

# PERFORMANCE OF NEPAL STOCK EXCHANGE IN SECURITY MARKET

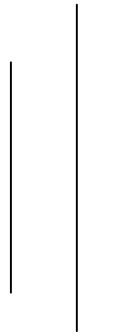
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***A Thesis Submitted to:***

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**FACULTY OF MANAGEMENT**  
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***RECOMMENDATION***

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**"Performance of Nepal Stock Exchange in Security Market"**

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

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VIVA VOCE SHEET

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled “*Performance of Nepal Stock Exchange (NEPSE) in Security Market*” submitted to *Post Graduate Campus*, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies (M.B.S.) under the supervision of Prof.Dr.Yadav Raj Koirala Post Graduate Campus, Biratnagar, Tribhuwan University.

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*Susma Pun*

*Researcher*

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## **ABBREVIATION**

AMEX	=	American Stock Exchange
AOSEF	=	Asian and Oceania Stock Exchange Federation
BOD	=	Board of Directors
BOLT	=	BSE On-line Trading
BOSS	=	BSE's On-Line Surveillance System
BSE	=	Bombay Stock Exchange
ETF	=	Exchange Traded Fund
FIs	=	Financial institutions
GNP	=	Gross Net Profit
ICERS	=	Indian Corporate Electronic Reporting System
IOSCO	=	International organization of Securities Commissions
MOF	=	Ministry of finance
NATS	=	NEPSE Automated Trading System
NEPSE	=	Nepal Security Exchange
NRB	=	Nepal Rastra Bank
NYSE	=	York Stock Exchange
SAFE	=	South Asian Federation of exchanges
SEBI	=	Securities and Exchange Board of India
SEBON	=	Securities Board of Nepal
SEC	=	Securities Exchange Center
SSE	=	Shenzhen Stock Exchange
The CSRC	=	China Securities Regulatory Commission
WDM	=	Wholesale Debt M
WFE	=	World federation OF Exchange
WTO	=	World Trade Organization
WDM	=	Wholesale Debt Market

## CHAPTER I

### INTRODUCTION

#### 1.1 Background of the Study

Many countries of the world have been to accelerate their development process by increasing the welfare of their people. This can be done only by sound investment. This would be require gearing up of savings, creating conducive and enabling investment atmosphere and developing efficient capital market to facilitate mobilization of both ownership and customer capital through appropriate instrument. Because of the complex geographical situation it is not so easy. Various factors like, landlocked situation, poor resource mobilization, lack of entrepreneurship, lack of institutional commitment, lack of ideal Government policies, internal conflict, political instability etc are the responsible factor of the development of Nepal.

In the comparison of the past, the business world is entirely different in present. Financial markets and institutions are the key to the development of any economy, whether developed or developing country. Developed economies usually already have a highly sophisticated financial market in place, whereas developing economies usually have no or rudimentary institutions in place. During the turn of the century a lot of countries gave up the dilapidated communist style economy towards a modern capitalist economy. In this process a large number of financial markets have developed across the world, including in my home country Nepal also. Some of the emerging markets, especially India and China, have been able to attract huge amounts of foreign investments because these countries have been able to grow economic activities for economic growth.

Capital markets, which deal with securities such as stocks and bonds, are associated with financial resource mobilization on a long term basis. Capital markets also allow for wider ownership among the public, thereby distributing risks and wealth amongst smaller investors. As such, capital markets help the economy to generate more savings and productive investments. A basic feature of an efficient capital market is constant liquidity, i.e., an easy mechanism for entry and exit by investors. Typically in developing countries, for various economic and policy reasons, financial markets are underdeveloped. In those countries where a capital market does exist, it is in a very rudimentary state. Private wealth and investments are concentrated among several large companies and individuals. As a result, these capital markets are very narrow based. They are constrained by limited investment opportunities and low income and savings rates. In many cases, the economy has high inflation, leading to a savings disincentive and capital flight. Industrial development began in Nepal only in the mid-sixties, when the Government Service began establishing manufacturing industries such as the jute industry, cement factories, cigarette factory and sugar factories. In order to support this

industrialization process, government actively promoted financial institutions, such as commercial banks and capital market institutions.

