitalization in 2008-09**



#### 4.8.3.1 Top 10 Companies on the basis of Traded Amount in 2009-10:

In the fiscal year 2009-10 on the basis of share traded amount Standard Chartered Bank Limited, Bank of Kathmandu and Nabil Bank Limited are in 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> respectively. The details of top ten companies on the basis of traded amount are shown below.

**Table: 4.17**

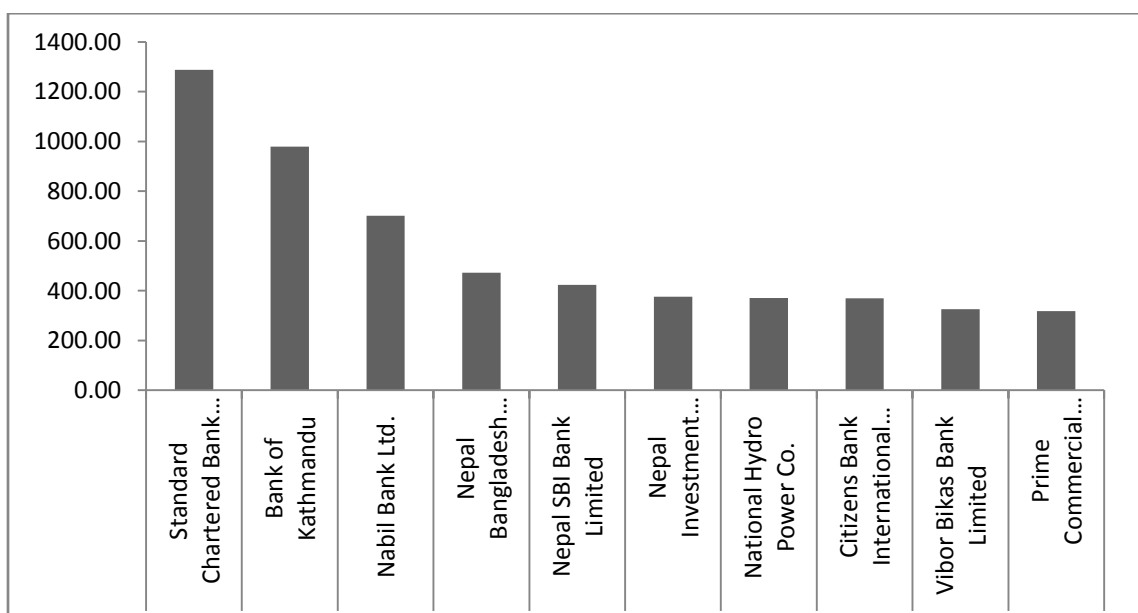
#### Ten companies On The basis of Share traded amount in 2009-10

S. No.	Name of Companies	Traded Amount(Rs in Millions)
1	Standard Chartered Bank Ltd.	1288.63
2	Bank of Kathmandu	978.81
3	Nabil Bank Ltd.	700.80
4	Nepal Bangladesh Bank Ltd.	471.86
5	Nepal SBI Bank Limited	422.93
6	Nepal Investment Bank Ltd.	375.15
7	National Hydro Power Co.	370.44
8	Citizens Bank International Limited	369.28
9	Vibor Bikas Bank Limited	325.29
10	Prime Commercial Bank Limited	318.23

*Source: NEPSE Annual Report 2009/10*

**Figure: 4.12**

#### Ten companies on the basis of Share traded amount in 2009-10



#### 4.8.3.2 Top 10 companies on the basis of Share Traded FY 2009-10:

In the fiscal year 2009-10 National Hydropower Co. Ltd took the first position where as Standard Finance Ltd was in last position to trade the share.

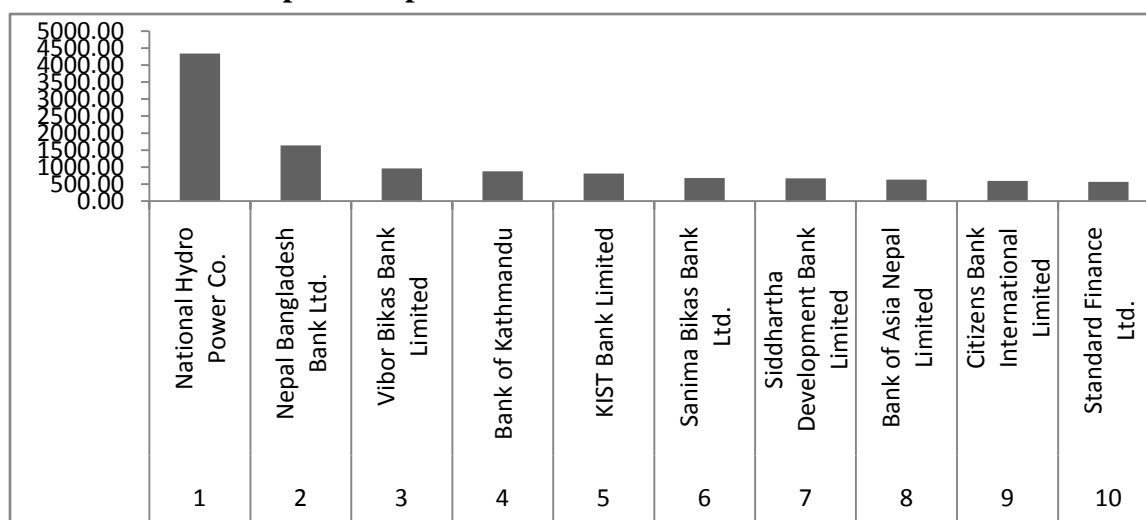
**Table: 4.18**  
**Top 10 companies on the basis of Share Traded**

S. No.	Name of Companies	No of traded share( <i>Qty in thousands</i> )
1	National Hydro Power Co.	4339.13
2	Nepal Bangladesh Bank Ltd.	1641.04
3	Vibor Bikas Bank Limited	959.61
4	Bank of Kathmandu	877.46
5	KIST Bank Limited	813.73
6	Sanima Bikas Bank Ltd.	674.97
7	Siddhartha Development Bank Limited	665.56
8	Bank of Asia Nepal Limited	629.43
9	Citizens Bank International Limited	589.03
10	Standard Finance Ltd.	560.35

*Source: NEPSE Annual Report 2009/10*

**Figure: 4.13**

**Top 10 companies on the basis of Share traded**



### 4.8.3.3 Companies on the basis of Market Capitalization for FY 2009-10:

In the fiscal year 2009-10 in the basis of market capitalization Nepal Doorsanchar Company Limited, Standard chartered bank & Nabil bank are in 1<sup>st</sup>, 2<sup>nd</sup> & 3<sup>rd</sup> position respectively.

