

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

In simple sense, securities market is a place where people buy and sell financial instruments. These financial instruments may be in form of government bonds, corporate bonds or debentures, ordinary share, preference share etc. So far securities market is concerned; it is an important constituent of capital market. It has a wide term embracing the buyers and sellers and all the agencies and institutions that assist the sale and resale of corporate securities. Although securities market is concerned in few locations, they refer more to mechanism rather than to place designed to facilitate the exchange of securities. This securities market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. In order to allocate capital efficiently and maintain higher degree of liquidity in securities, the securities market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information.

An efficient market is one where current price of the share gives the best estimate of its true worth. Thus the securities market is a place where shares of listed companies are traded or transferred from one to another at a fair price through the organized brokerage system. The major function of securities market is to provide ready and continuous market for purchases and sales of securities at a competitive price thereby, importing future market ability and liquidity. It is a medium through which scattered savings and scarce resources are transferred to productive areas that ultimately help in the economic development and industrialization of the nation.

The relationship between stock market development and economic growth has received renewed attention of academicians and policy makers in the present decade both in the developed and developing countries because of the emerging equity market phenomenon and of the need to provide liquidity for privatization – linked equity issues. The growing importance of stock markets in the developing countries has opened up many avenues for

research in the relationship between financial development and economic growth, with focus on developmental role of stock markets.

Securities markets facilitate the exchange of financial assets by bringing together buyers and sellers of securities. Securities markets provide an effective way of raising money for business enterprises and government and at the same time provide an investment opportunity for individuals and institutions. Securities markets have both theoretical and practical perspectives. Securities markets provide value and significance to the financial assets. Practically, the activities of buying and selling securities on the securities markets are extremely important for the allocation of capital within economies. The securities markets serve as a reliable guide to the performance of companies, and thereby promoting efficiency (Manandhar, 2005).

1.1.1 Present Status of Nepalese Stock Market:

The capital market experienced an impressive growth in the last two years. Improvement in the peace and security situation, the central bank policy to increase the paid-up capital of banks and financial institutions, market reform, institutional and infrastructural developments related to the capital market has contributed to this growth. The activities of both the primary and secondary markets have been explained in detail as follows:

In the FY 2008/09, the Security Board of Nepal (SEBON) granted permission to 72 companies for mobilization of Rs.11.56 billion while 33 companies got approval to mobilize Rs. 2.75 billion in the preceding year. The number of capital mobilizing companies and amount of capital mobilization has risen by 132.25 percent and 320.36 percent respectively.

The Nepalese stock market continued to expand in the FY 2007/08 too. With the restoration of peace and a subsequent boost in investors' confidence, major indicators of the share market grew tremendously. Almost all the major indicators of the secondary market like amount of shares traded, number of listed shares, the number of transactions, annual turnover, total market capitalization of listed shares, market capitalization and

GDP ratio, turnover to market capitalization and the GDP ratios all increased in the review period.

Since 24 August 2007 trading is being done through the Automated Trading System (ATS), a fully automated screen-based trading system. The introduction of the ATS, extension of trading hours and listing of new companies has contributed to a substantial increase in trading activities. The total transactions of shares in terms of value increased by 172 percent to Rs. 22.82 billion in the FY 2007/08, while it was Rs. 8.36 billion last year. Similarly, the number of transactions increased by 25.1 percent to 15.08 hundred thousand, and it was 12.05 hundred thousand last year. The number of shares traded during the year increased by 17.2 percent to 136, whereas it was 116 a year before. Likewise, the number of ordinary shares traded during the review period was 28599.77 million, which is a 57.6 percent increase from previous year. The daily average turnover recorded in the review year was Rs. 97.11 million; the turnover was Rs. 78.22 million last year. Similarly, the market opened for 235 days this year, three days more than last year.

Equity market has shown impressive recovery from the sharp fall in 1994 with the lag effect elongated till late 1998. At present, it has been performing more strongly than in the earlier years. The improvement in the equity market has been attributed to various factors including good prospect of corporate earnings and broader household participation in the stock market. Investors not only rely on the statement of the brokers, but they also have a concern over the financial information of the concerned company. Therefore, the shares of companies with better prospects of dividend, capital increment and growth have normally higher prices in the stock market. At present, the stock market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertakings.

In the 2010, the financial sector in Nepal included 31 commercial banks, 79 finance companies, 79 development banks, 25 insurance companies, 18 micro finance development banks etc. In addition, there is one Employee Provident Fund, one Credit Guarantee and Deposit Insurance Corporation, and one Citizen Investment Trust. During

this period some discernible improvements took place in the stock market. In 1993, Securities Board Nepal (SEBON) was established with the objectives to regulate, supervise and monitor the security market. Similarly, the Securities Exchange Centre was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. An open out cry system was introduced by NEPSE for securities transaction, where the investors are allowed to deal in securities only through licensed brokers.

The equity market activities grow with the development and reform in the financial sector. Over the past 15 years, the stock market of Nepal has made some progress. For example, between the fiscal year 1995/06 and 2008/09, the number of listed companies in NEPSE increased almost two-fold from 62 to 142.

1.1.2 Nepal Stock Exchange (NEPSE):

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 1951, the first issue of Government Bond in 1964 and the establishment of Securities Exchange Centre Ltd. in 1978 were other significant development resulting to capital markets.

Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was only the capital market institutions undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. His Majesty's Government, under programme initiated to reform capital market, converted Securities Exchange Centre into Nepal Stock Exchange in 1993. Nepal Stock Exchange, in short NEPSE, is a non-profit making organization, operating under Securities Exchange Act, 1983.

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

trading floor on 13th January 1994 through licensed members. His Majesty's Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and Licensed Members is the shareholder of the NEPSE.

Primary Market

Primary Markets denote the market mechanism for the original sale of securities by an issuer to the public. It is the market in which the securities are sold at the time of their initial issuance. In other words, a market for newly issued securities is called primary market. Corporate bodies issue new securities in the primary market. Securities available for the first time are offered through the primary securities market. The issuer may be a brand new company or one that has been in business for many years. The securities offered might be a new type for the issuer or additional amount of a security – used frequently in the past. The key is that these securities absorb new funds for the coffers of the issuer.

All the securities whether in the money market or capital market, are initially issued in the primary market. This is the only market in which the corporate or government issuer is directly involved in the transaction and receives direct benefit from the issue that is the company actually receives the proceeds from the sale of securities.

Secondary Market

Secondary Market is the market in which securities are traded that has been issued at some previous point of time. In other word, where outstanding securities are traded is referred to as the secondary market or more popularly known as the stock market. Share or stock market is a major component of the securities market. Stock market is a medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. The efficient collection of small amounts of savings and transferring funds into the competitive and efficient uses requires a well functioning capital market to facilitate the process. Thus secondary market deals with previously issued shares mainly traded through stock exchange, over the counter market or direct dealing.

Secondary market in simple sense, are markets in which existing, already outstanding securities are traded between investors. It is the market that creates the price and allow for liquidity. If secondary market did not exist, the investors would have no place to sell their assets. Without liquidity many people would not invest at all. The corporations whose securities are being traded are not involve in secondary market transactions and thus do not receive any funds from such a sale. The function of secondary market is to provide liquidity for the securities purchased in the primary market.

Trading Days and Hours:

NEPSE has fixed stock trading days and hour during which the numbers are allowed to enter the floor to make the transactions as tabulated below:

Table 1.1
Stock Trading Days and Hours

Trading Days	Trading Hours	Type of Trading
Sunday - Thursday	12 a.m. – 3 p.m.	Regular
Friday	12 p.m. – 1 p.m.	Odd lot

Source: NEPSE Annual Report 2009/10

Board 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 transaction of less than 10 shares is permitted odd lot trading hours.

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. Settlement will be carried out on the basis of paper verses payment.

Brokerage:

The rate brokerage on equity transactions ranges from 0.5 percent to 1 percent depending on the traded amount.

1.1.3 Securities Board Nepal (SEBON):

SEBON was established as an apex regulator of the securities market in Nepal by HMG/N on June 7, 1993, under the Securities Exchange Act, 1983. The main objective of SEBON is to regularize and manage the securities market and protect investors' rights.

As per the securities rules and regulations, following are the major functions of SEBON:

-) Frame policies and programmers required in securities market and advice HMG/N in this aspect.
-) Register securities and grant issue approval.
-) Provide license to corporate bodies to operate stock exchange business.
-) Provide license to operate securities businesses.
-) Supervise and monitor stock exchange and securities businesspersons.
-) Conduct research, study and awareness programmers regarding securities market.

A board composed of seven members including a Chairman governs SEBON. The board has representatives from various institutions of the government as well as private sector. The Chairman of SEBON is appointed by HMG/N for the tenure of four years. Other members of the Board include representatives one each from Ministry of Finance, Ministry of Law, Justice and Parliamentary Affairs, Ministry of Industries, Commerce and Supplies, Nepal Rastra Bank (the central bank), Federation of Nepalese Chambers of Commerce and Industries and Nepal Chartered Accountants' Association.

SEBON, in order to implement its policies and programs effectively, has two departments, six divisions and ten sections in its organizations structure. Each department is headed by deputy director and each division by officer. Presently, there are 25 staffs in SEBON. (www.sebonp.com)

1.2. Focus of the Study

In Nepal, there has been a huge amount of unutilized saving funds with public due to the lack of wider investment opportunities that provide good return. Most of the public investors are not well knowledgeable about the stock market, its rules and regulation, real

financial strength and weakness of different financial companies. And they cannot well analyze and interpret the real problem and prospects of the Nepalese's stock market according to the available data and information. Hence, this study may provide real condition of the Nepalese's stock market and to encourage to involve the invest in stock market. Furthermore, the potential investors can take better decisions based on the findings of the study.

1.3. Statement of the Problem:

The relationship between financial development and economic growth, with focus on developmental role of stock markets, has been in debate for some time in the past. Empirical studies suggest that financial development does matter and stock markets do spur economic growth. Unfortunately, in Nepal, despite a history of about half a decade of planned economic activities to develop real sector of the country, little attention was paid to the development of financial sector. Over the past one and half decade, financial sector, despite many problems has developed significantly in Nepal. However, most of the developments were confined to the banking sector. Stock market has mutually remained stalled because of the low priority in financial reform policies of government.

Various measures of stock market development indicate that stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging, low turnover ratio and value traded-ratio to volatility and high concentration ratio indicate that the stock market in Nepal is highly illiquid and risky. Similarly, firms shun it because stock market is less reliable source of raising funds for them. Due to this financial system in Nepal has remained basically bank-dominated.

Stock exchanges in many countries have a long history of more than one century. These stock exchanges have faced so many ups and downs during this period including sacking of brokers. We must note that just ten years period is not sufficient to make a history of a stock exchange but the Nepal Sock Exchange Ltd. (NEPSE) has created a history. All the features of a stock exchange have been applied and the possible happenings in a

secondary market have already taken place during this short span of period. The big bullish period, the long bearish period, the unprecedented market capitalization, the quite fail market driven by innocent and honest market intermediaries, the quite unfair market driven by unfair practices, the rumour driven market, the big changes in ownership of joint venture banks, the addition and subtraction is the listed companies, etc. are some of the key events in the history of the Nepalese stock market.

There are changes in the NEPSE since the inception of open outcry system of trading in 1993. The noted changes are the shifting of the office from a rented house to owned house, the beginning of computer hardware and software systems in the clearance, appointment of two brokers as member of NEPSE the shifting from T+5 system of settlement to T+3 system and changes in rules and regulations in favour of the market.

However, it can be argued that the most needed changes which are fundamental for development of a stock exchange are still to be introduced. Some of these have been categorically out listed:

This present study is carried out to answer the following research questions:

-) Which sector influence more in Nepalese stock market?
-) What are the condition and trend of Nepalese stock market?
-) What are the problems and prospect of Nepalese stock market?
-) Is growth rate of Nepalese stock market satisfactory?
-) Are people satisfied from the information provided by NEPSE and SEBON?

1.4. Objectives of the Study

The objectives of this research study are as follows:

-) To examine the pace of stock market growth in Nepal.
-) To study which sectors have major influence in Nepalese stock market.
-) To evaluate the problems and prospects of Nepalese stock market.
-) To find out the sequence of listed securities, transaction, market capitalisation and index of Nepalese stock market
-) To provide applicable suggestion on the basis of findings

1.5. Importance of the Study:

Securities market in Nepal, till the recent past, had all the characteristics of an underdeveloped economy. It was characterized by the absence of professional promoters, underwriting agencies, market intermediaries, organized market, regulatory bodies, and rules and regulations. However after the restoration of democracy in 1990, a trend towards an organized stock market can be marked with numerous developments in the Nepalese securities market, removing its earlier deficiencies. This study helps us to find out different problems and prospects of stock market growth in Nepal. The importance of the study can be summarized as below:

-) The operation of NEPSE and its role towards greasing out the stock trading in Nepal.
-) The trend of securities market in Nepal.
-) The country's policies towards financial markets.
-) The views of potential investors and government and other financial institutions about the related organizations.
-) The need of different policies, regulatory acts and amendments to develop market efficiency.

1.6. Limitations of the Study:

It is not a comprehensive study. There are some limitations of the study. Lack of experiences, time, limited budget, up to date information are the main limitation of the study. Apart from this some more limitation are presented below:

-) The subject of the study is only "Problems and Prospects of Growth of Nepalese Stock Market" based on small sample of 50 respondents.
-) The analyses made from 1995/96 to 2009/10 for 15 years period of data are collected.
-) Only those factors have been considered which are related to stock market.
-) Only primary and secondary data have been collected, analyzed to interpret result so the result depends on the reliability of the data.
-) The study covers only the past and present state of stock market in Nepal, hence any prediction are make according to study which future may varies.

1.7. Organization of the Study:

The study is divided into five chapters. The following chapters are as follows.

Chapter - I, Introduction

The first chapter is concern about the introduction, focus of the study problem of the study, objective of the study, importance of the study, limitations of the study and methods of analysis of market.

Chapter - II, Review of Literature

The second chapter is concentrated upon review of literature. This chapter is subdivided into various sections such as conceptual framework, review from different studies, review from journals, articles, magazines and review of previous master's thesis.

Chapter - III, Research Methodology

The third chapter provides the methodology adopted in the research. It comprises research design, sources of data, methods of analysis and its descriptive presentation

Chapter- IV, Presentation and Analysis of Data

Chapter four explains about presentation and interpretation of data. These data will be interpreted and analyzed with the help of various analytical tools and techniques.

Chapter - V, Summary, Conclusions and Recommendations

The last chapter gives the summary, conclusions and different recommendations regarding it. The list of bibliography and appendixes are given at the last for references.

CHAPTER - II

REVIEW OF LITERATURE

This chapter will be devoted to review some of the existing literature concerning the stock market in Nepal and abroad. In this regard, various books, journals and articles concerned to this topic have been reviewed in two parts conceptual review and review to related studies.

-) Conceptual Review
-) Review of Related Studies

2.1 Conceptual Review

This review highlighted in the following headings

2.1.1 Capital Market:

The capital market is concerned with long-term finance. Broadly it consists of a series of the channels through which the savings of the community are made available for industrial and commercial enterprises and authorities. It is concerned with those private savings, individual as well as corporate, that are turned into investments though new capital issues and also new public load floated by the government, the semi-government bodies. In capital market, demand for funds comes from agriculture, industry, trade and government while the supply of fund comes from individual or corporate savings, institutional investor and surplus of governments.

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

2.1.2 Securities Markets:

Holders of stocks and bonds may decide to obtain cash for their investments by selling their securities to other investors. Similarly, others in the economy have cash to invest

and are desirous of buying stocks and bonds. The problem is to bring together the order of prospective sellers and prospective buyers so that an exchange of securities for cash may take place. An efficient system whereby investors can convert their securities into cash quickly and at or near the current market price makes investors more ready to put their savings into stocks and bonds (Bradley, 1963: 303).

So far as securities 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 institutions that assist the sale and resale of corporate securities.

2.1.3 Primary Market:

The primary markets are media through which new financial assets are issued or 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 the financial needs of both demanders and suppliers of today's fund. At present concept, it is the market of direct issuance of government securities. The primary market of country is dominated by the government securities due to the existence of insignificant new issue market for industrial securities.

The primary securities market includes all transactions that result in the accumulation of financial capital by firms, government or individuals to be used in the consumption or real capital investment. The participants in this process are many and valued, but an important segment, includes the money brokers who acts as a middleman in the process of exchanging securities for fund. These brokers provide invaluable services. Their principal role is to assist in the pooling of the funds by the creation of security forms that will appeal to the ultimate investors.

2.1.4 Secondary Market:

The secondary financial markets are the 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 a place where the securities once sold are purchased and repurchased to provide liquidity to the government securities and the secondary market is operated by Securities Exchange Centre. The trading of government securities in secondary market is very thin because of limited distributors of the securities. Securities Exchange Centre 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.

Secondary (Indirect) securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers secondary market comprises the stock exchange, the over-the-counter market. The secondary financial markets are the 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 a place where the securities once sold are purchased and repurchased to provide liquidity to the government securities and the secondary market is operated by Securities Exchange Centre. The trading of government securities in secondary market is very thin because of limited distributors of the securities. Securities Exchange Centre 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, 1993: 5).