The Nepali capital market had its beginnings with the establishment of the Securities Marketing Center in 1976. In 1984, the Securities Exchange Act was promulgated and this institution was converted into the Securities Exchange Center (SEC) under the ownership of the Nepali Government, Nepal Rastra Bank (Central Bank) and the Nepal Industrial Development Corporation— a government owned industrial development bank. The Securities Exchange Center was converted into the Nepal Stock Exchange for securities trading by private brokers and the Securities Exchange Board was established for oversight functions as a regulatory body. This amendment also permitted private sector market intermediaries and set the operating guidelines for intermediary functions such as broking, market making, issue management, and portfolio management. The economic environment which provides the main stimulus for a healthy growth of the capital markets has also influenced this market quite considerably. The main function of SEC was to assist in the development of a capital market by performing the role of a broker, underwriter and share issuer, and to sell government bonds. It operated an over the counter market for company shares and government bonds. After the inception of the Securities Exchange Center, shares of various manufacturing, trading and banking companies became listed. Interestingly, the listed shares were dominated by public enterprises during this stage. The government policy on capital market reform has greatly contributed to developed of primary and secondary market for the cooperate securities the rise as stock prices and the market liquidity for cooperate securities were immediately after the NEPSE for one year only this has positive immediate impact on primary market. NEPSE is a nonprofit organization operating under securities exchange act 1983. NEPSE commenced its operation on 13<sup>th</sup> January 1994 with government.

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

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital market.

Nepal Stock Exchange, in short NEPSE, is established under the company act, operating under Securities Exchange Act, 1983. Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993.

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

### **1.2.1 Member of NEPSE**

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws. Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and underwriter for public issue of securities whereas securities trader (Dealer) works as individual portfolio manager. At present there are 11 sales and issue manager and 2 dealers (Secondary market). The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty.

**Table 1**  
**Broker Members of NEPSE**

<b>S. No</b>	<b>Firm Name</b>	<b>Code</b>	<b>Address</b>
1	Kumari Securities Pvt. Ltd.	1	Dilli Bazar, KTM
2	Arun Securities Pvt. Ltd.	3	Putalisadak, KTM
3	Opal Securities Investment Pvt. Ltd.	4	RamshahPath, KTM
4	Market Securities Exchange Company Pvt. Ltd.	5	KichhaPokhari, KTM
5	Agrawal Securities Pvt. Ltd.	6	Putalisadak, KTM
6	J.F. Securities Com. Pvt. Ltd.	7	Putalisadak KTM
7	Ashutosh Brokerage & Securities Pvt. Ltd.	8	KichhaPokhari, KTM
8	Pragyan Securities Pvt. Ltd.	10	Kamaladi, KTM
9	Malla & Malla Stock Broking Company Pvt. Ltd.	11	Dillibazar, KTM
10	Thrive Brokerage House Pvt. Ltd.	13	Naxal, KTM
11	Nepal Stock House Pvt. Ltd.	14	Anamnagar, KTM
12	Primo Securities Pvt. Ltd.	16	Putalisadak, KTM
13	ABC Securities Pvt. Ltd.	17	Indrachowk, KTM
14	Sagarmatha Sec. Pvt. Ltd.	18	Putalisadak, KTM
15	Nepal Investment & Securities Trading Pvt. Ltd	19	Bhimsengola ,KTM
16	Sipla Securities Pvt. Ltd.	20	New Road, KTM
17	Midas Stock Broking Company Pvt. Ltd.	21	Kamaladi, KTM
18	Siprabi Securities Pvt. Ltd.	22	Kupondol, Lalitpur
19	Sweta Securities Pvt. Ltd.	25	Putalisadak, KTM
20	Asian Securities Pvt. Ltd	26	BaghBazar, KTM
21	Shree Krishna Securities Pvt. Ltd.	28	Dharmapath, KTM
22	Trishul Securities Pvt. Ltd.	29	Putalisadak, KTM
23	Premier Securities Pvt. Ltd.	32	Putalisadak, KTM

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

### 1.2.2 Board of Directors:

The Board of Directors (BOD), which will govern NEPSE, constitutes of members representing different sectors as per Securities Act 2006. At Present, the BOD constitutes 2 Members including a chairman from Nepal Government, 2 Members from Nepal Rastra Bank, One from NIDC. Moreover, one member will be nominated by BOD as an expert in capital market. General Manager of NEPSE will serve as a director on the BOD.