The details are shown as below.

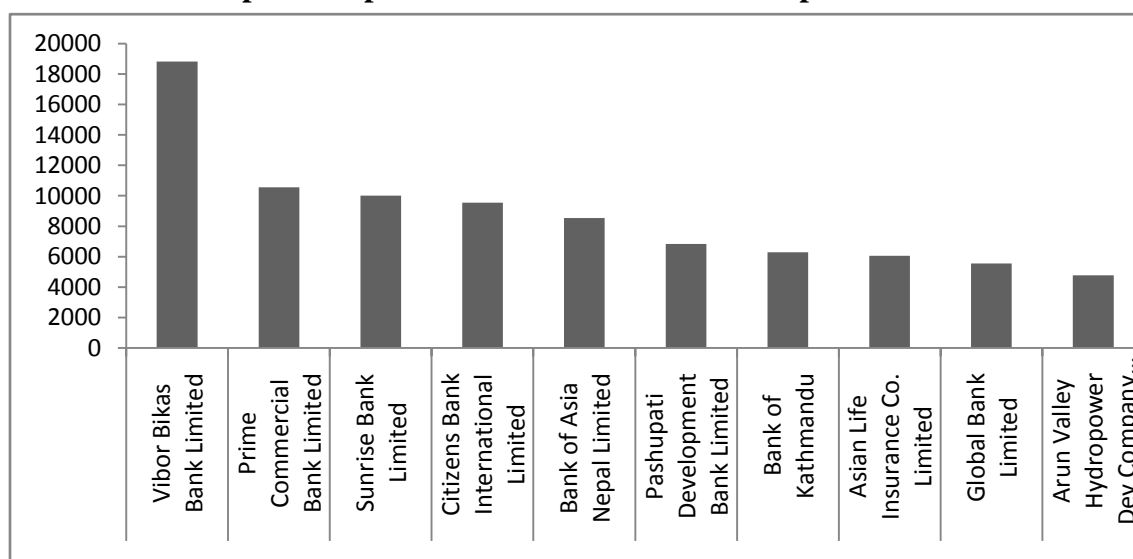
**Table: 4.19**  
**Top 10 companies on the basis of market capitalization**

S. No.	Name of Companies	Market Capitalization(Rs in Millions)
1	Nepal Doorsanchar Company Ltd	69000.00
2	Standard Chartered Bank Ltd.	30559.18
3	Nabil Bank Ltd.	23023.41
4	Nepal Investment Bank Ltd.	16969.84
5	Everest Bank Ltd	10412.77
6	Himalayan Bank Ltd.	9924.31
7	Butwal Power Co. Ltd.	9145.73
8	Chilime Hydro power Co.	8032.90
9	Nepal Industrial And Co.Bank	7139.40
10	Bank of Kathmandu	7092.94

*Source: NEPSE Annual Report*

**Figure: 4.14**

**Top 10 companies on the basis of market capitalization**



#### 4.8.4.1 Top Ten Companies On The basis of Share Traded Amount in 2010-11:

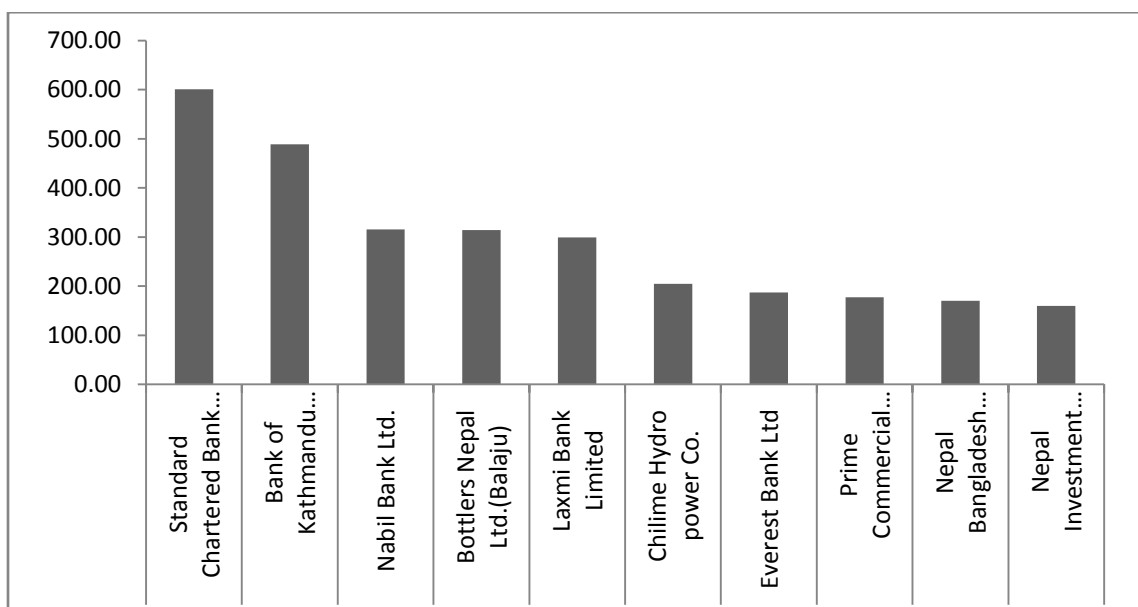
In the fiscal year 2008-09 Nepal Bangladesh Bank limited was in the first position similarly Bank of Kathmandu and KIST Bank Ltd. were in the second and third position respectively.