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The **over-the-counter** (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchanges. A sophisticated telecommunication network lists active traders in this market. The prices at which securities are traded “over-the-counter” are determined by competitive bids and negotiation. The OTC, in addition to create a resale market for outstanding securities, is a primary market in which new public issues are sold.

The over-the-counter market is broader in scope than stock exchanges. It will be recalled that stock exchanges limit their activities to trading in securities already issued. In contrast, the over-the-counter market handles both securities already issued and new securities being sold to the public whereas the stock exchanges are auction markets, the over-the-counter market is primarily a negotiated markets that is, buyer and seller may haggle over prices before the transaction is completed. Dealers in the over-the-counter market buy securities with the hope of being able to resell them at a higher price. This process resembles any merchandising activity in which the trader buys goods in the hope of reselling them at a higher price.

Securities with the following characteristics tend to be traded in the over-the-counter market: securities of companies with a small capitalization; securities of companies which are owned by a few holders; securities of governments and their subdivisions; and securities which are purchased in large blocks (such as government securities) by banks, life insurance companies, and other large investors.

2.1.5 Stock Brokers:

A broker acts as a middleman who matches buying and selling order, thereby securing both buyers and sellers. A broker does not take title to the securities involved in the transaction. A commission is charged by the broker for his assistance in consummating the transaction.

A stockbroker, as a member of stock exchange and sub-broker as any person who acts on behalf of stock broker as an agent or otherwise assisting the investors in buying, selling on dealing in securities through such brokers.

Conditions for granting of certificates to stockbrokers:

The rules stipulate the registration is necessary for acting as broker or sub-broker. The conditions for grant of a certificate of registration to act as stock brokers are:

- a) He holds the membership of a Stock Exchange Act.
- b) He shall abide by the rules, regulations and buy-laws of the Sock Exchange of which he is a member.
- c) He shall pay the amount of fees for registration.

A stockbroker is expected to maintain high standards of integrity, promptitude, and fairness in the conduct of his business. He is expected to exercise due to skill, diligence, and comply with statutory requirements and not to indulge in manipulations and practices.

) **Commission Broker:**

Almost all members act as commission brokers. The commission broker executes on the floor of the exchange buying and selling orders placed by his constituents to whom he renders contracts containing a charge for commission at rates not exceeding the official scale of brokerage.

) **Floor Broker:**

The floor brokers, not large in number, are officially attached to other member. The floor broker executes order for any members and receives as his compensation a share of the brokerage charge by the commission broker to his constituents.

Floor brokers may be described as brokers. They are simply members of the exchange not brokers for a member firm. At peak activity periods, they will

accept orders from other broker, execute them, and receive part of the commission in return. Floor brokers are useful in that they present backlogs of orders, and they allow many firms to operate with fewer exchange memberships than would be needed without their services.

) **Security Dealer:**

A dealer buys securities at one price and expects to sell them at a higher price.

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

Obviously, when an OTC broker receives an order for a security in which a market is not maintained, they may act as both broker and dealer in executing the trade. However, this does not eliminate the obligation to obtain the best price for the customer.

) **Market Makers:**

Market makers, also known as specialists, facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealer in many ways except that they always stand ready to buy and sell securities at their bid and asked price for which they are market makers.

2.1.6 Price and Trading Procedure:

The shares price is determined in the floor by the interaction of market forces i.e. demand and supply. The price is determined by the point of equilibrium between supply and demand, the shifting of this balance results in incessant adjusting of price in search of the ever-changing new equilibrium. Then market price moves upward and downward independently.

There are many reasons that causes the stock price fluctuation, major of them are economic, non-economic and market factors.

One basis for the determination of stock prices is dividends. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividends. Earning power, in turn, is strongly influenced by changing economic trends, which are closely related to interest rates. In this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earnings, which, together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price.

The next major influencing factors are non-economic factors, including changes in political conditions, such as war or administrative changes, changes in the weather and other natural conditions, and changes in cultural conditions, such as technological advances and the like.

Market factors, or internal factors of the market, consisting of the tone of the market and supply – demand relations, may be cited as the third category that influences the stock prices. The tone of the market is a phenomenon of excessive expectations which takes the form of over-estimating the intrinsic value of stock when stock price is high because of business prosperity while underestimating its value at the time of market decline. The relationships of supply-demand are reflected directly in the volume of transactions, but there is also considerable effect from the actions of institutional investors, margin transactions, etc. Although margin transactions increase purchases when stock price is going up, once the price begins to fall they become a selling factor and accelerate price decline. The practice of margin finance has not been introduced, so far, in Nepal

The buying and selling of securities takes place in the floor of the Nepal Stock Exchange Limited. The transactions are carried out only through licensed brokers and market makers. However, brokers cannot transact shares in their own account. Market makers are not allowed to do transaction on behalf of other investors. In the floor, trading is

carried out on “open out cry system”. Each broker’s representative should be present in the floor and participate through written bids and offers. The trading reports are published after the floor is closed (Sharma, 1996: 64).

2.1.7 Stock Exchange:

The stock exchange 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.

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

In contrast to the bond market, the stock market is basically a securities market. The aggregate amount of new common stock issued by co-operations every year is small compared to the trading on the organized exchanges – Nepal Stock Exchange, New York Stock Exchange, The American Stock Exchange, The Regional Exchanges and the Over-the-Counter Market.

Stock exchange is the most highly centralized and visible institution where already issued securities are brought and sold for investment and speculative purpose. It provides facilities of trading of listed financial securities.

The establishment of the Securities Exchange Centre (SEC) in 1976 was the first attempt made by the government for the institutional development of the stock market in Nepal although the flotation of shares by Nepal Bank Ltd (NBL) and Biratnagar Jute Mills Ltd. (BJM) had begun in 1937 under the Company Act, 1936. The SEC managed five public issues, important medium to allow investment opportunities to the public, made by the corporate bodies till FY 1983/84.

Only from 1984, the floor was opened for secondary trading of shares to provide the liquidity for the already issued shares. It availed the liquidity to the shares of 16 stocks with paid up capital of Rs. 307.32 million, market capitalization of Rs. 318.67 million and 9852 shareholders till FY 1985/86.

The stock market is the only institution to mobilize substantial portion of public activity and the public share volume in other markets. 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 requirements. As will be seen in other markets, - the AMEX and the over-the-counter market have out performed the NYSE in recent years in New York. Individual investors may know exactly what they are doing by not being the major force on the NYSE (Francis, 1992:86).

The American Stock Exchange is designed to imitate the NYSE, and thus has similar trading procedures. The role of specialist is initially the same as on the NYSE, although the capital requirements are smaller. Active stocks are usually assigned to specialist firm that may have several partners at the post to handle orders. Certain trading policies are different because of the relatively “thin” supply of shares for many AMEX stocks.

In over-the counter market, the corporations being traded may range from very large (e.g. Food Lion Supermarkets and Coors Bell) to very small firms unknown to most investors; the market for particular shares may be very active or very inactive. Bid – ask spreads may range from 1/8 points or more. The small investors can trade in the OTC market more easily than in the corporate or municipal bond markets, investing only a few hundred dollars or less. The OTC market is of increasing importance and continues to enhance its position relative to the organized exchanges. But in Nepal, OTC is not practiced yet.

2. 2 Review of Books and Articles

Articles are not full research framework for giving complete direction to the concerned authorities however it gives cooperation to the researcher. So it is taken into the account for the literature review that how many persons have written so many articles in favour of the protection of investors in the capital market of Nepal is reviewed here.

Capital market is a crucial element in the national economy. Its role in reinvigorating and boosting the economic activities in the country holds significant. The strategic plan released by security board can, to a great extent, energize the investors by increasing investor interest in it. Security market experience both boom and decline soon after the beginning of securities trading through brokers' members in the stock exchange floor. Though the market started to function quickly boosting the prices of shares to an unexpected level, it could not sustained.

There is an urgent need for proficient development of the market standard and information dissemination system focused mainly on corporate financial disclosure practices and transparency, corporate accounting and auditing securities markets regulation and corporate governance. To implement the above, Security Board has a great responsibility as to reviewing and developing regulatory standards to make them a relevant with the need of issuers, investors along with promoting efficient capital formation (Business Age, April 1999).

“There are many loopholes in our Stock-Exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod Pharmaceutical Company that floated in shares, but where are they now? Similarly, it has been more than a year that Bansbari Leather has allotted its shares, but why didn't the company list its shares in the market? It has been three years that Gorakhkali Rubber Udhog hasn't called for its AGM. Government remained silent in all these cases. This is why the general public as well as the institutional buyers are not felling secure investing in stock market” (Business age, January 2000).

Share investment has traditionally been guided by the investors' return. Most earnings of investors here have been in the form of dividend rather than capital gains, though high dividend are often seen, in corporate finance theory as a wasteful investment destination, with other stock market participants hardly making profit and even if they did failing to meet investor's expectations, demand for shares of commercial banks outpaced supply and their prices boomed.

Now the latest slums in the secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done on whim. Even officials at the stock exchange and the securities board, refusing investor's allegations of the market manipulation and insiders' trading of last February, discreetly claimed that Nepalese Stock Market is in a nascent stage. And that, investment are made more on an impulse, rather than market study and credit rating" (Business age, June 2001).

ADB experts have seen many obstacles to the growth of capital market. This includes low level of investor's confidence, disclosure of poor and manipulated financial information, weak enforcement of regulation, absence of institutional investors, lack of diversity in range of financial instruments and the scope of active participation for the various intermediaries limited by vertical barriers.

According to the IMF staff country report "A well functioning capital market is important for Nepal to support the efficient channelling of private savings to investment and facilitate the transaction to direct monetary control. Headway has been made through various reforms since the late 1980's while the capital market is still in the early stage of development with many structural weaknesses."

In country economic review, Nepal: ADB recommends efforts to mobilize domestic resources more efficiently in order to develop capital market (Primary plus Secondary market included) including "major tax reforms and further measures to improve efficiency in the financial sectors as well as revitalize the capital market."

Donaldson David and J. Wagle, Dillip M, (1994) writes “There is a symbolic link between privatization and capital market. In most of the cases, privatization represents the first time that private voices are heard on SOE Boards. Indeed, for many, a change in the whole legal structure of company governance is a necessary first step. Borrowings from banks tend to become more commercial and less the result of political pressure. Often new firms of finance are lapsed on domestic and international capital markets for the first time. At the same, a large privatization program often has a dramatic effect in capital market development adding greatly to stock and variety of corporate assets available to public.”

Investors in the past years do nothing for the upliftment of the market. “NEPSE Parisuchak” is declining since the last years about more than two cores. If this will happen for few more years Nepalese share market may face great problem regarding the primary and secondary market.

The current downtrend in share market is not so easy to recover unless strong regulatory measures are not enforced. The honeymoon days of share market exist no more but there are still market players who have honeymoon days as they have built unlimited financial fortunes by sharp practices that went undetected during the period of share market boom. Among all, the regulation of share market to control on the unfair trade practice would be one of the strong measures to revive the share market in future (Edwin, 1999).

Moreover, the challenge for the regulating authority is to control on the hidden establishment of share market corners and pool by some market price manipulators. Surprise inspection and secret vigilance by a professional team (without making known who are its members and advisors) can check on the functioning of the office of such price manipulators interested to corner a share market in the hope of trapping or squeezing short sellers. If found dishonest in share market dealings, action should be taken against such price manipulators by imposing heavy penalties and punishment depending upon the nature of offence (Koirala and Bajracharya, 2004).

The revival of the share market requires minimum fulfilment of the responsibilities and accountabilities among company management to the shareholder. Time has come for company management to respond to shareholders expectation of return from their investment in shares of companies. Management should make it a habit to change attitude to think what is good for shareholders is good for company as a whole.

According to the Nepalese Stock Market, An Introduction, These days the interest of the investors is gradually fading away. Investors have been discouraged with the shares market running at a snail's pace. There is no room for satisfaction for investors. Although the country has adopted the liberal market policies to revive the economy, it has not been applied into concrete actions in Nepalese context. Brokers have been reporting since long about Nepal's stock market position, however, no action has been taken from the government. The government has not been able to regulate the companies, and the corporate culture is also not being developed among companies.

“It is said that people have started pouring their money into the stock market due to shrinking size of interest rates on the deposits at commercial banks. Experts are of the view that public response towards stock market will continue to pick up for some time” (Manandhar, 2005).

In its early start, share market proved highly optimistic within a period of six months due to favourable conditions of political stability, economic liberalization, strong commitment of better and prospective return by company management active role of brokers and the market makers, relaxation of control on the operation of the stock exchange by the concerned authorities and growing condition of the investors. There has been a remarkable rise in NEPSE index. But, later on there has been a continuous downtrend in share market due to frequent change in government, poor performance of companies, unfair share market practices and loss of investors' confidence in share market. As a result of these unfavourable developments, share market entered an era of worst bearish trend resulting from tremendous fall in NEPSE index. In order to revive the downtrend in share market, various reformative measures are urgently necessary to curb

on unfair share market practices through the development of comprehensive and transparent stock exchange guidelines by the concerned authorities. The existing company management has to reorient its positive attitude towards investors and shareholders by improving the quality of timely reporting and providing the expected return to win the losing confidence of shareholders. Investors should be self-conscious in the selection of brokers for trading in securities and organize themselves to be active to protect their rights. All these will help in the revival of share market to make it more active by attracting the investing public (Shrestha, 2007).

2.3 Review of Thesis

Aryal (1999) has conducted research on “The General Behaviour of Stock Market “. Using correlation between 21 companies

The specific objectives of this study were:

-) To discuss theoretically the movements of stock market prices as predicated by the random walk model.
-) To develop the empirical probability distribution of successive price changes of an individual common stock and a stock market as a whole.
-) To examine whether the successive price changes of stocks market are independent to each other or not.

The main conclusion of his Study was:

-) On the basis of run tests and serial correlation, it seems that the independent assumption of random walk model in stock prices is rejected by the collected sample data of 21 companies at least as a description of price behaviour in Nepal Stock Exchange.
-) The stock price changes are dependent on each other.
-) The random walk of security speculative price behaviour has been refuted at least in the Nepalese context, which clarifies that the knowledge of the past becomes useful in predicting the future movements of stock market price.
-) The securities in the past were incorrectly priced either over or under valued, as actual market prices of securities do not reflect their intrinsic value. In other

words, in case of sample securities, they are incorrectly adjusted those past information to the present market prices.

-) There exists frequent persistence than reaction in the general stock market climate because of the investors' irrational behaviour that causes the irrational movement of prices of stock.
-) The general stock market of Nepal for the initial period appeared to be inefficient in incorporating the possible appearance of information into the successive price changes. Therefore, the investing public is not aware of the information available publicly, appropriate in adjusting with the actual market price.

His research revealed NEPSE to be an inefficient market. He performed a test of weak form efficiency by examining whether the stock price behaviour follows a random walk or not. He concluded that the knowledge of past is useful in predicting the future movements of stock market prices. Therefore, investors on the floor of the exchanges for securities can make higher than expected profits in the future based solely on the historical price series under the existing trading mechanisms than they would be under buy and hold strategy.

Shrestha (2000) has conducted research on "Stock Price Behavior in Nepal"; this study aims to examine the efficiency of the stock market in Nepal.

The main objectives of the study were:

-) To examine the serial correlation of the successive daily price changes of the individual stocks.
-) To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli process.
-) To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in the Nepalese stock market.
-) To provide feedback policy input towards institutional development of efficient market.

The main conclusion of his research was:

The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and runs of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for the 30 sample stocks listed in the Nepal stock exchanges ltd. (NEPSE). Therefore, the random walk theory is not a suitable description for the stock market price behaviour in Nepal.

The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price changes of the previous days. It implies that the information of the past price changes is helpful in predicting future price changes in a way that the speculation through technical analysis can make higher expected profit than they would be under native buy-and-hold policy (i.e. average market return). Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the findings of this study. It is realized that mostly the native investors have dominated in the market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices which establish independence of successive price changes.

Shrestha analyzed 30 listed companies' stock price and found that the successive price changes are dependent. He finally concluded that the NEPSE is not efficient in pricing shares even in its weak form. Shrestha too had used autocorrelation and run test to detect the dependence among the stock price series. The outcomes of both the models were found to be similar and rejecting the null hypothesis that the successive price changes is independent. Though his research was not based on the total market return movement, the result drawn from analyzing the movement of major stocks traded in the market can be generalized for efficiency level of overall NEPSE. Moreover this research work with the analysis of total market return and banking sector stock return will be useful to verify his findings as well.

Sherpa (2001) has conducted research on “Corporate Information Disclosure and its Effect on Share Price”. The primary objectives of this study were to obtain an insight on corporate information disclosure with special reference to Nepalese stock market and its listed companies.

The main objectives of the study were:

-) To highlight the corporate disclosure practice in Nepal.
-) To identify the extent of disclosure of each of the item of information and to develop the information disclosure index.
-) To check the quality of corporate disclosure of Nepalese listed companies measured by company characteristic namely asset size, number of shares outstanding and earning margin.
-) To see the relationship between corporate information disclosure and stock prices.

The main conclusion of his research was:

His research study began with the construction of disclosure index for which he collected 59 informational items, classified according to their importance and calculated mean value after the collection of primary data. Thereafter, he selected 33 listed companies, used their annual reports and calculated disclosure scores, which was followed by use of various statistical tools like regression, correlation etc. to attain the mentioned objectives.