**Table 2**  
**List of Board Members of NEPSE**

S. No	Name	Designation
1	Mr. Tanka Prasad Paneru	Chairman
2	Mr. Shambhu Thapa	Member
3	Mr. Ramji Regmi	Member
4	Mr. Arun Shrestha	Member
5	Mr. Avinash Rai	Member
6	Mr. Shanker Man Singh	General Manager/Member

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

### 1.2.3 Capital Structure of NEPSE

**Table 3**  
**Capital Structure of NEPSE**

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

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

### 1.2.4 Role and Function of NEPSE

NEPSE Ltd is a nonprofit organization, operating under securities exchange Act, and 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transaction in its trading floor through market intermediaries such as brokers and market makers, etc. NEPSE opened its trading floor on January 13, 1994 through its newly

appointed licensed members and has adopted an “open out- cry” system for the transaction securities and government bonds with the market intermediaries in buying and selling of such securities,

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

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

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

to save

and to invest. Second, even with given level of saving and investment, market arrangement can result in a more or less efficient allocation of fund.

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

“The development of sound securities market with its constituent financial institution is one of the mechanisms which enable the efficient transformation of saving from the hand of surplus spending ones who can use them more productively and have less risk aversion.” In this way due to the help of security market idle savings can be canalized to most productive purpose. *(Patrick: 1984: 4)*

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

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

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

Generally, underdeveloped countries come across a situation where entrepreneur do not find resources or productive investment while low social productivity. The Financial institutions remedy such a situation by soliciting the resources from savers by offering them a variety of financial securities differentiated in maturity, yield provides them to the most efficient users. Thus, more efficient allocating of inevitable funds results. So the need of securities market important in developing nation like Nepal where host of traditional social and psychological consideration concise against the direction transaction between surplus units and deficit units.

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

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

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

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

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

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

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

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

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. The objective of the study is to identify and verify how effectively NEPSE is able to play its role. The main objective can be specified into further sub objectives.

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

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

On this study, there has not been done any systematic study so far. This study is useful in different areas. This study is related to show on the secondary market performance. The secondary market performance has been broadly classified here on new issue market and stock market and their relation with growth and future prospective which is still starting phase. When we start the research work, various shortcomings are sorted out which can be turned strength of the stock market. Graphs and data are presented at very simple way that anyone can understand about stock market situation. Investors might be enriched with various topics which are last lead to investment in shares. Various samples are taken from different sectors and detail analysis was done which will be very useful for financial manager of the suspected companies. Followings are the importance of the study:

- To find out the problems and prospects in the near future. What policies can be made to develop it and make the market perfect functioning?

- To indicate the financial condition of the concerned market and institution.
- To find out the view of the investor and government and other financial institutions about the stock exchange market.

## 1.6 Limitation of the Study

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

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

The study period as chosen for the 6<sup>th</sup> year but due to the lack of proper information or data, it couldn't be held perfectly. This type of problem is more in non-government enterprises. NEPSE is also unable to provide required data of all the listed manufacturing enterprises from the year of listing; therefore the study is based on the limited observation.

## 1.7 Organization of the Study:

The research has been categorized into different Chapters. Each chapter is devoted to some aspect of the study of Performance of Nepal Stock exchange in Nepalese securities market. The different chapter is as follows:

Chapter I	Introduction
Chapter II	Conceptual Framework/ Review of literature
Chapter III	Research Methodology
Chapter IV	Presentation and Analysis of data
Chapter V	Summary, Conclusion & Recommendation

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

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

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

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

**Chapter V:** This chapter sums up the result obtained through analysis and recommends some suggestion.

## CHAPTER - II

### LITERATURE REVIEW

#### 2 Introduction

Review of literature is finding the pertinent fact with the available literature in ones field of research. In other words, the study of the materials available on research topics is called review of literature.