**Table: 4.20**  
**Ten companies On The basis of Share Traded amount in 2010-11**

S. No.	Name of Companies	Shared Traded(Rs in Millions)
1	Standard Chartered Bank Ltd.	601.01
2	Bank of Kathmandu Limited	488.83
3	Nabil Bank Ltd.	315.46
4	Bottlers Nepal Ltd.(Balaju)	314.04
5	Laxmi Bank Limited	299.04
6.	Chilime Hydro power Co.	204.72
7.	Everest Bank Ltd	186.83
8	Prime Commercial Bank Limited	177.37
9	Nepal Bangladesh Bank Ltd.	169.80
10	Nepal Investment Bank Ltd.	159.94

*Source: NEPSE Annual Report 2010/11*

**Figure: 4.15**  
**Ten companies On The basis of Share Traded Amount in 2010-11**



#### 4.8.4.2 Top 10 companies on the basis of Share Traded in 2010-11:

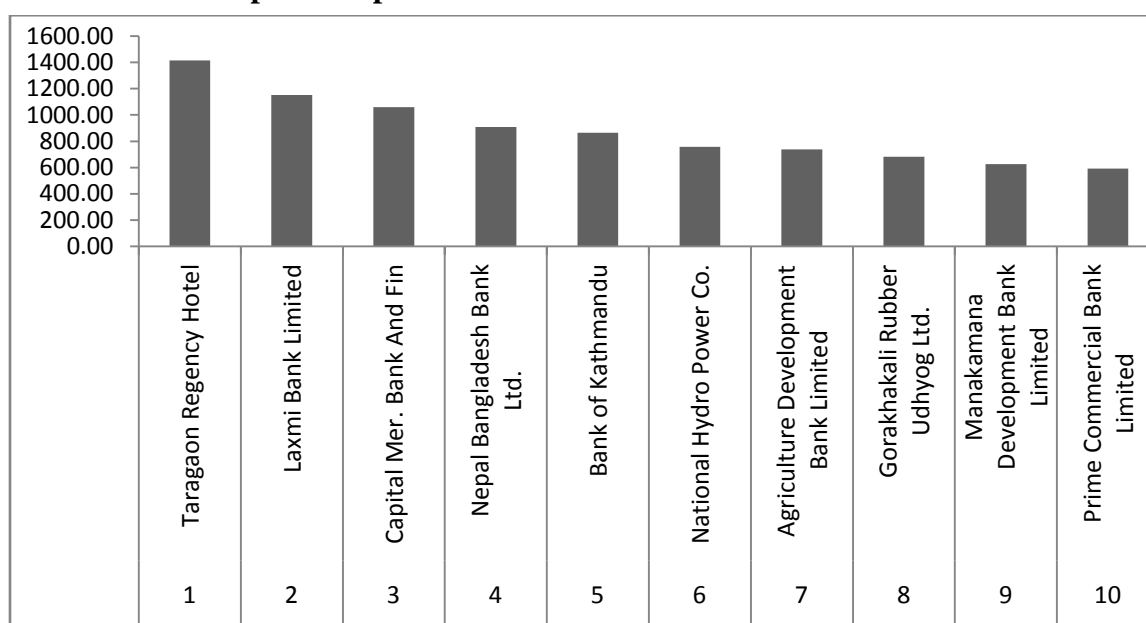
In the fiscal year 2010-11 National Hydropower Co. Ltd took the first position where as Gurkha Development Bank Ltd was in last position to trade the share.

**Table: 4.21**  
**Top 10 companies on the basis of Share Traded in 2010-11**

S. No.	Name of Companies	No. of Share Traded ( <i>Qty in 000</i> )
1	Taragaon Regency Hotel	1,414.38
2	Laxmi Bank Limited	1,152.26
3	Capital Mer. Bank And Fin	1,058.48
4	Nepal Bangladesh Bank Ltd.	908.26
5	Bank of Kathmandu	865.61
6	National Hydro Power Co.	756.39
7	Agriculture Development Bank Limited	738.57
8	Gorakhakali Rubber Udhog Ltd.	681.00
9	Manakamana Development Bank Limited	626.21
10	Prime Commercial Bank Limited	591.11

*Source: NEPSE Annual Report 2010/11*

**Figure: 4.16**  
**Top 10 companies on the basis of Share traded in 2010-11**



#### 4.8.4.3 Top 10 Companies on the basis of Market Capitalization in 2010-11:

In the fiscal year 2010-11 in the basis of market capitalization Nepal Doorsanchar Co. Ltd, Standard Chartered Bank and Nabil Bank Ltd are in first, second and third position respectively. The details are shown as below.

**Table: 4.22**

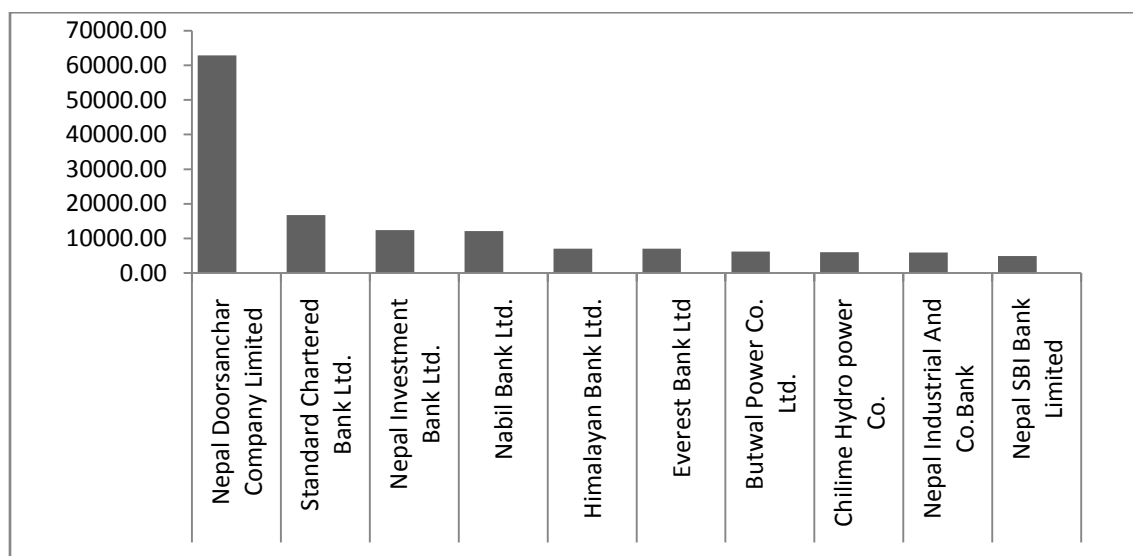
**Top 10 companies on the basis of market capitalization in 2010-11**

S. No.	Name of Companies	Market capitalization( Rs. in millions)
1	Nepal Doorsanchar Company Limited	62850
2	Standard Chartered Bank Ltd.	16775.4
3	Nepal Investment Bank Ltd.	12396.4
4	Nabil Bank Ltd.	12091.15
5	Himalayan Bank Ltd.	6993.24
6	Everest Bank Ltd	6988.69
7	Butwal Power Co. Ltd.	6200.64
8	Chilime Hydro power Co.	5997.31
9	Nepal Industrial And Co.Bank	5930.5
10	Nepal SBI Bank Limited	4935.16

*Source: NEPSE Annual Report 2010/11*

**Figure: 4.17**

**Top 10 companies on the basis of market capitalization in 2010-11**



#### 4.8.5.1 On the basis of Share Traded Amount in 2011-12.

In the fiscal year 2011-12 on the basis of share traded amount Bank of Kathmandu, Everest Bank Ltd and Chilime Hydropower Co. are in 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> respectively. The details of top ten companies on the basis of traded amount are shown below.