From the detail analysis, he found that most of companies do not disclose adequate and qualitative information on their annual reports, and most of disclosed information consisted of only relationship between disclosure scores and variables like earning margin, asset size etc. The important finding of his research is that there is positive relationship between market price of share and disclosure score. In other words, the company having greater disclosure score had the higher prices of stock. \

Joshi S. (2003) has conducted research on “Role of Nepal Stock Exchange in the secondary Market”.

The main objectives of this study were:

-) To assess the past and present behaviour of business operation in the Nepal Stock Exchange Market.
-) To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
-) To prescribe ways and means by which secondary market would be more effective and meaningful.

The main conclusions in her study were:

-) NEPSE should introduce digital technology and online marketing in its trading procedure.
-) The rules and regulations should be up to date.
-) Privatization process needs to be carried out effectively in order to develop Nepalese stock market.
-) Tax system should be reformed which should encourage and stimulate capital formation.

Paudel (2005) entitled “Stock price behavior of commercial banks in NEPSE” with the objective to examine monthly closing price of 6 listed commercial banks during the period of three consecutive years from 2002 to 2004. He used correlation coefficient, regression analysis, and run test and auto correlation

The main objectives of his study were:

-) To find out Nepalese people’s awareness of the securities investment.
-) To identify the stock market participation trend in Nepal
-) To study and examine the major investment influencing factors.
-) To provide some useful suggestions regarding stock market participation.

The main conclusion in his study was:

He found in his study that successive price changes were correlated with previous price series. He also found that most of the stocks did not follow random walk hypothesis. The present stock prices were dependent to the historical prices. The EPS was the most affecting factor for the price change of the stock. Most of the investors wanted to invest

in the shares of commercial banks because the fluctuation in NEPSE index was due to the transaction of commercial bank shares. There were serious limitations in the study. Data used in this study, monthly closing price of stocks not enough to predict the behavior of share prices.

Mainali (2006) has conducted research on “A Study on Share Price Behaviour of Listed Companies”.

The main objectives of this study were:

-) To analyze the behavior of stock price of Listed Companies.
-) To examine the stock price trend and volume of stock traded on the secondary market.
-) To identify the factors affecting stock price.
-) To analyze the investors' view regarding the decision on stock investment.

The main conclusion in her study was:

-) Share trading system in share market is still uncivilized even in this IT age. Though the volume to trading has increased the number of brokers has not increased. Therefore, for the systematic operation of the share market, the number of brokers should be increased according to the volume of trading. Similarly, the automation system has to be put in to practice to make the share market effective and competitive.
-) The public investors not direct their savings in shares haphazardly. They should at least analyze or get suggestions from experts about financial position and the level of risk prior to taking and investment decisions.
-) Because of the persistence in the stock price movements professional traders either institutional or individual can beat the market. Thus it is suggestions that the investors should be alert to exploit the opportunities through short term speculation.
-) It is also suggestion to the concerned body to carry out or assist to carry out further research on stock market behavior for the efficient functioning and betterment of the stock market of Nepal.

Overall, the previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

Gyawali, (2007) has conducted research on “Rights share practice and its impact on share price movement “The researcher sketches various conclusions through the research. The main objectives of the study were

-) To explain the price movement before the right offering.
-) To analyze the relationship between share price movement and market movement.
-) To identify the problem associated with the right practice.
-) To study investors opinion regarding various aspect of right offering.

In his study he found impact of right offerings on share price movement variations from company to company in case of listed companies such differences are not only between the companies of different sectors but also between the companies with in the scoter. Different on share price movement before and after right offering are significant as well as in significant.

Paudel (2008) conducted a research on "Dividend policy and its impact on share price in Nepalese context". The study is concentrated on factual analysis of the prevailing practices among Nepalese commercial bank regarding the issue of Dividend policy. Besides issue of bonus share is characterized by aphorism and imperfect and under-developed capital market, the study fulfills the research gap and add inputs to financial literatures relating to this topics.

-) To examine the prevailing practice and effect made in dividend policy.
-) To analyze dividend policy and its impact on share price
-) To access the relationship between the dividend with earning, market price of share and net worth.
-) To provide the suggestion to policy maker and execute to overcome the various issue and gaps.

The study focus to evaluate the result and its impact of dividend on MPS, the study concern joint venture bank EBL, BOK and HBL.

The feasibility of the conclusion made in this study depends upon the accuracy of secondary data. The study shows that the MPS of the share is consequent result of the various factors. Study aims to finding to impact of dividend policy on market price of share.

2.4 Research Gap

There is a gap between the previous research and this research. Previous researches were conducted only on the growth and size of the stock market. They were analyzed only on the basis of secondary data analysis. Few of the previous research were concerned with problems of stock market. However, they were not analyzed taking such variables like sufficiency of legal rules and regulation, availability of information, provision to attract institutional investor's etc. To do this research, the researcher does not find the any previous research on the topic of prospects of Nepalese stock market. So to fulfill this gap, this present study has been conducted for analyzing the secondary data and primary data.

The growth of stock market has been analyzed using both secondary data and primary data analysis. The problem and prospects of Nepalese stock market will be analyzed on the basis of only primary data analysis using the various methods.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research means to search or study about a phenomenon. Generally research is an effort to search new fact, knowledge and principle in scientific ways. Research is the process of a systematic in-depth study or search of any particular topic, subject or area of investigation backed by the collection, complication, presentation and interpretation of relevant details or data. Methodology refers to the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. So that research methodology is a systematic way of conducting the research in an effective and practical so that it can explain how the research is done.

Therefore this chapter highlights the research methodology used for the study of “Growth, Problem and Prospects of Nepalese Stock Market”. In this regard, this chapter explains not only talk of the research methods but also consider the logic behind the methods, which are used in the context of our research. This chapter consists of the research design, population, sampling procedure and sources and analysis of data.

3.2 Research Design

To achieve the objective of this study, analytical and descriptive research designs have been used. Research is a theory building activity. Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variances. "A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combined relevance to the research purpose with economic in procedure" (Kothari; 1989:59).

This research is based on secondary data and primary data analysis. Hence, descriptive and analytical research design has been used to conduct the study of growth, problems and prospects of Nepalese stock market; it deals with the stock market on the basis of available information.

Since the main objectives of this study is to analyze the pace of Nepal stock market, all the indicators that shows the information of Nepal stock market were calculated using data obtained from the fifteen year end internally generated accounting records maintained by SEBON, NEPSE and concern sectors. Various financial parameters and effective research techniques are employed to evaluate the research. Furthermore, various descriptive as well as analytical techniques are used.

3.3 Population and Sample

The analysis of stock market problems and prospects depends on the total number of (176) company listed in the Nepal Stock Exchange and major economic indicator (GDP, Inflation, Turnover etc) are taken as total population. For primary data analysis 50 respondent have been taken similarly for secondary data analysis all together 162 listed companies has been taken. Moreover, the companies that are in existence and doing share transactions in NEPSE and the factor that affects the present economic growth are considered as the sample of the study. The required data have been collected from the various sources; but mainly from the annual reports of securities exchange board, Nepal. Therefore, all the companies listed in the stock exchange are taken as samples.

3.4 Sources of Data

The main place of data was the central office of Nepal Stock Exchange (NEPSE), Securities Boards office and Economic Survey published by Ministry of Finance. The main source of data is annual report of the SEBON. Besides annual report, various bulletins available and useful to the study are also taken into consideration. The research is mainly based on the secondary data. The required data have been collected through the corporate office of the security Board of Nepal.

Primary Data

The primary data are collected through questionnaire and informal interview of concerned persons like staff of SEBON, share broker, investors and concern student. All together 50 copies of questionnaires were distributed to the persons and institution irrespective of their professions and nature of activities

Secondary Data

The secondary source of data are the annual report of the Security Board Nepal, different books from library, periodicals, newspaper cuttings, company's magazines etc. Guidelines and unpublished thesis, research work that directly related to the financial performance and stock market would form secondary data for the purpose of this study. Significant information are also collected from Internet and various websites like www.nepalstock.com, www.sebonp.com etc.

3.5 Data Collection Technique

To collect the secondary data, published materials are viewed in various spots such as books by different authors, unpublished thesis reports, journals, Internet web sites, online library, AGM reports of listed companies, NEPSE, SEBON etc. To collect these secondary data, the researchers visited campus library, TU central library, SEBON and NEPSE. On the other hand, the primary data collected through scheduled questionnaire.

3.6 Analysis of Data

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. This study is mostly based on the analysis of secondary and primary data with the help of different statistical tools like Diagrammatic presentation and mean. The empirical result has been extracted in this study by using annual data of listed companies for 15 year from 1995/96 to 2009/10 so far.

3.7 Data analysis Variables

For the process of analysis following variables are taken for the study.

-) Gross Domestic Product (GDP)
-) Issue Approval
-) Public Issue
-) Issue Manager
-) Stock Broker
-) Paid-up Value, Turnover and Market Capitalization

3.8 Tools of Data Analysis

On the basis of secondary and primary data collected from the trading report, published books, journal and questionnaire with different financial and non-financial expert and staff as well as officers of NEPSE and SEBON were done, so effective analysis of data could be done on effective manner. To draw the conclusion by analyzing the collected data simple statistical tool are used as follows:

-) Diagrams and Graphs
-) Percentage Analysis
-) Trend Analysis
-) Pie Chart Analysis

3.8.1 Diagrams and Graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than sets of data.

3.8.2 Percentage Analysis

Percentage analysis is the method to represent raw streams of data as percentage (a part in 100 percent) for better understanding collect data.

3.8.3 Trend Analysis

An aspect of technical analysis that tries to predict the future movement of a stock based on past data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what will happen in future.

3.8.4 Pie Chart Analysis

Pie Chart analysis is a circular graph having radii dividing the circle into sectors proportional in angle and area to the relative size of the quantities represent.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Background:

Introduction, review of literature and research methodology is presented in the previous chapters that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are primary and secondary. In this chapter, researcher has analyzed and diagnosed problem and prospect of Nepalese stock market.

This chapter is basically focused upon the analysis of data collected from different sources to fulfil the objective of problem and prospect of stock market. It will reveal the development of Nepalese stock market in terms of turnover, issued – capital, paid-up capital, contribution of market capitalization to GDP etc. comparing with different years. With reference to various readings and review of literature in the preceding chapters, effort is made to analyze and diagnose the recent Nepalese Stock Market Development. Different tables and diagrams are drawn to make the result more simple and understandable. The relevant information and data are collected from Nepal Stock Exchange (NEPSE), Security Board (SEBON) and from different books and articles. All companies listed in stock market (NEPSE) are taken as a sample and appropriate statistical and financial tool have been used to perform the analysis.

Detail of Sector Wise Listed Companies

In the fiscal year 2009/10, with the listing of 18 new companies, the total number of listed companies reached to be 176 till fiscal year 2009/10. The total number of listed companies remained to be 176 while it was 159 in the fiscal year 2008/09. The numbers of listing company are gradually increasing in present year. The details of listed companies are presented in following table.

Table No 4.1

GroupWise Description of Listed Companies

S.N.	Company Name	No. of listed	Percent
1	Commercial Banks	23	13.07
2	Development Banks	40	22.74
3	Finance Companies	62	35.22
4	Insurance Companies	19	10.79
5	Hotels	4	2.27
6	Manufacturing and Processing	18	10.22
7	Trading	4	2.27
8	Others	3	1.52
9	Hydro Power	3	1.89
	Total	176	100

Source: Annual Report of SEBON 2009/10

Figure No 4.1

Group Wise Description of Listed Companies

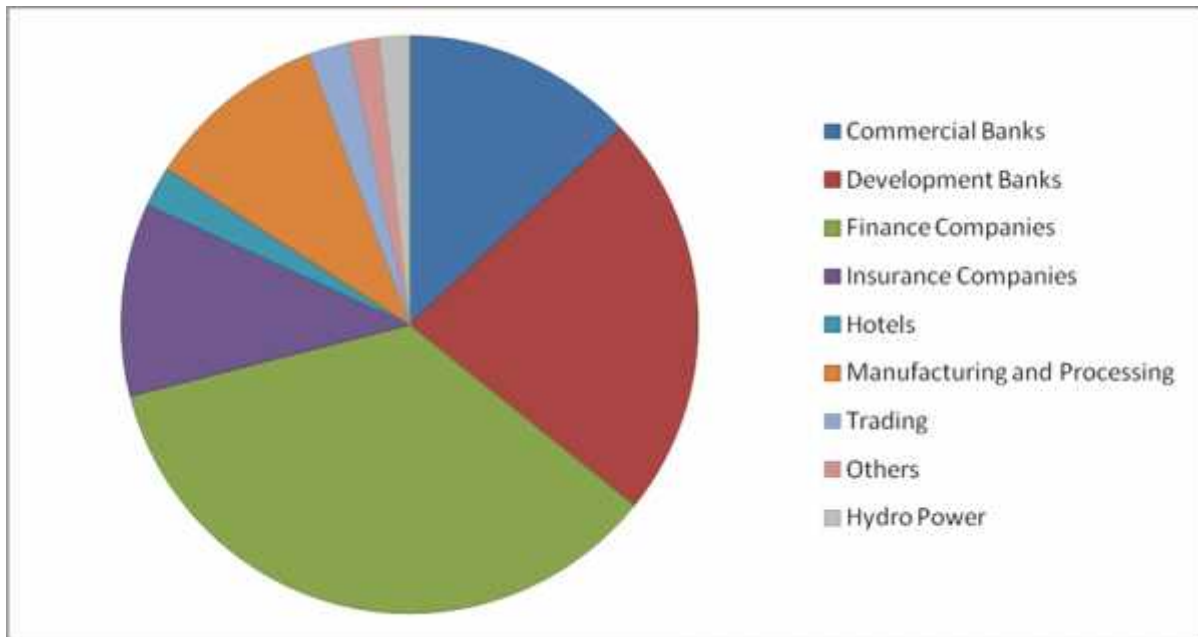


Table 4.1 and the Chart 4.1 represents that 176 companies listed in NEPSE in this fiscal year 2009/10. The highest 35.22 Percent i.e. 62 number of finance company are listed in NEPSE. Similarly 40 development banks, 23 commercial Bank, 19 Insurance companies, 18 Manufacturing and Processing Company, 4 hotels and trading company 3 hydro powers and 3 other company are listed out of total 176 listed companies in this fiscal year 2009/10

4.1.1 Yearly Volume of Traded Stocks and NEPSE Index

Table No 4.2

Yearly Volume of Traded Stocks and NEPSE Index

(Rs. in million)

Year	No. of Companies	No. of transactions (Shares units)	Market Capitalization	Traded Total Turnover Volume	Turnover Values in Rupee	Yearly NEPSE index
1995/96	89	17943	12295	2947	215.60	185.61
1996/97	95	12428	12698	9443.3	416.19	176.34
1997/98	101	15483	14289	1195.1	202.61	163.35
1998/99	107	15814	23508	4788	1500	216.92
1999/00	110	29136	43123.33	7674	1157	360.70
2000/01	115	46095	46349.4	4987	2344.20	348.43
2001/02	96	42028	34704	5791	1540.60	227.54
2002/03	108	69163	35240.40	2427.89	575.99	204.86
2003/04	114	85533	41424.77	6468.18	2144.27	222.04
2004/05	125	106246	61365.89	18433.55	4507.68	286.27
2005/06	135	97374	96813.74	12221.93	3451.43	386.83
2006/07	141	120510	186301.30	18147.25	8360.1	683.04
2007/08	142	150800	366247.5	28599.8	22820.8	936.4
2008/09	159	209091	512939.07	30547.16	21681.14	749.10
2009/10	176	213733	376871.37	26231.35	11851.11	477.73

Source: Trading Report of NPESE 2009/10

Table 4.2 shows that the yearly volume of traded stock and NEPSE index. The yearly volume of traded stock and NEPSE index are fluctuating. The number of company and number of transaction are increasing during the study period. However, there is a sharp rise in the turnover value in rupee and market index in fiscal year 2007/08. The major reason for the sharp rise in the trading volume in fiscal year 2007/08 may be attributed to heavy transaction of banking sectors. We can see that highest NEPSE Index is 936.4 in the fiscal year 2006/07 and turnover value Rs 22820.8 million. The highest market capitalization 512939 million and total turnover volume is in F/Y 2008/09. Similarly total 176 companies are trading till F/Y 2009/10.

4.2 Analysis of Turnover:

Annual turnover of stocks constitutes an important indicator for measuring the nation's economic activity. It also reflects the stock market liquidity as higher the amount of trading of stock market size, the greater is the stock market liquidity.