A literature review is a description of the literature relevant to a particular field or topic. It gives an overview of what has been said, who the key writers are, what are the prevailing theories and hypotheses, what questions are being asked, and what methods and methodologies are appropriate and useful. As such, it is not in itself primary research, but rather it reports on other findings.

#### 2.1 Conceptual Framework

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

##### 2.1.1 Defining Security Market

A securities market can be defined as a place for bringing together buyers and sellers of financial assets in order to facilitated trading. Securities markets are primary and secondary markets. Market indexes are the indicators of performance of the markets. For example, either the market is upward, downward or is stagnant. So far as security market is concerned It is important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institution that assists the sale and resale of corporate securities.”(*Rugh: 1966:50*)

Securities are traded in a market called securities markets. Although, securities markets are concentrated in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together.” One function of securities market is price discovery that is to cause security prices to reflect currently available information.” (*Sharpe, Alexander and Bailey 2003:9*)

Security market is a place where people buy and sell financial instrument. A dealer is an individual or firms that put its capital at a risk by investing in a security and make an inventory of the security and

make a market in it. Tremendous amount of capital is need for the business firms to finance their operation. Large amounts of many borrowed by government to provide the goods and services which is demanded by the populace, hence the security markets permit both business and government to rise to invest and earn a return, enhancing their welfare.

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

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

## **2.1.2 Classification of Securities Market**

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

### **2.1.2.1 Primary market**

Primary market is the market for new securities is called “Primary market”. The term “Primary Market” is used to denote the market for the original sell of securities by an issuer to the public. The

security market transfers the funds from savers to investors throughout the primary market. Hence, the transaction of the securities issued for the first time take place in this market. The issuer receives cash which may be invested in productive assets or retirement of debt. Primary market is the place where corporation and Government issues and new securities. All securities, whether in money or capital markets, are initially issued in the primary market this is the only market in which the transaction receives direct benefits from an issue – that is the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individuals, business government or financial institutions, savers and investors they are come apart of the secondary market.

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

Securities available for this first time are offered through the primary securities markets. The issues may be brand new company or one that has been in business for many years. The securities offered might be new type for the issuer additional amounts of a security used frequently in the post. The key is that these securities absorb new funds for the offers of the issuer. (*Fisher & Jordan; 1998; P: 90*)

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

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

Before the establishment of Nepal stock exchange system, 26 public companies collected a total amount of Rs246.5 million from public issue within a starting Period of 13 years from 1979/80 AD to 1992/93 AD (Stock Exchange Record). The progress can be noticed from the collection of Rs243 million by 14, 11 & 12 Public companies respectively 1993/94, 1994/95, 1995/96. (CEDA; A study of trends and potential of stock market in Nepal)

### **2.1.2.2 Secondary Market**

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

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

Similarly, the National Stock Exchange in India, Bombay Stock Exchange (BSE), New York Stock Exchange (NYSE), Tokyo Stock Exchange, and American Stock Exchange (AMEX) is the example of secondary market.

The National Stock Exchange of India Limited has genesis in the report of the High Powered Study Group on Establishment of New Stock Exchanges. It recommended promotion of a National Stock Exchange by financial institutions (FIs) to provide access to investors from all across the country on an equal footing. Based on the recommendations, NSE was promoted by leading Financial Institutions at the behest of the Government of India and was incorporated in November 1992 as a tax-paying company unlike other stock exchanges in the country.

On its recognition as a stock exchange under the Securities Contracts (Regulation) Act, 1956 in April 1993, NSE commenced operations in the Wholesale Debt Market (WDM) segment in June 1994. The Capital Market (Equities) segment commenced operations in November 1994 and operations in derivatives segment commenced in June 2000. The following years witnessed rapid development of Indian capital market with introduction of internet trading, Exchange traded funds (ETF), stock derivatives and the first volatility index – India VIX in April 2008, by NSE.

August 2008 saw introduction of Currency derivatives in India with the launch of Currency Futures in USD INR by NSE. Interest Rate Futures was introduced for the first time in India by NS E on 31st August 2009, exactly after one year of the launch of Currency Futures.