**Table: 4.23**

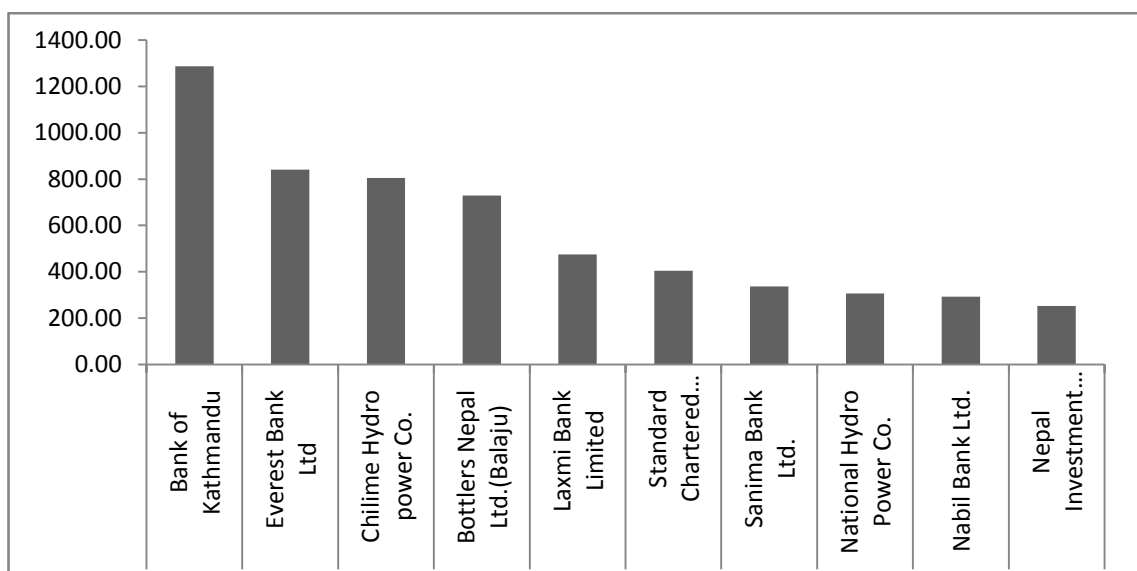
#### **Top 10 companies on the basis of traded amount in the year 2011/12**

S. No.	Name of Companies	Traded Amount(Rs in Millions)
1	Bank of Kathmandu	1286.3
2	Everest Bank Ltd	840.43
3	Chilime Hydro power Co.	805.22
4	Bottlers Nepal Ltd.(Balaju)	728.71
5	Laxmi Bank Limited	474.5
6	Standard Chartered Bank Ltd.	404.19
7	Sanima Bank Ltd.	336.86
8	National Hydro Power Co.	307.05
9	Nabil Bank Ltd.	293.15
10	Nepal Investment Bank Ltd.	252.26

*Source: NEPSE Annual Report 2011/12*

**Figure: 4.18**

#### **Top 10 companies on the basis of traded amount in the year**



#### 4.8.5.2 On the basis of Share Traded for FY 2011-12:

On the basis of share traded National Hydro Power Company, Bank of Kathmandu and Sanima Bikas Bank Limited are 1<sup>st</sup>, 2<sup>nd</sup> & 3<sup>rd</sup> position respectively.

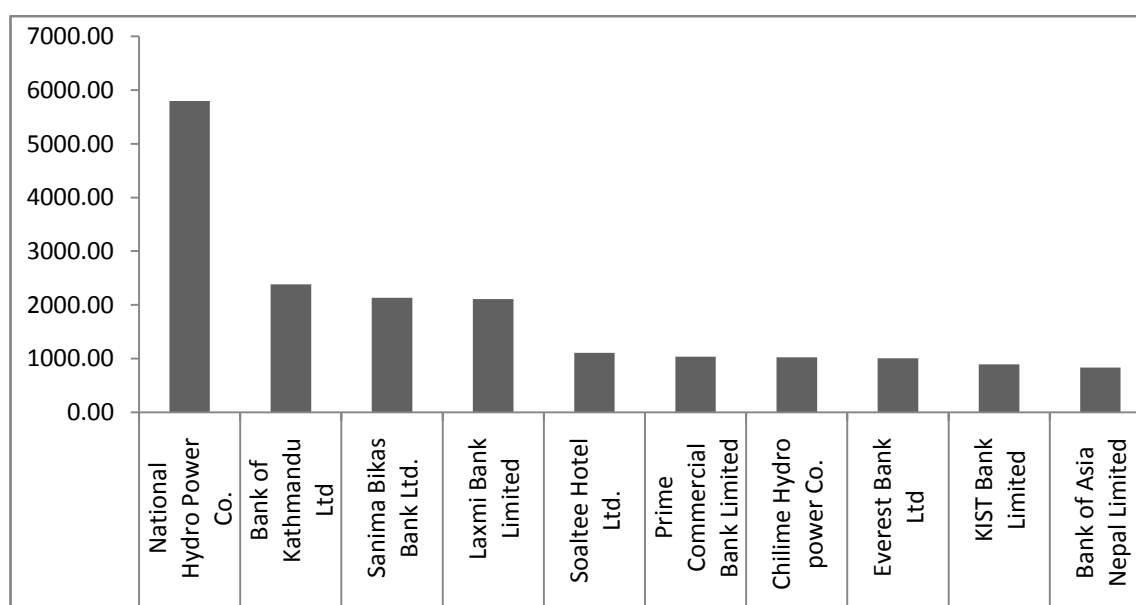
**Table: 4.24**  
**Top 10 Companies on the basis of Share Traded in 2011/12**

S. No.	Name of Companies	No of traded share( <i>Qty in thousands</i> )
1	National Hydro Power Co.	5794.43
2	Bank of Kathmandu Ltd	2380.41
3	Sanima Bikas Bank Ltd.	2133.2
4	Laxmi Bank Limited	2108.03
5	Soaltee Hotel Ltd.	1110.08
6	Prime Commercial Bank Limited	1035.46
7	Chilime Hydro power Co.	1022.61
8	Everest Bank Ltd	1005.81
9	KIST Bank Limited	894.27
10	Bank of Asia Nepal Limited	832.15

*Source: NEPSE Annual Report 2011/12*

**Figure: 4.19**

**Top 10 companies on the basis of share traded in 2011-12**



#### 4.8.5.3 On the basis of Market Capitalization for FY 2011-12:

In the fiscal year 2011-12 in the basis of market capitalization Nepal Doorsanchar Company Limited, Standard chartered bank & Nabil bank are in 1<sup>st</sup>, 2<sup>nd</sup> & 3<sup>rd</sup> position respectively.