Table No 4.3
Monthly Turnover of Stock in 2009/10

S.N.	Month	Amount Traded (million)
1.	August	1858.81
2.	September	2101.86
3.	October	922.51
4.	November	973.49
5.	December	906.56
6.	January	954.08
7.	February	652.25
8.	March	428.75
9.	April	484.93
10.	May	397.9
11.	June	815.80
12.	July	555.46

Source: Annual Report of SEBON & Trading Report of NPESE 2009/10

Figure No 4.2
Monthly Turnover of Stock in NEPSE

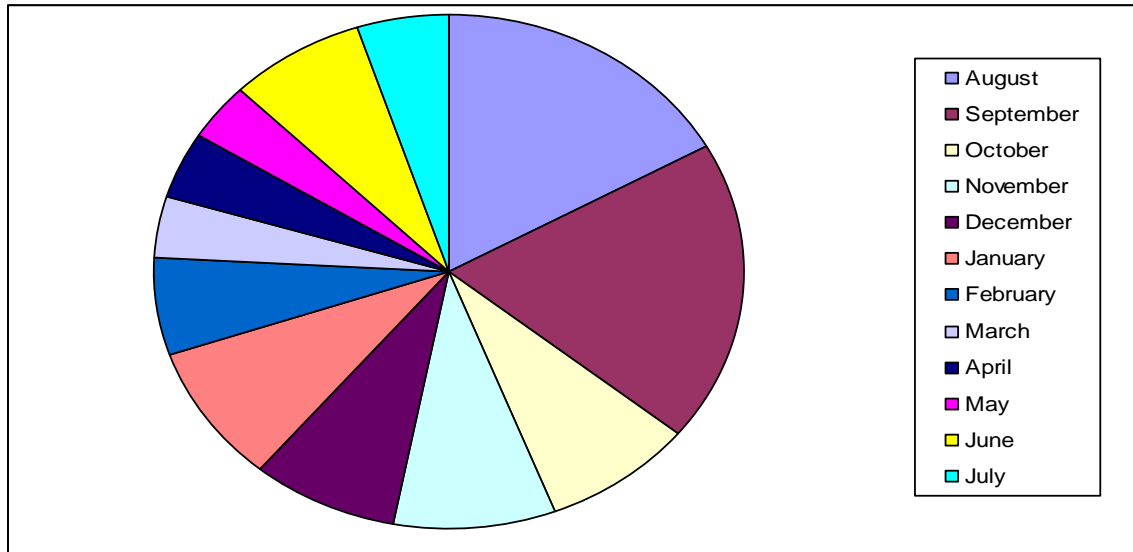


Table 4.3 and figure 4.2 represents monthly turnover of listed security on 2009/10. The monthly turnover that the highest amount traded in September which is Rs 2101.86 million and second highest is traded in August by 1858.81 million. The amount of turnover is decreasing subsequent year. This indicates transactions of share are declining. The second lowest turnover is 428.75 in March and lowest turnover in month of May was just Rs in 397.9 million.

The total amount of turnover in the fiscal year 2009/10 is Rs.11851.11 million which was Rs.21681.14 million in the fiscal year 2008/09. As the deal cancel is subtracted from the annual turnover, the total monthly turnover diminished to Rs.798.71 million. Recent year the turnover of share are diminishing. The table and figure shows that highest transactions were September and October. So this two month was good for securities transaction.

4.2.1 Paid-up Value of Listed Securities:

The total paid-up value of the listed securities by the end of the fiscal year 2009/10 reached to Rs.79356.73 million which was Rs.61140.39 million in the fiscal year 2008/09. The total paid up value of the listed securities by the end of the fiscal year 2009/10 is presented in following table

Table No 4.4
Paid-up Value of Listed Securities

S.N.	Company Name	No of listed	Percent
1	Commercial Banks	32900.64	41.46
2	Development Banks	10027.14	12.64
3	Finance Companies	11466.39	14.45
4	Insurance Companies	2432.94	3.07
5	Hotels	1580.71	1.99
6	Manufacturing and Processing	2539.74	3.20
7	Trading	82.18	0.10
8	Others	18326.98	23.09
	Total	79356.73	100

Source: Trading Report NEPSE 2009/10

Figure No 4.3
Paid-up Value of Listed Securities

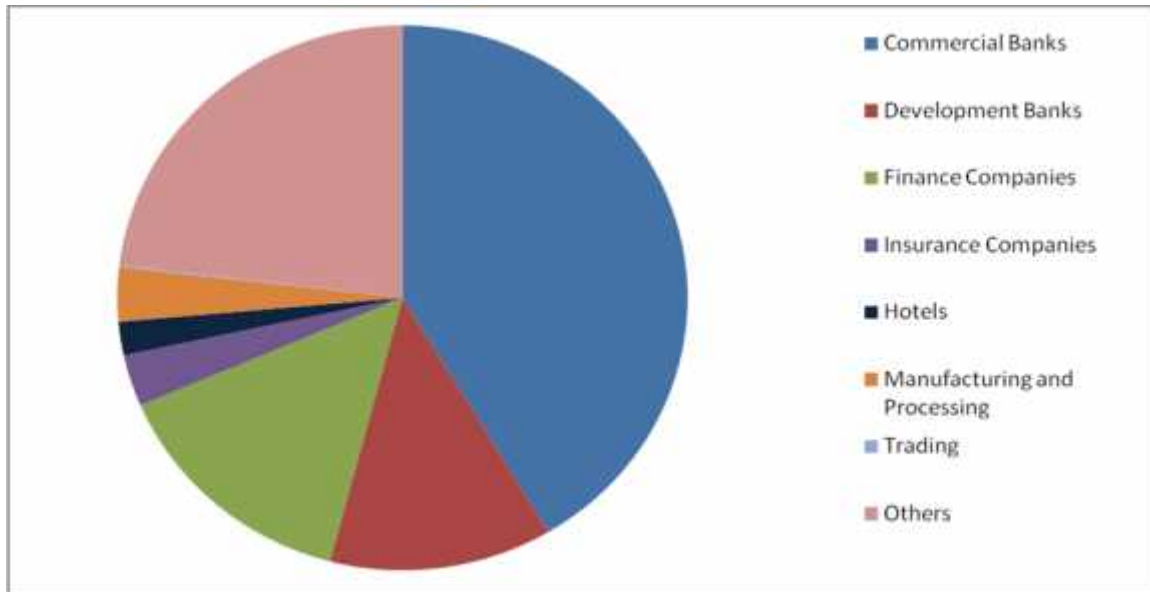


Table 4.4 and chart figure 4.3 shows paid up value of listed securities in NEPSE. The total paid up value of listed securities is 79356.73 million in F/Y 2009/10. The huge amount of paid-up value is covered by the Commercial Banks. It Covers 41.46 percent

(Rs 32900.64 million out of Rs. 79356.73 million) it indicates banking sector dominant to other sector. The second highest amount of paid-up value covered by the other including telecom and hydro sector which is takes 23.09 percent. The second lowest amount of paid-up value covered by the Hotels which is 1.99 and lowest paid-up values is cover by trading just 0.10 percent which is 82.18 out of 79356.73 million. In this way commercial bank, other, finance company, development bank etc are sequentially subsequent year.

4.2.2 Paid up Value of Listed Securities for Different Years:

Paid up capital play vital role, which can be shown as follows :

Table No 4.5

Paid-up Value of Listed Securities

Fiscal Year	Paid-up Value (Rs in million)	% Increase in Paid-up Value	% of Turnover in Paid-up Capital
1995/96	3358.5	13.40	6.42
1996/97	4476.5	33.29	9.30
1997/98	4959.8	10.80	4.09
1998/99	6487.4	30.80	23.12
1999/00	7347.4	13.26	15.75
2000/01	8165.2	11.13	28.71
2001/02	9685.04	18.61	15.91
2002/03	12560.07	29.69	4.58
2003/04	13404.90	6.73	15.99
2004/05	16771.80	25.11	26.87
2005/06	19958.00	18.99	17.29
2006/07	21798.8	8.94	39.60
2007/08	29465.8	35.17	77.44
2008/09	61140.39	107.5	35.46
2009/10	79356.73	29.79	14.93

Source: Annual Report, SEBON 2009/10 and NEPSE 2009/10.

Figure No. 4.4
Paid-up Value of Listed Securities

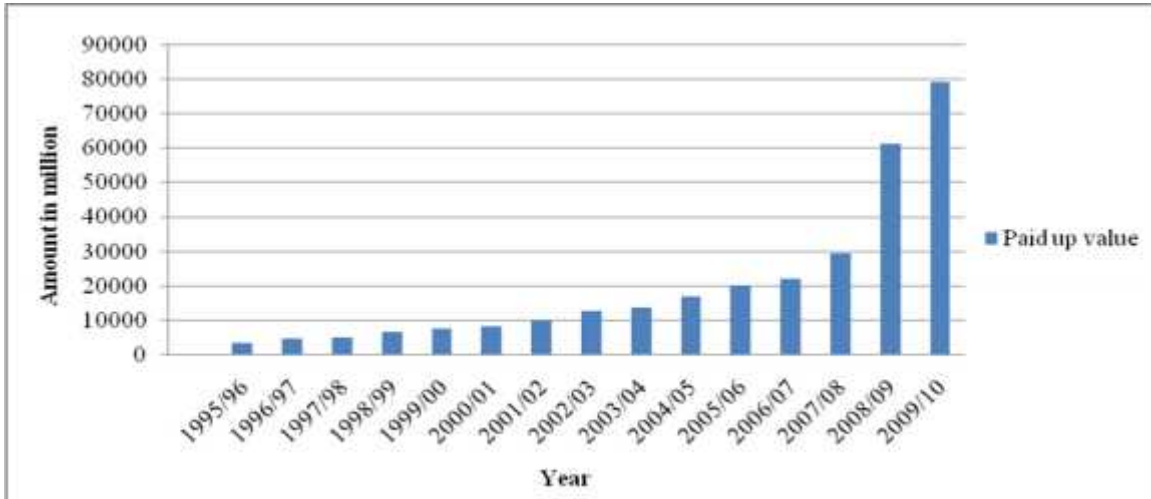
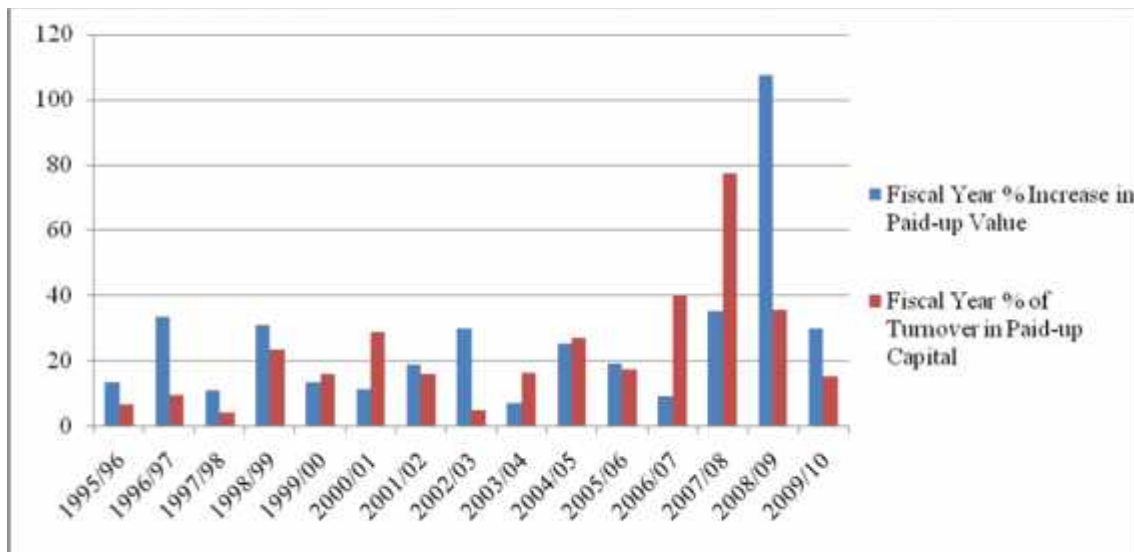


Figure No 4.5
Percentage increase in paid-up Value & Percentage of turnover in paid-up capital



The above table 4.5 and figure 4.4, 4.5 show that paid up value of listed securities, percent increase in paid up value and percentage increase in turnover of paid up capital. By the end of this fiscal year 2009/10, the paid-up value of listed securities increased by 29.79 percent and reached to Rs. 79356.73 million. The paid up capital is continuously increasing till 2009/10. There was 3358.5 million paid up capital in 1995/96. The highest increment of paid up capital is in fiscal year 2008/09 where increases by 107.5 percent. The lowest increment year was 2003/04 where increase just 6.73 percent. More or less

the paid up capital is continuously increasing till 2009/10. The second highest increase in percentage of paid-up value was in 2007/08 by 35.17 percent.

The percentage of turnover on paid-up capital is highest in the fiscal year 2007/08 with 77.44 percent. The lowest turnover in paid-up capital was in the fiscal year 1997/98 with only 4.09 percent. The percentage of turnover was 6.42 percent in the fiscal year 1995/96 and 14.93 percent in the fiscal year 2009/10. The table and figure represents more or less the turnover in paid up capital is continuously increasing till 2009/10.

4.2.3 Market Capitalization:

The market capitalization of the listed securities reached to Rs.376871.37 million in F/Y 2009/10. The capitalization was Rs.512939.07 million in the fiscal year 2008/09. The market capitalization decreases in 2009/10. By the end of the fiscal year 2009/10, the percentage contribution of market capitalization on nominal GDP is estimated to be 31.86. The sector wise market capitalization in the fiscal year 2009/10 is presented in table 4.6.

Table No 4.6
Market Capitalization

S.N.	Sector	Market Capitalization Value (Rs. in million)	Percentage
1.	Commercial Banks	206282.52	54.74
2.	Development Banks	27488.87	7.29
3.	Finance Companies	29869.59	7.92
4.	Insurance Companies	9756.61	2.59
5.	Hotels	5285.58	1.40
6.	Manufacturing and Processing	7592.03	2.01
7.	Trading	1617.51	0.43
8.	Others	88978.67	23.61
Total		376871.37	100

Source: Trading Report NEPSE 2009/10

Figure No 4.6

Market Capitalization of Listed Securities

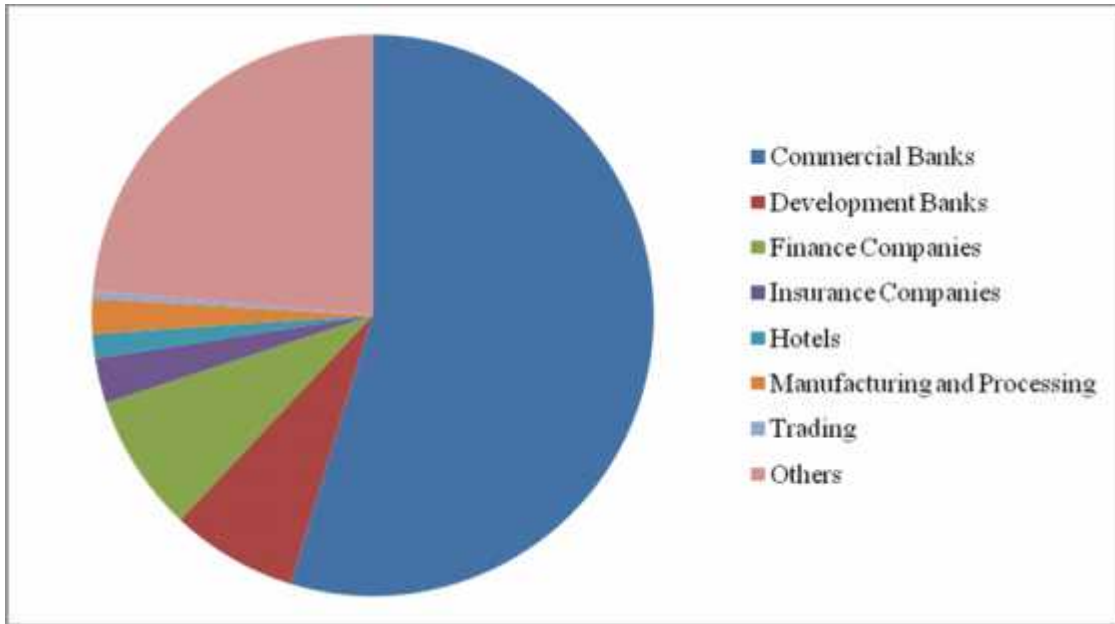


Table 4.6 and the Figure 4.6 represent the market capitalization of listed securities. The highest market capitalization is cover by commercial banks and it's covered the 54.74 percent (206282.52 million out of 376871.37 million). The second highest market capitalization is taken by other sector where includes hydro as well which cover 23.61 percent of total capitalization. The third position is take place by finance company which covers 7.92 percent of total capitalisation and development bank follow near by this percent 7.29 which take place fourth place. Here the lowest market capitalization is cover by trading sector which covered only 0.43 percent out of total market capitalisation. Similarly, the second lowest place is taken by Hotels sector which is just 1.40 percent of total market capitalisation. In the same way third last place is taken by Manufacturing and Processing then after Insurance Companies.

In this way banking sector play dominant role in total market capitalisation. Banking and financial sector covers more than 70 percent of market capitalisation.

4.2.4 Analysis of Market Capitalization:

By the end of the fiscal year 2009/10, the market capitalization of the listed securities reached to Rs.376871.37 million. The capitalization was Rs.512939.07 million in the fiscal year 2008/09. The highest market capitalization recorded in the fiscal year 2009/10 was Rs.506036.7 million on July 20, 2009 and the lowest was Rs.314721.0 million on April 28, 2010. By the end of the fiscal year 2009/10, the percentage contribution of market capitalization on nominal GDP is estimated to be 31.86. The market capitalization in NEPSE is presented in following table

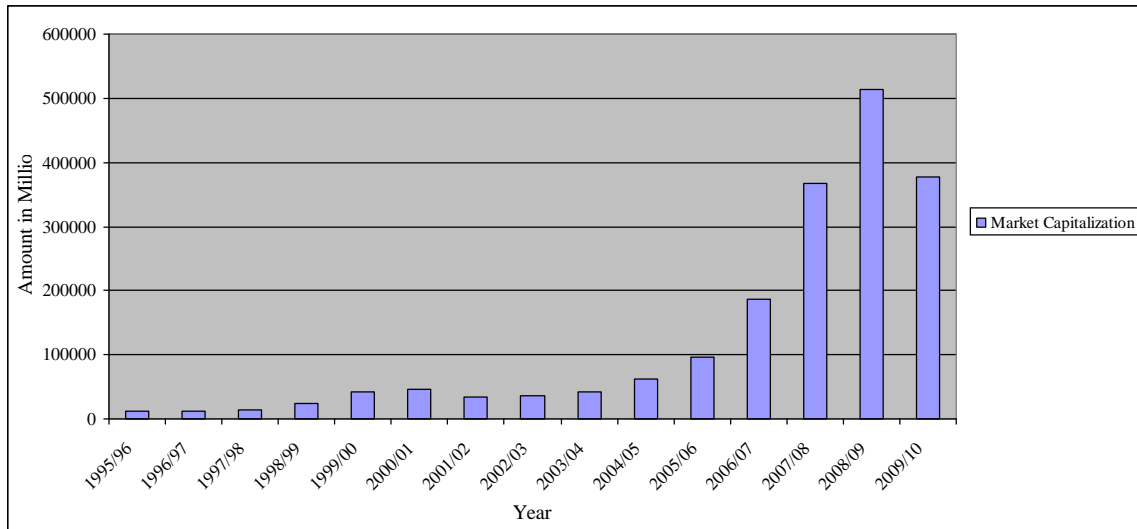
Table No 4.7
Market Capitalization in NEPSE

Fiscal Year	Market Capitalization (Rs. in million)	% Increased in Market Capitalization	% of Turnover to Market Capitalization
1995/96	12295	-5.15	-1.75
1996/97	12698	3.28	3.28
1997/98	14289	12.53	1.42
1998/99	23508	64.52	6.38
1999/00	43123.3	83.44	2.68
2000/01	46349.4	7.48	5.06
2001/02	34703.87	-25.12	4.44
2002/03	35204	1.44	1.63
2003/04	41424.77	17.67	5.18
2004/05	61365.89	48.13	7.34
2005/06	96813.74	57.76	3.56
2006/07	186301.3	92.43	4.48
2007/08	366247.5	96.6	6.23
2008/09	512939.07	40.1	4.23
2009/10	376871.37	-26.53	3.14

Source: Annual Report, SEBON 2009/10 and NEPSE 2009/10

Figure No 4.7

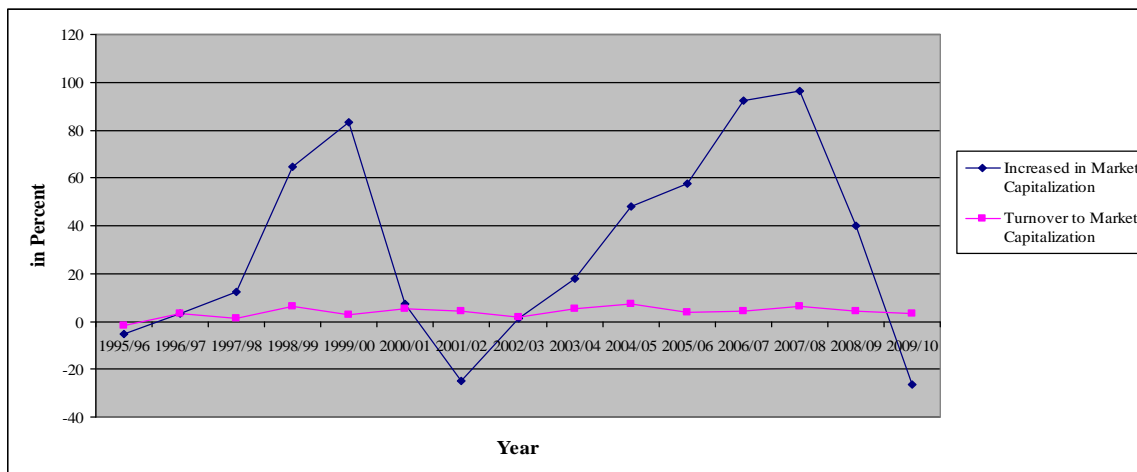
Market capitalization of the of Listed Securities



The above table 4.7 and figure 4.7 show the market capitalization of listed securities in NEPSE. The market capitalization is 376871.37 million in the fiscal year 2009/10. It is decreased by 26.53 percent from the fiscal year 2008/09. The market capitalization was 12295 million in F/Y 1995/96 and it was the lowest market capitalisation. The highest market capitalisation was Rs. 512939.07 million in F/Y 2008/09. The market capitalisation is decreased in F/y 2009/10 and only takes second position. The third position of market capitalisation is Rs 366247.5 in 2007/08.

Figure No 4.8

Percent increased in Market Capitalization and Turnover to Market Capitalization



The figure 4.8 show the percent increase in market capitalization and turnover in to market capitalization of listed securities in NEPSE. The highest increase in market capitalisation is 96.6 percent in F/Y 2007/08. Similarly second and third highest market capitals were 92.43% and 83.44 % in fiscal year 2006/07 and 1999/2000. The highest decreases were 26.53% in F/y 2009/10. Similarly second and third highest decreases were 25.12% and 5.15% in F/y 2001/02 and 1995/96. The market capitalisation to turnover is positive beside F/Y1995/96 during the study period. It's not so fluctuating. The highest increment is 7.34% in F/Y 2004/05 and decrement was 1.74 % in F/y 1995/96.

4.2.5 Analysis of the Growth Trend of Stock Market Indicator:

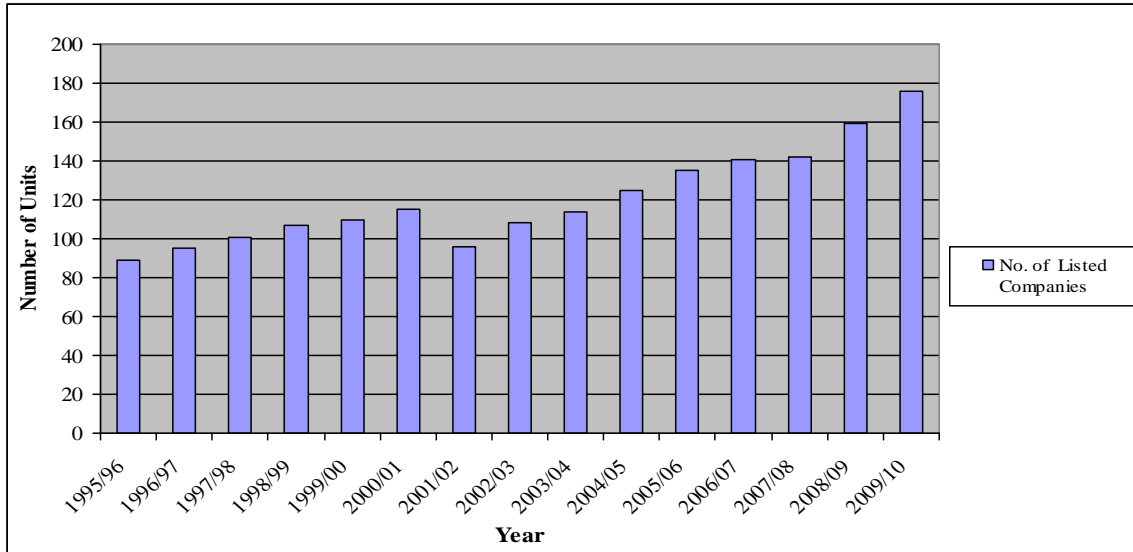
Table No 4.8
Stock Market Indicator

Fiscal Year	No. of Listed Companies	% of Growth	No. of Traded Company	% of Growth	No. of Share Traded '000'	% of Growth
1995/96	89	12.66	59	11.32	2954	-24.28
1996/97	95	6.74	67	13.56	9443	219.67
1997/98	101	6.32	68	1.49	1195	-87.35
1998/99	107	5.94	69	1.47	4857	306.44
1999/00	110	2.80	69	0	7674	58
2000/01	115	4.55	67	-2.90	4989	-34.99
2001/02	96	-16.52	69	3.00	6005	20.36
2002/03	108	12.5	80	15.94	2428	-59.57
2003/04	114	5.56	92	15	6468	166.39
2004/05	125	9.64	102	10.86	18433	184.98
2005/06	135	8.00	110	7.54	12221	-33.70
2006/07	141	4.25	116	5.45	18147	48.49
2007/08	142	0.71	136	17.24	28599.8	57.6
2008/09	159	11.97	170	25	30547.16	6.81
2009/10	176	10.69	198	16.47	26231.35	-14.13

Source: Annual Report, SEBO 2009/10

Figure No 4.9

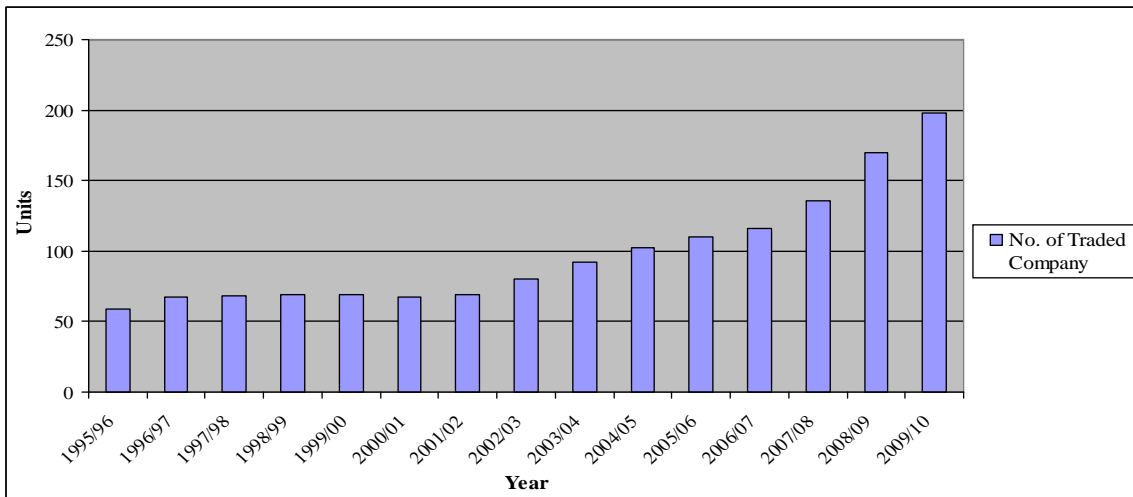
Number of Listed Companies in NEPSE & % of Growth



The figure 4.9 shows the number of listed securities and its growth. The no of listed companies was 89 in 1995/96 at beginning. Today the no of listed company reached to 176 in F/Y 2009/10. The growth rate of listed companies is positive in all these years except in the year 2001/02 with the negative growth rate of 16.52. In that year NEPSE deleted some companies from its list because of non-disclosure of necessary information correctly and timely. The growth rate was highest in 1995/96 with 12.66 percent and lowest in 2001/02 with -16.52 percent.

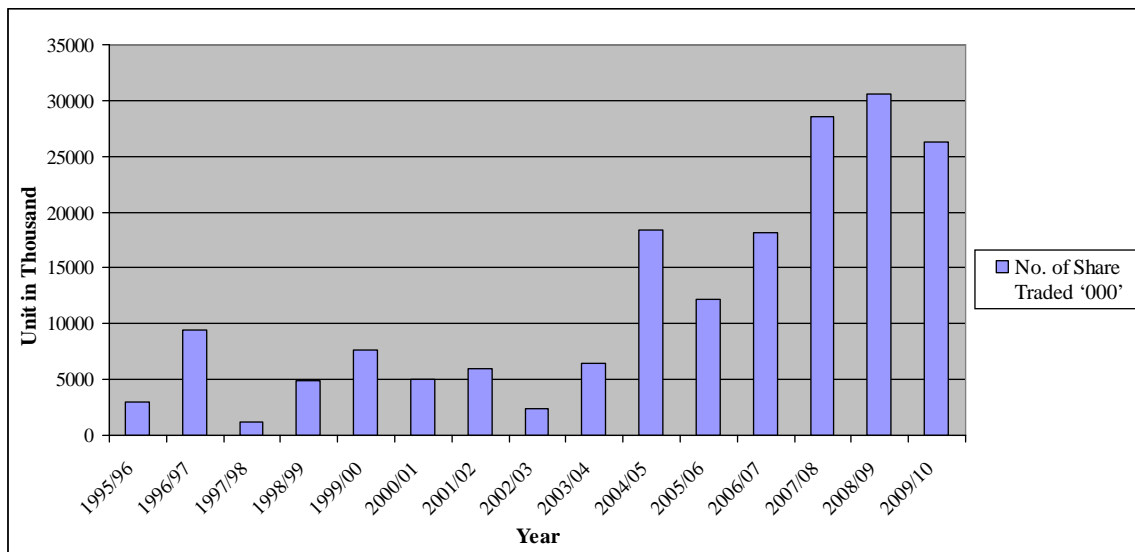
Figure No 4.10

Number of Traded Company & its % Growth Rate



The figure no 4.10 show the number of traded company and its growth. The number of traded companies was 59 in the beginning year 1995/96. The numbers of traded companies are 136 and 170 in the year 2007/08 and 2008/09. The highest number of traded companies is 198 in 2009/10 respectively. Only 59 companies were traded in the trading floor and it rose up to 198 till now. The number traded companies decreased to 67 in the year 2000/01 with the negative growth rate of -2.90 percent. However, the no. of trading companies is increasing after the year 2000/01, Then Continue to increase under the Study Period. The highest increment of traded company is 25% in F/Y 2008/09.

Figure No 4.11
Number of Share traded & Growth Present



The above figure 4.11 show the number of shares traded in different years of study period. The numbers of shares traded were fluctuating. The impact on growth rate is also affected. The number of shares traded in the year 1995/96 was only 2954 thousand. Now the number of shares traded reached 26231.35 thousand in 2009/10. The highest number of shares traded was 30547.16 thousand in F/Y 2008/09. The lowest number of shares traded was 1195 thousand in F/Y 1997/98. The highest growth rate of 306.44 percent increase in F/Y 1998/99 which was increased to 1195 to 4857 thousand. The second highest increase was 219.67 percent in 1997/98. Similarly highest and second highest negative growth rate was -87.35% and -34.99% in F/Y 1997/98 and 2000/01. The number of shares traded was fluctuating in different study years.

4.2.6 Number of Transaction and Listed Securities in NEPSE

Table No 4.9

Number of Transaction and Listed Securities in NEPSE

In Thousand

Fiscal Year	No. of Transaction	% of Growth	No. of Listed Securities	% of Growth
1995/96	17943	-16.44	65880	13.10
1996/97	12428	-30.74	85193	29.32
1997/98	15483	24.58	90107	5.77
1998/99	15814	2.14	105632	17.23
1999/00	29136	84.24	114057	7.98
2000/01	46095	58.21	124971	9.57
2001/02	48028	4.19	134150	7.34
2002/03	69163	44	159958	19.24
2003/04	85533	23.67	161141	0.74
2004/05	106246	24.21	194673	20.81
2005/06	97374	-8.35	226540	16.37
2006/07	120510	23.75	243504	7.49
2007/08	150800	25.13	321131	31.88
2008/09	209091	38.65	637868	98.63
2009/10	213733	2.22	821746	28.82

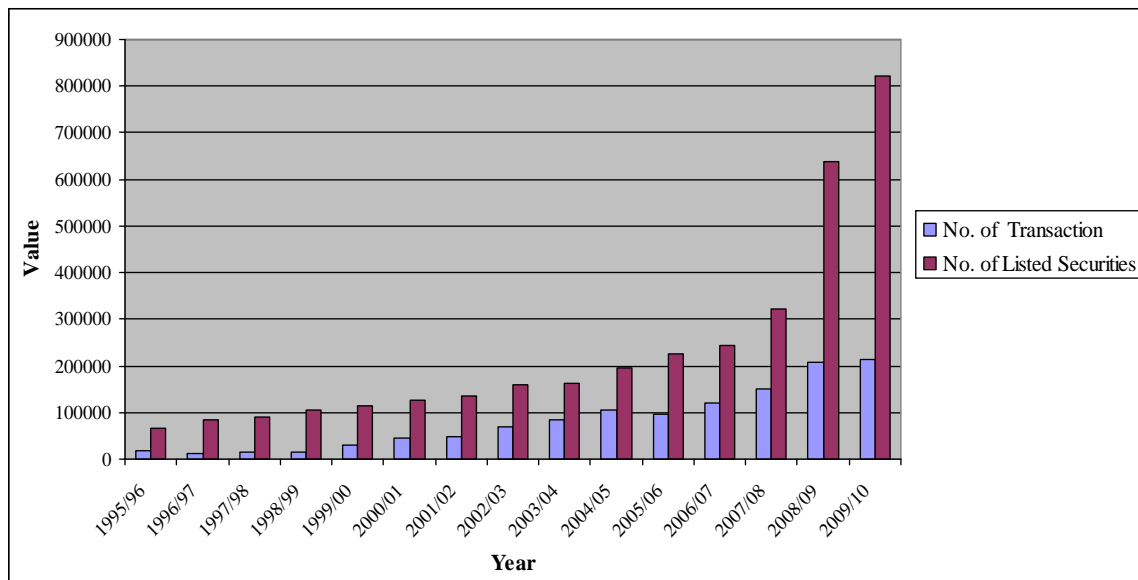
Source: Annual Report, SEBO 2009/10/ NEPSE, Summary Sheet of Transaction 2009/10

Above table 4.9 shows the no of transaction and its growth and also no of listed securities and its growth. Number of transactions is very much varied comparing with different years. In the year, 1995/96 the number of transaction was 17943 thousand which is lower than previous year because 16.44 percent decrease in that year 1995/96. The lowest transaction was 12428 thousand in fiscal year 1996/97 which was decreased by 30.74 percent. This was the highest decrease of transaction in NEPSE. The highest increment year was in 1999/2000 where increases by 84.24 percent. The no. of transaction was increased 15814 to 29136 thousand respectively. In fiscal year 2001/02 also no. of

transaction was increase by 58.21 percent. The number of transaction increases till in 2009/10 is 213733 thousand which is increased by 2.22 percent than previous year. The highest no of transaction is also 213733 thousand in F/Y 2009/10. In this way the number of transaction of company are fluctuating over the study period.