The details are shown as below.

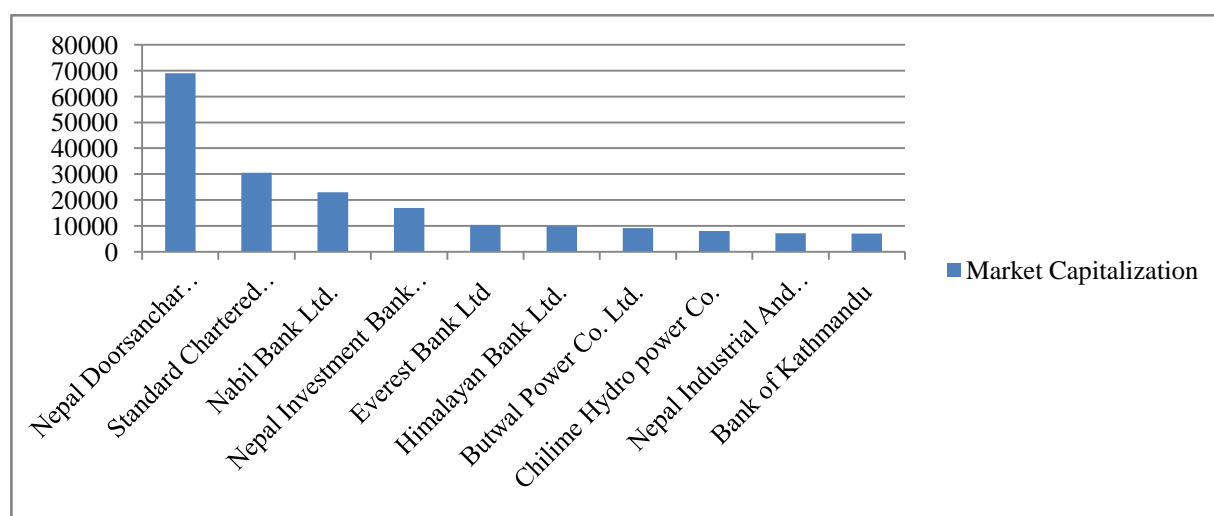
**Table: 4.25**  
**Top 10 companies on the basis of Market Capitalization**

S. No.	Name of Companies	Market Capitalization(Rs in Millions)
1	Nepal Doorsanchar Company Limited	75450
2	Standard Chartered Bank Ltd.	16766.08
3	Nabil Bank Ltd.	13085.87
4	Nepal Investment Bank Ltd.	12300.12
5	Himalayan Bank Ltd.	7941.88
6	Chilime Hydro power Co.	6639.36
7	Everest Bank Ltd	6599.01
8	Uniliver Nepal Ltd.	5800.41
9	Nepal SBI Bank Limited	5546.59
10	Nepal Industrial And Co.Bank	5337.45

*Source: NEPSE Annual Report 2011/12*

**Figure: 4.20**

**Top 10 companies on the basis of market capitalization**



## 4.9 Analysis of Secondary Market Development:

**Table: 4.26**  
**Analysis of Secondary Market Development**

<b>Fiscal year</b>	<b>Listed Company</b>	<b>Market Capitalization (Rs in millions)</b>	<b>Annual Turnover (Rs in Millions)</b>	<b>Yearly Closing NEPSE</b>	<b>Market Capitalization as % of nominal GDP</b>
2004-05	125	61365.89	4507.68	286.67	12.17
2005-06	135	96763.79	3451.43	386.83	17.35
2006-07	135	186301.28	8360.07	683.95	27.78
2007-08	142	366247.65	22820.67	963.36	44.62
2008-09	159	512939.07	21681.14	749.10	53.43
2009-10	176	376871.37	11851.11	477.10	31.86
2010-11	207	323484.34	26240.39	362.85	23.62
2011-12	216	368262.13	41885.4	389.74	23.63

**Sources: SEBON Annual Report**

In the FY 2004-05, total listed companies in Nepal Stock Exchange Ltd. were 125 which reached to be 216 in the fiscal year 2011/12. In the fiscal year 2009/10, annual turnover decreased by 45.3 percent to be Rs. 11,851.11 million as compared to turnover of Rs. 21,681.14 million in the fiscal year 2008/09.

In the fiscal year 2009/10, the market capitalization of the listed companies decreased by 26.5 percent to be Rs. 3,76,871.37 million as compared to market capitalization of Rs. 5,12,939.07 million in the fiscal year 2008/09. In the fiscal year 2011/12, the preliminary estimate of the contribution of market capitalization to the GDP is 23.63 percent.

In the fiscal year 2007/08, the price index of the listed securities in Nepal Stock Exchange Ltd (NEPSE Index) reached to 963.36 and decreased to 362.85 by 600.51 upto fiscal year 2010/11.

#### 4.10 No. of Securities Persons

History of share market in Nepal is not old as we think. People and organized companies are involved to develop the share market in Nepal. Nepal Stock exchange is only the share market in Nepal.

**Table: 4.27**  
**Securities Persons**

<b>Securities Business Persons</b>	<b>Number</b>
Security Broker	50
Issue Manager	14
Market Maker	3
Security Dealer	1
Total:	68

*Sources: SEBON Annual Report*

#### 4.11 Stock Price Index of Nepal Stock Exchange

Market Index has been always a great importance in the world of the security analysis and portfolio management, both the individual and the institutional against which they evaluate the performance of their own or institutional portfolio to determine the relationship between historical price movement and economic variables. Market index are also used to determine the systematic risk for individual securities and portfolios. Technical analyst usually uses price movement to predict future movement in the stock market.

Stock market indexes are used to study the trend of growth pattern in the economy to analyze as well as to forecast business cycle and to correlate stock market indexes to economic activities. However index is a device designed to measure the changes in group of related variables over a period of time. Here index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of the stock that is increasing or decreasing in the market. Because the prices of stock go up or down in a particular period of compared to the previous period as disclosed by index. The highest index suggests the increase in market price of stock and implies the better performance of companies and vice versa. Thus the NEPSE index shows the behavior of stock price since capital market.

Stock Price index reflects market trend because it takes all the issues listed on the Exchange in accounts. NEPSE follows the standards as well as poor index method while calculating index stock prices. According to this the computation formula for price index is as follow.

Each Day index =  $\frac{\text{Each day Total Market Value}}{\text{Base day's total market value}} \times 100$

$$P_{01} = \frac{\sum P_1 \times Q_1}{\sum P_0 \times Q_0}$$

Where,

$P_{01}$  = NEPSE Price Index

$P_1$  = Today's stock price

$Q_1$  = listed share (no. of share outstanding)

$P_0$  = Base market price

$Q_0$  = Base listed Price

After the initiation of trading floor, NEPSE started to calculate the NEPSE index. For this purpose of calculation of index, NEPSE has taken 12 February as a base period. The base period value for the index was initially set as 100. Thus 100 multiply the ratio of current market value to base period market value. In 1995-96 market index remained at 185.61 point. Then it started to move and reached to a peak level of 360.7 in year 1999-2000. It never reached to this highest level since five years. Thereafter it is highly fluctuated in decreasing trend over the years.

NEPSE index started to decrease in the year 1996 and it continued till 1997-98 but it is slightly increased in 1998-99 and reached to 216.92 points. There is slight improvement in NEPSE index in the year 1999-2000 as it reached to highest point 360.70. Then onwards NEPSE index is on decreasing trend and reached to 222.04 points in 2003-04 and in the fiscal year of 2004-05 it rise to 286.67 points. In the year 2005-06 NEPSE index showed a big improvement, which rises to 386.83 point. After then, it rises continuously at 2006-07 & 2007-08 at 683.95 and 963.36 point respectively. Afterward of fiscal year 2007-08, NEPSE Index falls by 214.26, 271.37 and 114.88 respectively in FY 2008/09, 2009/10 and 2010/11. On 2011/12 there is slight increase of 26.89 and remained at 389.74.

### 4.12 Annual Trend Analysis:

One of the important and suitable techniques of data analysis is annual trend analysis. For this purpose NEPSE index of 7 years was taken i.e. from 2005-06 to 2011-12. Tabular as well as graphical measures are considered for presenting and analyzing the data.

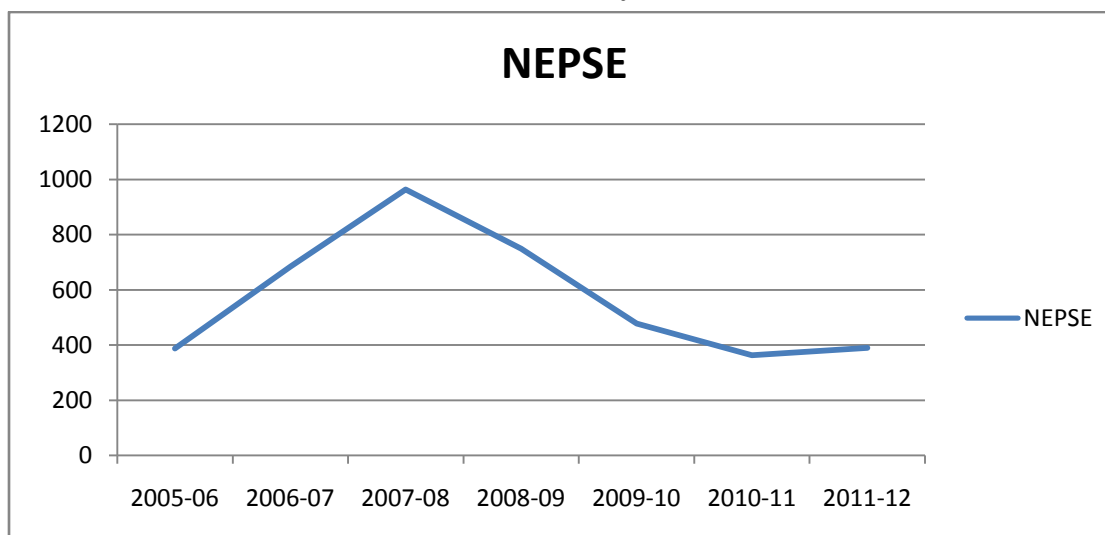
**Table: 4.28**  
**Annual trend analysis from Fiscal Year 2005/06 to 2011/12**

Year	NEPSE
2005-06	386.83
2006-07	683.95
2007-08	963.36
2008-09	749.1
2009-10	477.73
2010-11	362.85
2011-12	389.74

*Source Annual Report NEPSE*

By using the formula  $Y_c = a + bx$ , we can forecast NEPSE Index for next two years, after calculate the result is NEPSE Index for year 2013 is 413.49 and for fiscal year 2014 is 373.52 shall decrease. Calculation is shown in *Appendix I*

**Figure: 4.21**  
**Trend Analysis**



As one of the major economic indicator the decreasing trend of NEPSE index indicates that the economic performance of the nation is not satisfactory. In this fiscal year the NEPSE is falls down than previous year. But forecasting coming two year by using formula  $yc = a + bx$  the result is found the NEPSE index will decrease.

### 4.13 Monthly Trend Analysis:

By the end of the fiscal year 2011/12, NEPSE index of the listed securities (Price Index) stood to be 389.74 points, which is 26.89 percent more than that of the last fiscal year's end index of 362.85 points. The highest index during the fiscal year 2011/12 was recorded at 432.83 points on May 08, 2012 and the lowest index was 298.90 points on March 29, 2012

By the end of the fiscal year 2009/10, the NEPSE index of the listed securities (Price Index) stood to be 477.73 points, which is 271.37 points less than that of the last fiscal year end index of 749.10 points. The highest index during the fiscal year 2009/10 was recorded at 739.02 points on July 20, 2009 and the lowest index was 405.45 points on April 28, 2010.