Similarly in the aspect of number of listed securities and its growth there is continuously increasing. The present system is that the securities issued to the public should be listed in stock exchange within 45 days after the allotment date. The growth rates of number of listed securities are all positive with lowest in the year 1995/96 and highest in the year 2009/10 and the numbers are 65880 to increased 821746 thousand respectively. The highest growth rate is in the year 2008/09 by 98.63 percent with 637868 numbers of listed securities and the lowest growth rate is 0.74 percent with 161141 thousand numbers of listed securities in the year 2003/04. In 2009/10 increase by 28.82 percent with 637868 to 821746 thousand increases of number of listed security. In this way number of listed security are consciously increasing till 2009/10. The following figure 4.11 shows the number of transaction and listed securities in NEPSE.

Figure No 4.12
Number of Transaction and Listed Securities in NEPSE



4.2.7 Market Day per Year and Daily Turnover:

Table No 4.10

Market day per year and Percentage Growth rate of Stock

Fiscal Year	Market Day Per Year	% of Growth
1995/96	240	-0.83
1996/97	239	-0.42
1997/98	237	-0.84
1998/99	231	-2.53
1999/00	240	3.9
2000/01	231	-3.75
2001/02	246	6.50
2002/03	238	-3.25
2003/04	243	2.10
2004/05	236	2.88
2005/06	228	3.38
2006/07	232	1.75
2007/08	235	1.29
2008/09	234	-0.43
2009/10	225	-3.85

Source: Annual Report of SEBO 2009/10

Figure No 4.13

Market Day per Year and Percentage of Growth Rate

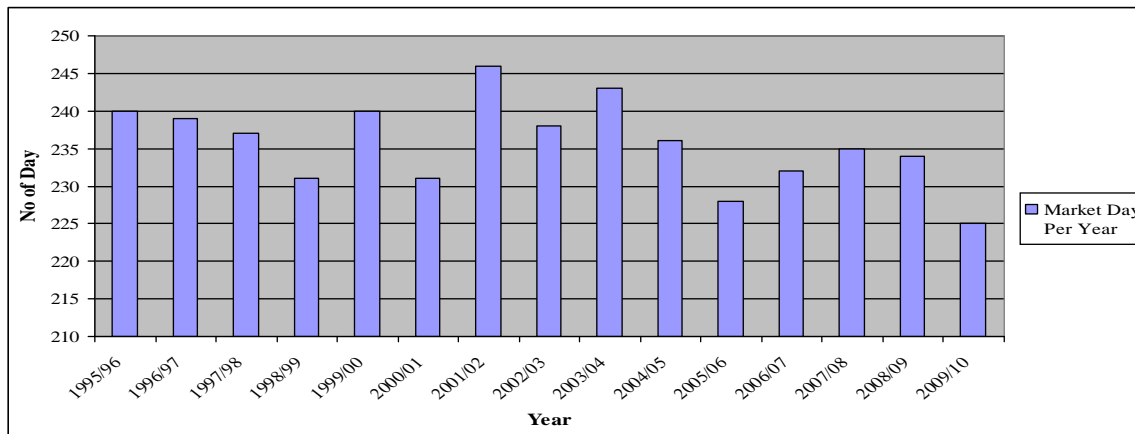


Table No. 4.10 and Figure No 4.13 show the Market Day per Year and Daily Turnover and its growth. The market day turnover is 225 day in fiscal year 2009/10. The highest turnover day was 246 days in 2001/02 and the lowest turnover year was 125 in fiscal year 2009/10. The highest percent of growth rate is 6.50 percent in F/Y 2001/02 and lowest increase or highest percent of decreases is 3.85 percent in fiscal year 2009/10 respectively. In this way we can say fiscal year 2009/10 is worse for market transaction day because lowest only 125 days transact securities in NEPSE.

4.2.8 Market Turnover in Volume and Value:

Table No 4.11

Annual Market Turnover in Volume and Value

Fiscal Year	Annual Turnover in Volume (000)	Annual Turnover in Value (Rs. in million)
1995/96	2954	215.60
1996/97	9443.3	416.20
1997/98	1195.1	202.60
1998/99	4788	1500.00
1999/00	7674	1157.00
2000/01	4987	2344.20
2001/02	5791	1540.60
2002/03	2427.89	575.99
2003/04	6468.18	2144.27
2004/05	18433.55	4507.68
2005/06	12221.93	3451.43
2006/07	18147.25	8630.1
2007/08	28599.8	22820.8
2008/09	30547.16	21681.14
2009/10	26231.35	11851.11

Source: Annual Report, SEBO 2009/10

Figure No 4.14

Annual Market Turnover in Volume and Value

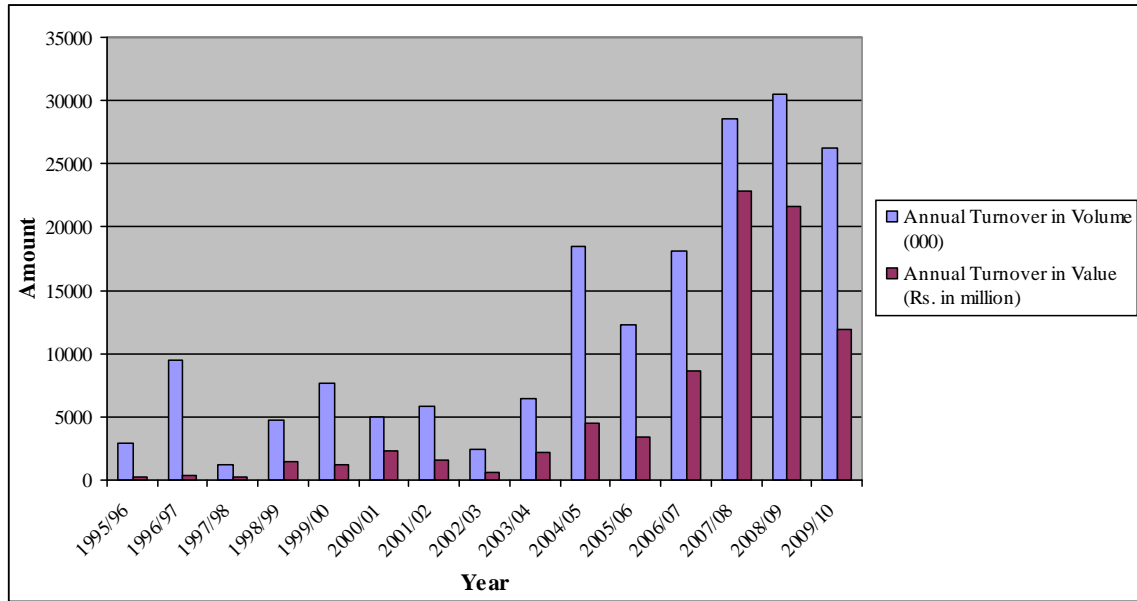


Table 4.11 and Figure 4.14 shows that the highest Annual Market Turnover value was Rs 22820.8 million in the fiscal year 2007/08. The second highest Annual Market Turnover value was Rs 21681.14 million in the fiscal year 2009/10 and lowest was Rs 202.60 million in fiscal year 1997/98. But the volume of Market Turnover was highest in the year 2008/09 with 30574.16 thousand and lowest 2954 thousand in the year 1995/96.

4.2.9 NEPSE Index:

Market indexes are used to determine the relationship between historical price movements and economic variables and to determine the systematic risk for individual securities and portfolios.

The index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of stocks that is increasing or decreasing in the market. Because the prices of stocks go up and down in a particular period compared to the previous period as disclosed by index. The highest index suggests the increase in market price of the stocks and implies the better performance of companies and vice-versa. Thus the NEPSE index shows the behaviour of stock prices in the capital market.

The following table show the NEPSE index and its growth:

Table No 4.12
NEPSE Index

Year	NEPSE Index	% Change in Index
1995/96	185.61	-5.05
1996/97	176.31	-5.01
1997/98	163.35	-7.35
1998/99	216.92	32.79
1999/00	360.70	66.28
2000/01	348.43	-3.40
2001/02	227.54	-34.70
2002/03	204.86	-9.97
2003/04	222.04	8.39
2004/05	286.67	29.10
2005/06	386.83	34.93
2006/07	683.95	76.81
2007/08	936.4	36.91
2008/09	749.10	-20.00
2009/10	477.73	-36.23

Source: Trading Report NEPSE, 2009/10

Figure No 4.15
NEPSE Index

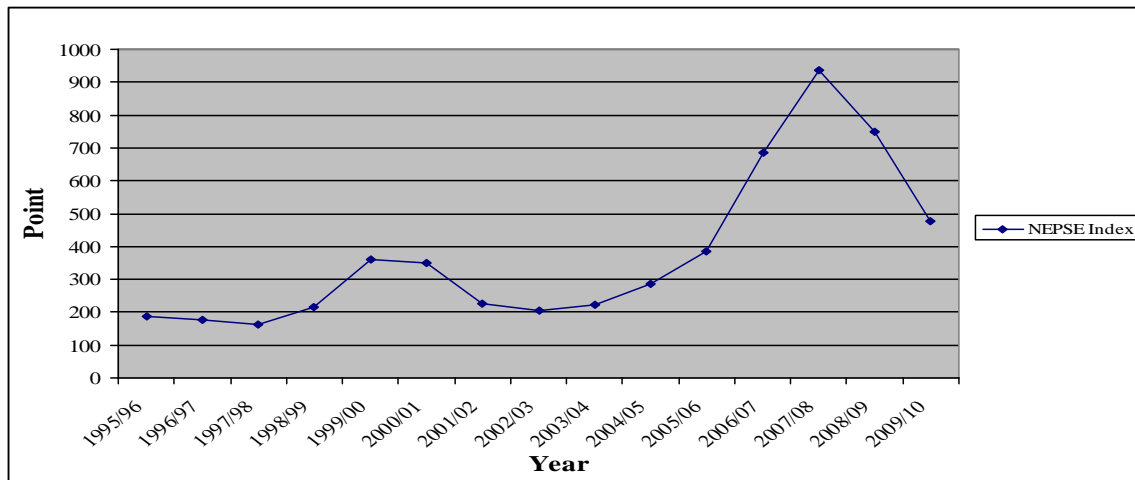


Table 4.12 and Figure 4.15 show the NEPSE index and its movements. The NEPSE Index is fluctuating trend during the study period. The NEPSE Index is analysed 15 year from F/Y 1995/96 to 2009/10. The NEPSE index is 477.73 point in current F/Y 2009/10. The NEPSE index was highest in the fiscal year 2007/08 with 963.4 and it was lowest in the year 1997/98 by 163.35 point. The highest increase in NEPSE index was 66.28% in F/Y 1999/2000. The highest decrease in NEPSE index was -36.23% in F/Y 2009/10. The NEPSE increases up to 2007/08 with 936.4 point, then after continuously decreasing till 2009/10. NEPSE is still continuously decreasing.

4.2.10 Market Capitalization on Nominal GDP

Table No 4.13

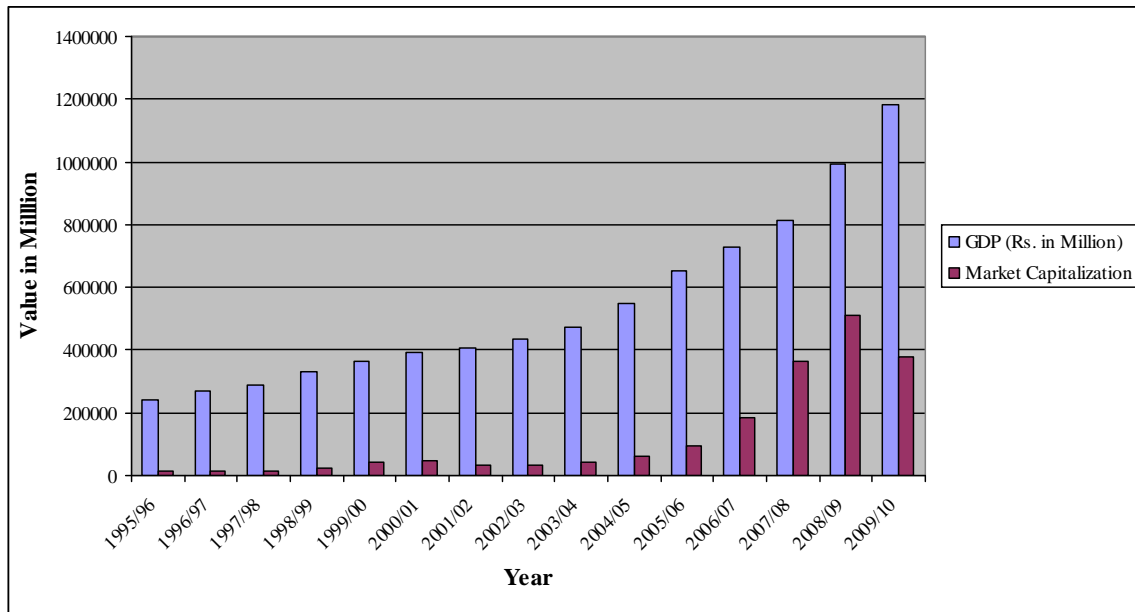
Market Capitalization Vs Nominal GDP

Fiscal Year	Market Capitalization (Rs. in Million)	GDP (Rs. in Million)	% Increased in Capitalization on Nominal GDP
1995/96	12295	239388	5.14
1996/97	12698	269570	4.71
1997/98	14289	289798	4.93
1998/99	23508	329960	7.12
1999/00	43123	365465	11.77
2000/01	46349	392532	11.78
2001/02	34703	405632	8.56
2002/03	35240	435531	8.09
2003/04	41424	472424	8.77
2004/05	61365	548484	11.18
2005/06	96813	654054.5	16.03
2006/07	186301	728178	27.78
2007/08	366247.5	815663.20	44.90
2008/09	512939.1	991316.10	51.74
2009/10	376871.4	1182680.10	31.86

Source: Annual Report, SEBO 2009/10 Trading Report, NEPSE 2009/10.

Figure No 4.16

Market Capitalization on Nominal GDP



The above table 4.13 and figure 4.16 show the total market capitalisation on gross domestic product. The market capitalization on nominal GDP is analysed 15 year from F/Y 1995/96 to 2009/10. The total market capitalisation is increasing and decreasing condition but nominal GDP continuously increasing trend. The highest percentage of market capitalization on nominal GDP was 51.74 percent in the year 2008/09. The second highest percentage of market capitalization on nominal GDP was 44.90 percent in the year 2007/08 and third was 31.86 percent in F/Y 2009/10. Likewise the lowest market capitalization on nominal GDP was 4.71 in 1996/97. The second and third lowest market capitalisations on GDP were 4.93 percent in F/Y 1997/98 and 5.14 percent in 1995/96.

In this way highest market capitalisation on GDP was fiscal year 2008/09. In that year Contribution of market capitalization on GDP was 51.70 percent. But last year 2009/10 Contribution of market capitalization on GDP is 31.86 percent. Which is less than fiscal year 2007/08 and 2008/09 respectively.

4.3 Presentation and Analysis of Primary Data

The questionnaire survey method is used to analyse the “problems and prospects of stock market growth in Nepal.” Samples are taken from different sectors such as investors, staff of SEBON & NEPSE, Share brokers. The results are analysed carefully so that it could lead to real problems and prospects of stock market in Nepal.

4.3.1 Questionnaire survey

The view of respondent are presented as follow:

1. Analysis of the problem faced by stock market

Table No 4.14

Analysis of the problem faced by Stock Market

S. N.	Problems	No of respondent	% of respondent
A	Shortcomings of rules and regulations	7	14
B	Lack of sufficient knowledge among investors	20	40
C	Lack of proper coordination between authoritative body	5	10
D	Restriction to foreign investors	10	20
E	All of the above	8	16
	Total	50	100

Source: Field Survey

Regarding this question, 40 percentages of respondents agrees about the lack of sufficient knowledge among investors and stock market intermediaries. Actually Nepalese investors as well as stock market intermediaries do not have sufficient knowledge about the stock market. Similarly 20 percent response about restriction of foreign investment. 16 percent of responded agree with all of above circumstances and least only 10 percent agree with lack of proper coordination between authoritative body.