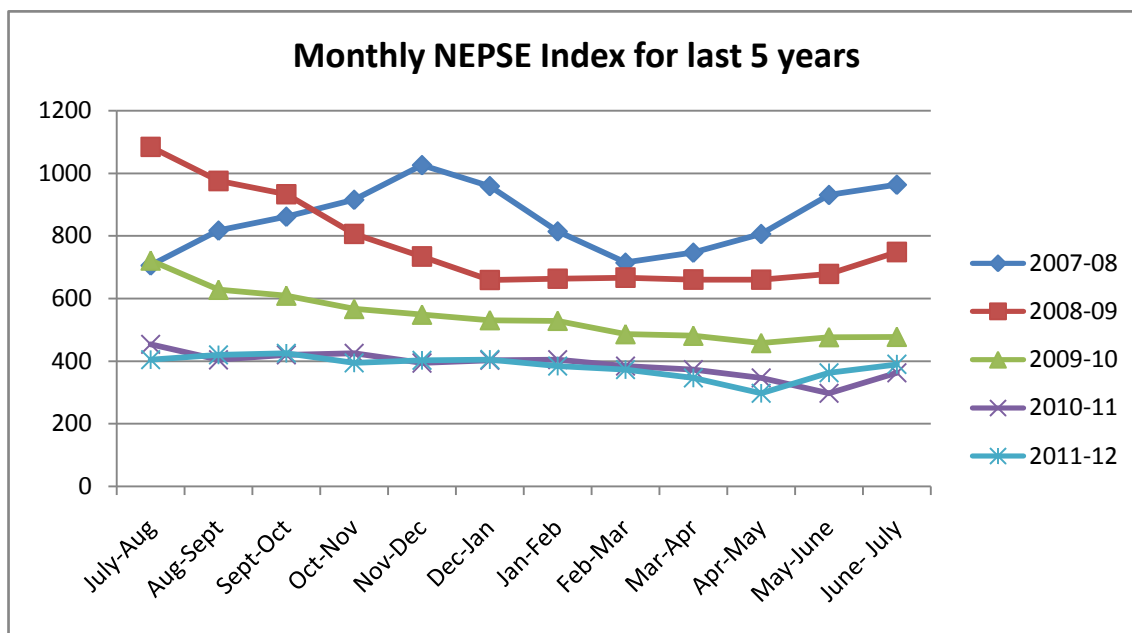
The detail of NEPSE index is presented in the data as follow.

**Table: 4.29**  
**NEPSE Index of different months during the last 5 years**

Months	2007-08	2008-09	2009-10	2010-11	2011-12
July-Aug	705.96	1084.76	721.95	453.7	404.43
Aug-Sept	817.08	976.01	628.34	404.3	420.3
Sept-Oct	861.37	933.97	609.55	420.3	424.93
Oct-Nov	915.38	806.9	566.94	424.93	394.17
Nov-Dec	1025.91	734.85	548.61	394.17	402.75
Dec-Jan	958.91	659.81	530.96	402.75	405.03
Jan-Feb	814.43	663.52	528.9	405.03	384.17
Feb-Mar	714.76	667.2	486.25	384.17	373.2
Mar-Apr	746.69	661.27	481.19	373.2	346.44
Apr-May	806.26	660.96	457.81	346.44	297.62
May-June	930.65	678.74	476.69	297.62	362.85
June- July	963.36	749.1	477.73	362.85	389.74

*Source Annual Report NEPSE*

Figure: 4.22



#### 4.14 Comparisons with the Market:

There is only one stock exchange in Nepal. Nepalese Government, under a programmed initiated to reform capital market converted securities exchange center into NEPSE in 1993. Nepal Stock Exchange in short NEPSE is a nonprofit organization operating under securities exchange act 1983.

Country's overall market movement is represented by the market index or NEPSE index market Return its standard deviation and coefficient of variance are shown below in table.

**Table: 4.30**  
**Comparisons with the Market**

Year	NEPSE index	$R_m = \left( \frac{NEPSE_t - NEPSE_{t-1}}{NEPSE_{t-1}} \right)$	Gain/(Loss)	$R_m - \bar{R}_m$	$(R_m - \bar{R}_m)^2$
2005-06	386.83	100.16	0.35	0.24	0.06
2006-07	683.95	297.12	0.77	0.66	0.43
2007-08	963.36	279.41	0.41	0.30	0.09
2008-09	749.1	-214.26	(0.22)	(0.33)	0.11
2009-10	477.73	-271.37	(0.36)	(0.47)	0.22
2010-11	362.85	-114.88	(0.24)	(0.35)	0.12
2011-12	389.74	26.89	0.07	(0.04)	0.00
<b>Total</b>	<b>4013.56</b>		<b>0.77</b>		<b>1.04</b>

*Source: Annual Report of SEBON/NEPSE*

Performance analysis of NEPSE for five fiscal year 2005/06 to 2011/12, Return on market ( $\bar{R}_m$ ), Standard deviation of market ( $\sigma_m$ ) and Coefficient of Variance (CV) are 0.1107, 0.170 and 1.533 respectively (*refer: appendix II*).

#### **4.15 Major Finding of the Study:**

Based on the study major findings are as follows:

- Annual transactions of the shares fluctuate vastly with no systematic trends reflecting the speculation market. Though the number of companies listed increased but the turnover did not corresponded the same. (Table 4.1)
- Paid up value has increased significantly almost by 4 folds over the period of 5 years among which BFIs constitutes with more than 2/3 rd of total paid up value. Similarly, out of total turnover, BFIs holds major portion. (Table 4.2 & 4.3).
- Transactions volume on monthly basis fluctuates significantly. On general trend the turnover increase at the beginning and end of the year which reflects the impact of annual closing of books of accounts. ( Table 4.4)

- Market capitalization increased as increase of the NEPSE and vice versa. Over the period, in general market capitalization related to BFIs has similar trend as overall market whereas other sectors has gradual growth. It reflects that NEPSE and market capitalization is influenced by performance of BFIs. (Table 4.5 & 4.7).
- On the basis of traded amount, number of share traded and market capitalization in general 8/10 top ten companies are BFIs.
- Beside BFIs, National Hydropower Co Ltd, Chilimie Hydropower Co Ltd, Butwal Power Companies, Nepal Doorsanchar, Soaltee Hotel, Taragaon Regency, Bottlers Nepal are only the companies that falls in Top Ten in one of three category considered- the traded amount, number of share traded and market capitalization.
- Upon listing of Nepal Doorsanchar Company Ltd, it remained at top position in terms of Market Capitalization since 2008/09 followed by Standard Chartered Bank Ltd. (Table 4.11 to 4.25).
- Contributions of the secondary market to GDP have a significant share. (Table 4.26).

## CHAPTER V

### SUMMARY, CONCLUSION & RECOMMENDATION

This is the last chapter of the thesis which presents the summary, conclusion and recommendation. Summary refers to the short form of the whole study: conclusion drawn from the analysis and recommendation suggests the improving to test the causes of stock price movement in Nepalese stock market. Generally, study is related with the price of secondary stock market there are no any price movement in the primary stock market but there are high price movement in the secondary stock market due to exchange process it was possible by only brokers and market due to exchange process it was possible by only brokers and market makers. The various statistical tools and financial tools were adopted as test methodology.

#### **5.1 Summary:**

Nepal Stock exchange in short NEPSE is the only one stock market in Nepal and it is a nonprofit making organization operating under securities exchange act 1983. After being developed from the time it established more effort is necessary for the better development of stock market. Investors still hesitate to invest in securities market because of lack of proper guidance in this field. Investors want to have full information about risk and return from their investment and they should be confident about their investment in secured field. The economy of the country has some good improvement in this fiscal year as compared to previous years in both primary and secondary market.

The main problem of secondary market is lack of transparent information about the company and clear policy of government and future prospects. The price of any share fully depends upon the information which flows in the securities market. The Right share, bonus share, cash dividend play great role in the increasing or decreasing the price of the share. While there is proper information about the market there is no chance of loss.

Now a big number of people are involving in share market. Some of them are involved in full knowledge about share market but some are involve without any proper knowledge about share market. The main problems of investors are lack of adequate knowledge about the share market in Nepal. The performance of many listed companies especially in the hotel and trading sector are poor. The company's performance is improved since 3-4 years but in this

fiscal year stock market is not seen satisfactory due to the government instability political chaos and recession.

The performance indicators trading turnover market capitalization have moving in unpredictable trend during the study period. The behavior of NEPSE Index and share price showed the fluctuating trend during the study period. These focuses implicitly reflect that the performance of economy is worse condition.

The paid up values of the listed companies have been decreased during this study periods because it is directly related to the no. of companies listed in all groups but other hand market capitalization has been great change and reached to 368,262.1 million in fiscal year 2011/12 after decrement by 28.2% from 512,939.07 million in 2008/09.

## **5.2 Conclusion:**

Even now Nepalese stock market is in the growth stage: it has crossed the initial stage but not reached in the matured stage as defined stock price trend is running unsystematically.

- Majority of investors invest in BFIs as secondary market. Further, majority portion of the investors of Nepalese stock market invest their money from the view point of the income which was found from the field survey.
- According to the major portion of the investors international economy doesnot directly affects the Nepalese stock market.
- It was found that government policies are not clear to handle the Nepalese securities market in Nepal.
- It was also found that investors are not aware about investment.
- Studying the monthly trend analysis for 7 years reflects the unsystematic activities of stock market. No expert can certainly forecast about the stock price.
- Studying the annual trend analysis of Nepalese stock price market it reached to 477.10 points in 2009/10 with the decrease of 272. as compared to fiscal year 2008-09. It again decreased by 87.36 and reached to 389.74 in fiscal year 2011/12.
- While studying the number of security business person it showed there is significant increment, it means that there is good opportunity in the stock market.

- Total market capitalization of the listed companies by the end of this fiscal year 2011-12 is recorded to be Nrs.368,262.1 million which is decreased by 28.2% than the last fiscal year 2008-09. In this fiscal year the contribution of the market capitalization to the GDP have been estimated to be 23.63%.
- While studying the sector wise annual turnover commercial bank represents highest percentage.
- While studying the sector wise annual turnover from the fiscal year 2007-08 to 2011-12 there is significant decrease in volume and accordingly in all sector - commercial bank, development bank, manufacturing and processing and finance companies there is decrease in trend.

### **5.3 Recommendation:**

Based on the study major findings, to maintain the sustainable growth of the stock market our recommendations are:

- Government and regulators shall implement the polices and create awareness among the investor to reduce the speculation market.
- As majority of the listed companies includes BFIs, therefore, to encourage the company of other sector for listing provisions such as such as listing at premium, buy back procedures, public share raise etc shall be enacted.
- Regulators shall develop the mechanism of counter check the unnatural growth.
- Provisions for investment by the foreigner shall be allowed.
- Use of credit rating agencies shall be used widely to ensure that the public investors are not forged.
- Materialization process shall be expedited to increase the net of investors.
- More stringent rule on specific type of institutions (BFIs) for the information to be provided shall be developed and implemented.

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## Appendix:

### I. Calculation of Regression Equation:

Year	NEPSE(y)	X	X <sup>2</sup>	xy
2005-06	386.83	-3	9	-1160.5
2006-07	683.95	-2	4	-1367.9
2007-08	963.36	-1	1	-963.36
2008-09	749.1	0	0	0
2009-10	477.73	1	1	477.73
2010-11	362.85	2	4	725.7
2011-12	389.74	3	9	1169.22
<b>Total</b>	<b>4013.56</b>	<b>0</b>	<b>28</b>	<b>-1119.1</b>

$$Y_c = a + bx$$

Where,

$$a = (\Sigma Y - b(\Sigma X)) / N = 4013.56/7 = 573.365$$

$$b = (N\Sigma XY - (\Sigma X)(\Sigma Y)) / (N\Sigma X^2 - (\Sigma X)^2) = -1119.1/28 = -39.96$$

So,

$$y = 573.365 - 39.96x.$$

### II Calculation of Expected Return

#### Comparisons with the Market

Year	NEPSE index	Gain/(Loss)	$R_m = \frac{NEPSE_t - NEPSE_{t-1}}{NEPSE_{t-1}}$	$R_m - \bar{R}_m$	$(R_m - \bar{R}_m)^2$
2005-06	386.83	100.16	0.35	0.24	0.06
2006-07	683.95	297.12	0.77	0.66	0.43
2007-08	963.36	279.41	0.41	0.30	0.09
2008-09	749.1	-214.26	(0.22)	(0.33)	0.11

2009-10	477.73	-271.37	(0.36)	(0.47)	0.22
2010-11	362.85	-114.88	(0.24)	(0.35)	0.12
2011-12	389.74	26.89	0.07	(0.04)	0.00
<b>Total</b>	<b>4013.56</b>		<b>0.77</b>		<b>1.04</b>

Now,

Expected Return on market ( $\bar{R}_m$ ) =  $\frac{\sum R}{N}$

$$= \frac{0.77}{7}$$

$$= 0.11$$

Standard deviation of market ( $\sigma_m$ ) =  $\frac{\sqrt{\sum (R_m - \bar{R}_m)^2}}{N-1}$

$$= \frac{1.04}{7-1}$$

$$= 0.17$$

Therefore standard deviation is 0.17

Coefficient of Variance (CV) =  $\frac{\sigma_m}{\bar{R}_m}$

$$= \frac{0.17}{0.11}$$

$$= 1.53$$