2. Analysis of information provided by NEPSE and SEBON correctly and timely

Table No 4.15

Analysis of information provided by NEPSE and SEBON correctly and timely

S. N.	Variables	No. of respondent	% of respondent
A	Yes	20	40
B	No	25	50
C	Do not know	5	10
	<i>Total</i>	<i>50</i>	<i>100</i>

Source: Field Survey

Regarding this question, 50 percent of the respondents are of the view that the information provided by NEPSE and SEBO are not correct and timely. Similarly 40 percent respondent urged yes and 10 percent view they don't know

3. Analysis of the performance of Nepal Stock Exchange

Table No 4.16

S. N.	Variables	No. of respondent	% of respondent
A	Yes	22	44
B	No	18	36
C	Do not know	10	20
	Total	50	100

Source: Field Survey

Regarding this question, more than 44 percent (22) are satisfied about the performance of Nepal Stock Exchange. 36 percent are not satisfied about of performance of NEPSE and lest 20 percent do not know about the performance. In fact, despite of many rise and fall the work of NEPSE is satisfactory. Here majority of respondent viewed satisfied in performance of NEPSE.

4. Analysis of the growth trend of Nepalese Stock Market

Table No 4.17

Response of the growth trend of Nepalese Stock Market

S. N.	Variables	No. of respondent	% of respondent
A	Good	18	36
B	Bad	28	56
C	Do not know	4	8
	Total	50	100

Source: Field Survey

Regarding this question, 36 percent agree the growth trend of Nepalese Stock Market is good, 56 percent feels it bad and other 8 percent are unknown about it. So analysis of responded view that growth trend of Nepal stock market is bad. But conclusion can draw to some extent satisfied with the growth trend of Nepalese Stock Market.

5. Analysis of Motivating factors for Investment

Table No 4.18

Responses about factors which motivate investment

S. N.	Variables	No. of respondent	% of respondent
1	Marketability & Profitability	17	34
2	Limited opportunity to invest in other sector	11	22
3	Friends and Family	12	24
4	Share brokers consultation	8	16
5	If other, please specify	2	4
	Total	50	100

Source: Field Survey

Regarding this question, 34 percent of the respondents invest in stock because of marketability and profitability, 24 percent invest with consultations from family and friends, 22 percent are of the view that they see limited opportunities of investment, 16 percent consult brokers and 4 percent say that they act on a whim of the market, political legal environment. So observation indicates that Nepalese investors are more profit concerned, and a large number also invest taking suggestions with friends and family. The conclusion is that a scenario for tendency of observation and analysis has been developed quite among Nepalese investors.

6. Analysis of Share Purchase Decision

Table No 4.19
Response to Share Purchase Decision

S. N.	Variables	No. of respondent	% of respondent
1	Increasing Market price of the share	20	40
2	Profit/Loss trend of the Company	18	36
3	Act of whim	8	16
4	Broker's consultation	3	6
5	If others, please specify	1	2
	Total	50	100

Source: Field Survey

Answer to this question, about 40 percent purchase the share observing the trend of market price, other 36 percent observe Profit/Loss situation of the company, 16 percent act on the whim of market, 6 percent consults brokers and rest 2 percent analyze management team. So the analysis indicates majority of respondent viewed towards increasing market price make decision to purchase share.

7. Analysis of Disclosure Requirements

Table No 4.20

Response to Weakness of Players

S. N.	Variables	No. of respondent	% of respondent
1	The office of the company registrar	15	30
2	Security Board Nepal (SEBO/N)	12	24
3	Nepal Stock Exchange (NEPSE)	5	10
4	Investors/ Brokers	7	14
5	Particular company	11	22
	Total	50	100

Source: Field Survey

In response to this question, 30 percent of the respondents are of the opinion that company registrar office is responsible for not presenting the financial statement of particular company to SEBO and NEPSE. 24 percent blame it to SEBO, 10 percent to NEPSE and 22 percent agree with particular company. 14 percent agree with Investors/Brokers decision.

8. Analysis of interrelationship between Stock Market and Economy

Table No 4.21

Response to relationship between Stock Market

S. N.	Variables	No. of respondent	% of respondent
1	High	30	60
2	Moderate	15	30
3	Low	5	10
	Total	50	100

Source: Field Survey

Regarding this question, 60 percent agree towards high relationship between stock market and economy, 15 percent say it moderate and other 10 percent rank it low correlated. Undoubtedly, the conclusion is that stock market and economy is positively correlated i.e. highly related to each other.

9. Analysis of Performance of Stock Market for the Development of the Economy

Table No 4.22

Response to performance of stock market for development of economy

S.N.	Variables	No. of respondent	% of respondent
1	Yes	30	60
2	No	15	30
3	Do not know	5	10
	Total	50	100

Source: Field Survey

In response to this question, 60 percent are satisfied with the performance of stock market, 30 are not and other 10 percent do not know about development of economy.

10. Analysis of Risky Investment

Table No 4.23

Response of risk for investment

S. N.	Variables	No. of respondent	% of respondent
A	Buying the share when first issued	12	24
B	Buying the share in secondary market	18	36
C	Both of them	20	40
D	None of them	-	-
	Total	50	100

Source: Field Survey

Regarding this question, 40 percent feel both investments mentioned above in both of them A and B. are risky, 36 percent feel investment through buying from secondary market is risky, while the other 24 percent feel investment in primary issue is more risky. As an analyst, the decision taken the c, both of them are risky as it is said profit is the consideration for risk.

11. Analysis of time to sell the share.

Table No 4.24
Response of time to sell the share

S. N.	Variables	No. of respondent	% of respondent
A	When company's profit declines	15	30
B	When company fails to pay dividend	13	26
C	When market price of the share starts declines	12	24
D	When cash is needed	8	16
E	If other, please specify	2	4
	Total	50	100

Source: Field Survey

Regarding to this questions, 30 percent sell their share when company's profit declines, 26 percent sell their share when it fails to pay dividend, 24 percent sell it when market price of the share starts declining, 16 percent sell it when cash is needed and other 4 percent sell it to maintain portfolio investment.

12. Analysis of the points that provide prospects to Nepalese stock market growth

Table No 4.25

Responses in prospect of stock market growth

S. N.	Variables	No. of respondent	% of respondent
A	Stock market provides max returns	10	20
B	Limited opportunities for investment	8	16
C	Liquidity & Marketability of securities	12	24
D	Increasing concerns of generals and academicians in stock market	8	16
E	All of the above	12	24
	Total	50	100

Source: Field Survey

Regarding to the question, the highest 24 percent agree on liquidity & marketability in the prospect of stock market development, while the other 24 percent agree that all the points are equally important. Other 20 percent, 16 percents are divided into maximum returns, limited opportunities and growing concerns in this sector.

13. Experience about the problems in NEPSE

One question was asked to respondents to share the view regarding the problems of stock market in Nepal. Some of respondents have given many suggestions answering their views out of the 50 respondents. They are presented below:

- (1) The operation of NEPSE is not transparent.
- (2) There is not efficient information system and much delay in providing company's financial status.
- (3) Brokers do not provide proper advice and suggestions to the clients.
- (4) Brokers are commission oriented and have very little knowledge about stock market mechanism.

- (5) The stock market is trading with open out-cry system even in these computerized business days.
- (6) The process of transferring of ownership of shares is lousy and time consuming. Likewise payment also made delayed.

They provide many suggestions to solve these problems.

1. The securities board should monitor and regulate stock market by following strict controlling mechanism and appropriate penalty system. It should withdraw traditional operation by introducing modern International standards of trading.
2. The stock exchange should carry out periodic research and analysis and findings should be made public.
3. The open-out-cry system and computerized of trading should be replaced by CDS trading mechanism.
4. Laws governing the stock market should be more liberal but strict to maintain stock market discipline.
5. Investors should be provided with investment guidelines and awareness.
6. The role of market player in the stock market should be made more effective.

4.4 Major Findings of the Study

The major findings of the study from the analysis of primary and secondary data are as follows:

1. There are 176 companies listed in NEPSE in till fiscal year 2009/10. The highest 35.22 Percent i.e. 62 number of finance company are listed in NEPSE. Similarly 40 development banks, 23 commercial Bank, 19 Insurance companies, 18 Manufacturing and Processing Company, 4 hotels and trading company 3 hydro powers and 3 other company are listed.
2. The yearly volume of traded stock and NEPSE index are fluctuating. The number of company and number of transaction are increasing during the study period. However, there is a sharp rise in the turnover value in rupee and market index in

fiscal year 2007/08. The highest NEPSE Index is 936.4 in the fiscal year 2006/07 and turnover value Rs 22820.8 million. The highest market capitalization 512939 million and total turnover volume is 30547.16 in F/Y 2008/09.

3. The analysis of monthly turnover of listed security on 2009/10, monthly turnover that the highest amount traded in September which is Rs 2101.86 million and second highest is traded in August by 1858.81 million. The amount of turnover is decreasing subsequent year. The lowest turnover in month of May was just Rs 397.9 million.
4. In the aspect of paid up value of listed securities in NEPSE, The total paid up value of listed securities is Rs 79356.73 million in F/Y 2009/10. The huge amount of paid-up value is covered by the commercial Banks i.e. 41.46 percent. It indicates banking sector dominant to other sector. The second highest amount of paid-up value covered by the other including telecom and hydro sector which is takes 23.09 percent. The lowest paid-up value is cover by trading just 0.10 percent which is 82.18 out of 79356.73 million.
5. The paid up value of listed securities, percent increase in paid up value and percentage increase in turnover of paid up capital as follow by the end of this fiscal year 2009/10. The paid-up value of listed securities increased by 29.79 percent and reached to 79356.73 million. The paid up capital is continuously increasing. There was 3358.5 million paid up capital in 1995/96. The highest increment of paid up capital is in fiscal year 2008/09 where increases by 107.5 percent. The percentage of turnover on paid-up capital is highest in the fiscal year 2007/08 with 77.44 percent. The lowest turnover in paid-up capital was in the fiscal year 1997/98 with only 4.09 percent.
6. In the market capitalization of listed securities, the highest market capitalization is cover by commercial banks and it's covered the 54.74 percent. The second highest market capitalization is taken by other sector which cover 23.61 percent of total capitalization. The third position is take place by finance company which covers 7.92 percent then development bank follow near by this percent 7.29 which take place fourth place. The lowest market capitalization is cover by trading sector which covered only 0.43 percent out of total market capitalisation.

7. The market capitalization is Rs. 376871.37 million in the fiscal year 2009/10. It is decreased by 26.53 percent from the fiscal year 2008/09. The market capitalization was 12295 million in F/Y 1995/96 and it was the lowest market capitalisation. The highest market capitalisation was Rs. 512939.07 million in F/Y 2008/09. The highest increase in market capitalisation is 96.6 percent in F/Y 2007/08. The highest decreases were 26.53% in F/y 2009/10. The market capitalisation to turnover is positive beside F/Y1995/96 during the study period. It's not so fluctuating.
8. In analysis of the Growth Trend of Stock Market Indicator, The number of listed companies was 89 in 1995/96 at beginning. Today the no of listed company reached to 176 in F/Y 2009/10. The growth rate of listed companies is positive in all these years except in the year 2001/02. Similarly, the number of traded companies was 59 in the beginning year 1995/96. The highest number of traded companies is 198 in 2009/10 respectively. Only 59 companies were traded in the trading floor and it rose up to 198 till now. In aspect of number of shares traded in different years of study period, the number of shares traded in the year 1995/96 was only 2954 thousand. Now the number of shares traded reached 26231.35 thousand in 2009/10. The highest number of shares traded was 30547.16 thousand in F/Y 2008/09. The number of shares traded was fluctuating in different study years.
9. The number of transaction and its growth and also no of listed securities and its growth is very much varied comparing with different years. In the year, the number of transaction was 17943 thousand in 1995/96. The lowest transaction was 12428 thousand in fiscal year 1996/97. The highest increment was 84.24 percent in 1999/00. The highest no of transaction is 213733 thousand in F/Y 2009/10. In this way the number of transaction of company are fluctuating over the study period. Similarly in the aspect of number of listed securities and its growth there is continuously increasing. The growth rates of number of listed securities are all positive with lowest in the year 1995/96 and highest in the year 2009/10 and the numbers are 65880 to increased 821746 thousand respectively. The highest growth rate is 98.63 percent in the year 2008/09 and the lowest

growth rate is 0.74 percent in the year 2003/04. In this way number of listed security are consciously increasing till 2009/10.

10. The Market Day per year and daily turnover and its growth. The market day turnover is 225 day in fiscal year 2009/10. The highest turnover day was 246 days in 2001/02 and highest percent of growth also. The lowest turnover year was 125 in fiscal year 2009/10. In this way we can say fiscal year 2009/10 is worse for market transaction day because lowest only 125 days transact securities in NEPSE.
11. Market Turnover in Volume and Value, the highest Annul Market Turnover value was Rs 22820.8 million in the fiscal year 2007/08. The second highest Annul Market Turnover value was Rs 8630.1 million years in 2006/07 and lowest was Rs 202.60 million in fiscal year 1997/98. But the volume of Market Turnover was highest in the year 2004/05 and lowest in the year 1993/94.
12. The NEPSE index and its movements are taken as a measuring tool whether the performance of stock market is good or not. The NEPSE Index is fluctuating trend during the study period. The NEPSE index is 477.73 point in current F/Y 2009/10. The NEPSE index was highest in the fiscal year 2007/08 with 963.4 and it was lowest in the year 1997/98 by 163.35 point. The NEPSE increases up to 2007/08 with 936.4 point, then after continuously decreasing till 2009/10. NEPSE is still continuously decreasing.
13. In aspect of the market capitalization on nominal GDP, the total market capitalisation is increasing and decreasing condition but nominal GDP continuously increasing trend. The highest percentage of market capitalization on nominal GDP was 51.74 percent in the year 2008/09. The lowest market capitalization on nominal GDP was 4.71 in 1996/97. In this way market capitalisation on GDP is fluctuating.
14. Regarding the questionnaire, 40 percentages of respondents agrees about the lack of sufficient knowledge among investors and stock market intermediaries. 20 percent urge in restriction of foreign investment. 16 percent agree with all of above and least only 10 percent agree with lack of proper coordination between authoritative bodies.

15. Regarding the questionnaire of NEPSE and SEBON provides information correctly and timely, 50 percent of the respondents are of the view that the information provided by NEPSE and SEBON are not correct and timely. 40 percent respondent urged yes and 10 percent view they don't know
16. Regarding the question with the performance of Nepal Stock Exchange, 44 percent are satisfied about the performance of NEPSE, 36 percent are not satisfied and 20 percent do not know about the performance.
17. Regarding the question, 36 percent agree the growth trend of Nepalese Stock Market is good, 56 percent feels it bad and other 8 percent are unknown about it.
18. Regarding the question about motivates factor, 34 percent of the respondents invest in stock because of marketability and profitability, 24 percent from family and friends, 22 percent are of the view that they see limited opportunities of investment, 16 percent consult brokers and 4 percent say that they act on a whim of the market, political legal environment.
19. In the question factor makes you decide to buy share of particular company, about 40 percent purchase the share observing the trend of market price, other 36 percent observe Profit/Loss situation of the company, 16 percent act on the whim of market, 6 percent consults brokers and rest 2 percent analyze management team.
20. In response to the questionnaire of present financial statement, 30 percent of the respondents are of the opinion that company registrar office is responsible for not presenting the financial statement of particular company to SEBO and NEPSE. 24 percent blame it to SEBON, 10 percent to NEPSE and 22 percent agree with particular company. 14 percent agree with Investors/Brokers decision.
21. Regarding the question of interrelated, 60 percent agree towards high relationship between stock market and economy, 15 percent say it moderate and other 10 percent rank it low correlated.
22. In response satisfied with the performance of stock market for the development of the economy, 60 percent are satisfied with the performance of stock market, 30 are not and other 10 percent do not know about it.

23. Regarding the question of risky to invest, 40 percent feel both investments mentioned above in both of them A and B. are risky, 36 percent feel investment through buying from secondary market is risky, while the other 24 percent feel investment in primary issue is more risky.
24. Regarding the questionnaire to sell share in secondary market, 30 percent sell share when company profit declines, 26 percent sell their share when it fails to pay dividend, 24 percent sell it when market price of the share starts declining, 16 percent sell it when cash is needed and other 4 percent sell it to maintain portfolio investment.
25. The question of relevant in the prospect of Nepalese Stock Market growth, the highest 24 percent agree on liquidity & marketability in the prospect of stock market development. 24 percent agree that all the points are equally important. Other 20 percent and 16 percents are divided into maximum returns, limited opportunities and growing concerns in this sector.
26. Regarding for the development of Nepalese Stock Market views are NEPSE is not transparent, no efficient information system and much delay in providing company's financial status, Brokers do not provide proper advice and suggestions, commission oriented, ignore to small shareholder, delay of payment and ownership transfer. Similarly lack of central depository system (CDS) system. For the suggestion all these things should be corrected and systemized.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In this research Problem and prospect of Nepalese stock market, the researcher has identified that research problem and set objectives to solve research problems and find the prospect of stock market as described in introduction chapter. The main objective of the study is to analyze the problem and prospects of share market. The specific objectives of the study are to find out to examine the pace and evaluate of stock market growth in Nepal, to identify which sector have major influence in Nepalese stock market. to find out the sequence of listed securities, transaction, market capitalisation and index of Nepalese stock market. The research is based on primary and secondary source of data. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely. This section includes conceptual review and review of related studies. In conceptual review includes concept and meaning of capital market, securities market, primary, secondary and OTC market. Stock exchange, NEPSE index and share markets policy and procedure and its significant. In the review of related studies includes review of books articles and journals and review of previous thesis.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. This study is mainly conducted on the basis of primary and secondary data. Various questionnaires asked for primary data analysis. The secondary data are collected from annual reports, official report, economic journal, financial statement etc. and authorize web site of security board of Nepal and Nepal stock exchange and Nepal Rastra Bank. The fifteen years financial statement has been examined for the purpose of the study.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes primary and secondary data analysis. In secondary data analysis, which consists analysis of details sector wise company, volume of traded stock and NEPSE, analysis of turnover and paid up value of listed securities. Similarly, Analysis of market capitalization, growth trend of stock market indicator, NEPSE Index and capitalization on GDP are also analyzed. In primary data analysis the questionnaires asked to different kind of people and conclusion drawn according to their view and answered. In this way various analyses have been applied to fulfill the objective of this study. The major findings of the study are also included in the final section of the presentation and analysis chapter.

The process of stock market development in the country Nepal actually started in 1976 when the government established Securities Exchange Centre to provide and develop market for securities, both the government bond and corporate securities. In 1993, Securities Board Nepal was established with the objectives to regulate, supervise and monitor the securities market. Similarly, the Securities Exchange Centre was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. NEPSE, now, is adopting computerized trading system, where the investors were allowed to deal in securities out through licensed brokers.

The equity market activities grow with the development and reform in the financial sector. Over the past 15 years of study period, the stock market of Nepal has made significant progress. For example, the fiscal year 1995/96 and 2009/10, the number of listed companies in NEPSE increased almost double from 89 to 176 and the market capitalization value is 12295 to 376871.37 million. Likewise, the paid-up value at the beginning of the fiscal year 1994/95 was Rs. 3358.5 million and increase to 79356.73 million of the fiscal year 2009/10. The no of traded securities or market turnover value also increases 2954 to 26231.35 thousand. In this way it can be said that significant growth has been made by Nepal stock market so far.

5.2 Conclusions

Thus this research is conducted with the major objective of highlighting problem and prospect of Nepalese capital market. The observation and conclusion is derived from analyzed data and major finding. The development of stock market in Nepal considered satisfactory even decreasing trends. This is evident from the facts and figure available in the stock market performance during the last 15 years. There are 176 companies listed in NEPSE in till fiscal year 2009/10. In NEPSE 62 finance company, 40 development banks, 23 commercial Bank, 19 Insurance companies, 18 Manufacturing and Processing Company, 4 hotels and trading company 3 hydro powers and 3 other company are listed.

The volume of traded stock and NEPSE index are fluctuating. The number of company and number of transaction are increasing during the study period. The highest NEPSE Index is 936.4 in the fiscal year 2006/07 and turnover value Rs 22820.8 million. The highest market capitalization Rs 512939 million and total turnover volume is in F/Y 2008/09. The monthly turnover in NEPSE, the highest amount traded in September which is Rs 2101.86 million in year 2009/10. The paid up value of listed securities in NEPSE is Rs 79356.73 million in F/Y 2009/10. The commercial Banks covered highest 41.46 percent of paid-up value. The lowest paid-up value is cover by trading just 0.10 percent. The paid-up value of listed securities increased by 29.79 percent and reached to Rs. 79356.73 million in 2009/10. The paid up capital is continuously increasing. There was Rs 3358.5 million paid up capital in 1995/96. The highest increment of paid up capital is in fiscal year 2008/09 where increases by 107.5 percent. The percentage of turnover on paid-up capital is highest in the fiscal year 2007/08 with 77.44 percent. The lowest turnover in paid-up capital was in the fiscal year 1997/98 with only 4.09 percent.

The market capitalization is Rs 376871.37 million in the fiscal year 2009/10. The market capitalization of listed securities, the highest market capitalization is cover by commercial banks and it's covered the 54.74 percent. The second highest market capitalization is taken by other sector and third position is take place by finance company then development bank. The lowest market capitalization is cover by trading. The highest market capitalisation was Rs 512939.07 million in F/Y 2008/09 and that is highest

increment i.e. 96.6 percent. The market day turnover is 225 day in fiscal year 2009/10. Similarly, the highest Annual Market Turnover value was Rs 22820.8 million in the fiscal year 2007/08 and lowest was Rs 202.60 million in fiscal year 1997/98. The volume of Market Turnover was highest in the year 2008/09 with 30574.16 thousand and lowest 2954 thousand in the year 1995/96. The market capitalization on nominal GDP, total market capitalisation is fluctuating but nominal GDP continuously increasing trend. The highest percentage of market capitalization on nominal GDP was 51.74 percent in the year 2008/09. The lowest market capitalization on nominal GDP was 4.71 in 1996/97. In this way market capitalisation on GDP is oscillating.

The Growth Trend of Stock Market Indicator, The number of listed companies was 89 in 1995/96 now it increases to 176 till F/Y 2009/10. The growth rate of listed companies is positive in all these years beside year 2001/02. Similarly, the number of traded companies was 59 in the beginning year 1995/96 and almost traded 198 companies in 2009/10 respectively. The number of shares traded in the year 1995/96 was only 2954 thousand and now the number of shares traded reached 26231.35 thousand in 2009/10. The number of shares traded was fluctuating in different study years. The number of transaction was 17943 thousand in 1995/96 and highest no of transaction is 213733 thousand in F/Y 2009/10. The growth rates of number of listed securities are all positive with lowest in the year 1995/96 and highest in the year 2009/10 and the numbers are 65880 to increased 821746 thousand respectively. In this way number of listed security are consciously increasing till 2009/10. The NEPSE index and its movements are taken as a measuring tool whether the performance of stock market is good or not. The NEPSE Index is fluctuating trend. The NEPSE index is 477.73 point in current F/Y 2009/10. The NEPSE index was highest in the fiscal year 2007/08 with 963.4 and it was lowest in the year 1997/98 by 163.35 point. The NEPSE increases till 2007/08 with 936.4 point, then after continuously decreasing till 2009/10. NEPSE is still continuously decreasing.

For the analysis of primary data, according to questionnaire, major 40 percentages of respondents agrees about the lack of sufficient knowledge among investors and stock market intermediaries. Regarding this question of NEPSE and SEBON provides

information correctly and timely, 50 percent of the respondents are of the view that the information provided by NEPSE and SEBON are not correct and timely. 40 percent respondent urged yes. Similarly, 44 percent are satisfied about the performance of NEPS. 36 percent are not satisfied and 20 percent don't know about the performance. 36 percent agree the growth trend of Nepalese Stock Market is good and 56 percent feels bad. Regarding about motivates factor, 34 percent of the respondents invest in stock because of marketability and profitability, 24 percent from family and friends, 22 percent are of the view that they see limited opportunities of investment, 16 percent consult brokers and 4 percent say that they act on a whim of the market, political legal environment.

The factor makes buyer decide to buy share of particular company, about 40 percent purchase the share observing the trend of market price, 36 percent observe Profit/Loss situation of the company, 16 percent act on the whim of market, 6 percent consults brokers and rest 2 percent analyze management team. The 30 percent of the respondents are of the opinion that company registrar office is responsible for not presenting the financial statement of particular company to SEBON and NEPSE. 24 percent blame it to SEBON, 10 percent to NEPSE and 22 percent agree with particular company. 14 percent agree with Investors/Brokers decision. 60 percent agree towards high relationship between stock market and economy. In the same way 60 percent are satisfied with the performance of stock market, 30 are not. Regarding this question of risky to invest, 40 percent feel both investments mentioned above in both of them are risky, 36 percent feel investment through buying from secondary market is risky. Reason to sell share in secondary market, 30 percent sell their share when company's profit declines, 26 percent sell their share when it fails to pay dividend, 24 percent sell it when market price of the share starts declining, 16 percent sell it when cash is needed and other 4 percent sell it to maintain portfolio investment. The highest 24 percent agree on liquidity & marketability in the prospect of stock market development, while the other 24 percent agree that all the points are equally important.

Regarding for the development of Nepalese Stock Market views are NEPSE is not transparent, no efficient information system and much delay in providing company's

financial status, Brokers do not provide proper advice and suggestions, commission oriented, bayous to small shareholder, delay of payment and ownership transfer. Similarly lack of CDS system. For the suggestion all these things should be corrected and systemized. Applying CDS system is good prospect of growth in capital market.

Despite the increase in the number of companies and paid-up value of the securities listed with the exchange, Most of the companies that are listed with the exchange belong to banking, finance, and insurance sectors. While only few companies from the trading, hotel, manufacturing, and aviation sectors are listed with the exchange, not a single company from powers information technology and construction sectors has entered the organized stock exchange of the country. This indicates that firms tend to avoid stock market as an alternative source of long-term capital in Nepal. Significant increase in the number of companies registered as private limited during the last one and half decade also supports this view. This has adversely affected the liquidity and supply of securities in the stock market. So focus should be given to other company as well.

5.3 Recommendations

-) Securities Board Nepal (SEBON) should regulate NEPSE and other financial institutions adequately, appropriately and effectively.
-) The SEBON should be needed to implement the electronic system of trading CDS system and the automation in the clearance system. for easy and excellent transaction of share in Nepalese Capital Market
-) The Securities Board in co-ordination with the Government, Ministry of Finance, NRB and NEPSE should develop research, public awareness and investor education programmes.
-) The listed firms whose shares are not traded should provide the financial status publicly in order to make the investors aware about their exact financial condition.
-) Transparency and openness of transaction, quality professional services, adequate corporate financial disclosures and improved legal and supervisory framework are the urgent needs of Nepalese stock market

-) The government should make appropriate environment for foreign investment, NRN investment corporate investment for bust up development in the Nepalese stock market.
-) Large and ineffective government corporations should be privatized in order to develop the Nepalese stock market through the wide spread distribution of shares to public investors.
-) The procedure for offering public issue should be simplified and rationalized.
-) Government should create the environment to establish mutual fund and mutual saving schemes and investment company.
-) Stock Exchange should be privatized if the work and performance are not satisfactory.
-) All Brokers agreed that there should be right code of conduct and monitoring for brokers operations. It was observed that the prescribed code of conduct is hardly enforced.
-) In the context of primary share issue, there should be strict time frame for allotment of share, refund of money, distribution of share certificate and history of shares. There should be strict punishment if the prospectus is misleading and investors are affected by misleading prospectus.
-) Different market intermediaries should be educated, trained and professionalized.
-) There are inconveniences mostly in signature verifications, buying and selling of shares and delay of cash payment. So SEBON should make easier and fast.
-) Investor's confidence in Nepalese stock market is relatively low because of stock market volatility, low return in investment, inadequate information, lack of financial market instruments and investors not knowing about the risk of the stock market investment. SEBON and NEPSE implement investor awareness program.
-) Besides these, other factors which have slowed the stock market growth should be adjusted and improved. They are unfavorable macroeconomic conditions; economic recession, liquidity crisis, political instability, low investors confidence, weak tax system, slow privatization process etc also make effect.

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Appendix

Dear Sir/Madam,

I am preparing my research work on the topic “Problems and Prospects of Stock Market in Nepal” for the partial fulfilment of the requirement for the degree of Master in Business Study. The questionnaire given below will be very helpful to collect primary data in respect of my research work. Therefore, I would like to request for your grateful opinions and correct information’s regarding these questions.

I hope forward for your kind cooperation.

Respondent

Researcher

Name: -----

Susmita Tamrakar

Education: -----

Prithive Narayan Campus

Occupation: -----

Roll No. 120 / 063

Position: -----

M.B.S

Questions

1. Which of the following problem that the Nepalese stock market has been suffering from?
 - (a) Shortcomings of rules and regulations. []
 - (b) Lack of sufficient knowledge among investors. []
 - (c) Lack of sufficient knowledge among stock market intermediaries. []
 - (d) Lack of proper coordination between authoritative bodies. []
 - (e) Restriction to foreign investors. []
 - (f) All of the above. []

2. Do you think Nepal Stock Exchange and Security Board Nepal (NEPSE & SEBON) provides information correctly and timely?

- (a) Yes []
- (b) No []
- (c) Do not Know []

3. Are you satisfied with the performance of Nepal Stock Exchange?

- (a) Yes []
- (b) No []
- (c) Do not Know []

4. What do you think about the growth trend of Nepalese Stock Market?

- (a) Good []
- (b) Bad []
- (c) Do not Know []

5. What factor motivates you to make investment in stock?

- (a) Marketability and profitability. []
- (b) Limited Opportunity to invest in other sector. []
- (c) Friends and Family. []
- (d) Share Brokers. []
- (e) If other, please specify. []

6. Which of the following factor makes you decide to buy share of particular company?

- (a) Increasing Market Price of the share. []
- (b) Profit/Loss trend of the company. []
- (c) Act of whim. []
- (d) Brokers, consultation. []
- (e) If other, please specify. []

7. Listed companies do not present financial statement in time to NEPSE & SEBON who is responsible for this?
- (a) The office of the company registrar. []
 - (b) Security Board Nepal (SEBON) []
 - (c) Nepal Stock Exchange (NEPSE) []
 - (d) Investors/Brokers. []
 - (e) Particular Company. []
8. To what extent Nepalese Stock Market and Nepalese economy are interrelated?
- (a) High []
 - (b) Moderate []
 - (c) Low []
9. Are you satisfied with the performance of stock market for the development of the economy?
- (a) Yes []
 - (b) No []
 - (c) Do not Know []
10. Which is risky to invest?
- (a) Buying the share when first issued. []
 - (b) Buying the share in secondary market. []
 - (c) Both of them. []
 - (d) None of them. []
11. When would you like to sell your share in secondary market?
- (a) When company's profit decline. []
 - (b) When company fails to pay dividend. []
 - (c) When Market Price of the share starts declining. []
 - (d) When cash is needed. []
 - (e) If other, Please Specify []

12. Which of the following is more relevant in the prospect of Nepalese Stock Market growth?

- (a) Stock market provides maximum return. []
- (b) Limited opportunities of investment other than in stock. []
- (c) Liquidity and Marketability of securities. []
- (d) Increasing concerns of academicians and general public in stock market. []
- (e) All of the above. []

13. Express your views for the development of Nepalese Stock Market?

Problems:

Solutions:

Thank you, for your co-operation.

Appendix
Comparative Summary Sheet of Transactions with Previous Years

15 July 2009- 16 July 2010

F/Y 2066/67

SN	Particulars	FY 2008/09 (2065/66)		FY 2009/10 (2066/67)		Change
		Share units	Amount	Share units	Amount	in
		('000)	Rs. in million	('000)	Rs. in million	%
1	Turnover	30547.16	21681.14	26231.35	11851.11	-45.34
A	Commercial Banks	13301.43	12406.45	9680.62	7196.24	-42.00
B	Finance	3552.01	2615.40	3265.92	1263.94	-51.67
C	Hotel	95.89	18.69	50.28	10.15	-45.69
D	Manufacturing & Processing	95.12	26.08	360.68	37.74	44.71
E	Other	630.82	494.39	423.13	217.83	-55.94
F	Hydro Power	3612.12	890.30	4776.70	752.45	-15.48
G	Trading	14.65	33.49	12.01	35.43	5.79
H	Insurance	418.49	212.80	629.90	183.47	-13.78
I	Development Banking	3631.81	2740.36	3535.07	1323.53	-51.70
J	Mutual Fund	758.50	22.40	187.50	5.21	-76.74
K	Preferred Stock	74.43	74.05	29.46	26.39	-64.36
L	Pramotor Share	4361.90	2146.73	3171.55	735.00	-65.76
	Corporate Bond	0.00	0.00	58.53	58.53	
	Government Bond	0.00	0.00	50.00	5.20	
2	Market days	234		225		
3	Average daily turnover	130.54	92.65	116.58	52.67	
4	Number of transactions	209091		213733		2.22
5	Number of Scrips Traded	170		198		16.47
6	Number of Companies Listed	159		176		10.69
7	Number of Delisted Companies	0		0		
8	Total Paid Up Value of Listed Share		61140		79356	29.79
9	Number of Listed Securities	637868		821746		28.83
10	Market Capitalization		512939.07		376871.37	-26.53
11	NEPSE Index at the end of Year					
-	High		1175.38		739.02	-37.13
-	Low		609.46		405.45	-33.47
-	Closing		749.10		477.73	-36.23
12	Market Capitalization of Group -A		341841.16		303886.04	-11.10
13	Total Paid Up capital of Group -A		27860		39670	42.39
14	Number of Listed Securities Group -A	27840		393350		1312.90
15	Sensitive Index					
-	High		302.65		197.77	-34.65
-	Low		157.51		98.90	-37.21

-	Closing		198.77		116.14	-41.57
16	NEPSE Float Index					
	High		95.71		71.15	-25.66
	Low		59.83		37.12	-37.96
	Closing		70.85		44.30	-37.47
17	Bond Market (Listed)					
i	Government Bond	151500.00	15150.00	249500.00	24950.00	64.69
ii	Corporate Bond	5335.00	5335.00	5735.00	5735.00	7.50
Note:- US \$ 1 =Rs. 78.21 (18 Jul 2010)						