With this, now both the retail and institutional investors can participate in equities, equity derivatives, currency and interest rate derivatives, giving them wide range of products to take care of their evolving needs. (<http://www.nse-india.com>.)

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

#### **Capital Market**

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

The capital market is the heart of modern economy. The capital market is inevitable for the economy development of a country. The capital market mobilizes saving for economic development. Capital markets are the physical and electronic markets where equity and debt securities, commodities, and other investments are sold to investors. The markets in which equity is raised and long-term loans (over one year) are originated and traded these include the stock market, the bond market, and the primary market. The primary market is any market in which the original issuer receives money, such as an investment house that purchases all securities for an original issue and then resells them on the stock market. Short-term debt instruments, for one year or less, are sold in the money markets, not the capital markets.

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

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

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

#### **Money Market**

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

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

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

### **OTC Market**

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

### **Commodity Market**

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

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

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

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

## **2.1.4 Major Stock Exchange**

### **2.1.4.1 Bombay Stock Exchange (BSE)**

Bombay Stock Exchange is the oldest stock exchange in Asia with a rich heritage, now spanning three centuries in its 133 years of existence. What is now popularly known as BSE was established as "The Native Share & Stock Brokers' Association" in 1875. BSE is the first stock exchange in the country which obtained permanent recognition (in 1956) from the Government of India under the Securities Contracts (Regulation) Act 1956. BSE's pivotal and pre-eminent role in the development of the Indian capital market is widely recognized. It migrated from the open outcry system to an online screen-based order driven trading system in 1995. Earlier an Association of Persons (AOP), BSE is now a corporatized and demutualised entity incorporated under the provisions of the Companies Act, 1956, pursuant to the BSE (Corporatization and Demutualization) Scheme, 2005 notified by the Securities and Exchange Board of India (SEBI). With demutualization, BSE has two of world's best exchanges, Deutsche Borse and Singapore Exchange, as its strategic partners.

Over the past 133 years, BSE has facilitated the growth of the Indian corporate sector by providing it with an efficient access to resources. There is perhaps no major corporate in India which has not sourced BSE's services in raising resources from the capital market. Today, BSE is the world's number 1 exchange in terms of the number of listed companies and the world's 5th in transaction numbers.

The BSE Index, SENSEX, is India's first stock market index that enjoys an iconic stature, and is tracked worldwide. It is an index of 30 stocks representing 12 major sectors. The SENSEX is constructed on a 'free-float' methodology, and is sensitive to market sentiments and market realities. Apart from the SENSEX, BSE offers 21 indices, including 12 sectorial indices. BSE has entered into an index cooperation agreement with Deutsche Borse. This agreement has made SENSEX and other BSE indices available to investors in Europe and America. Moreover, Barclays Global Investors (BGI), the global leader in ETFs through its ISHARES® brand, has created the 'ISHARES® @ BSE SENSEX India Tracker' which tracks the SENSEX. The ETF enables investors in Hong Kong to take an exposure to the Indian equity market.

The first Exchange Traded Fund (ETF) on SENSEX, called "SPICE" is listed on BSE. It brings to the investors a trading tool that can be easily used for the purposes of investment, trading, hedging and arbitrage. Spice allows small investors to take a long-term view of the market.

BSE provides an efficient and transparent market for trading in equity, debt instruments and derivatives. It has a nation-wide reach with a presence in more than 359 cities and towns of India. BSE has always been at par with the international standards. The systems and processes are designed to safeguard market integrity and enhance transparency in operations. BSE is the first exchange in India and the second in the world to obtain an ISO 9001:2000 certifications.

In 2006, BSE launched the Directors Database and ICERS (Indian Corporate Electronic Reporting System) to facilitate information flow and increase transparency in the Indian capital market. While the Directors Database provides a single-point access to information on the boards of directors of listed companies, the ICERS facilitates the corporate in sharing with BSE their corporate announcements. BSE also has a wide range of services to empower investors and facilitate smooth transactions:

**Investor Services:** The Department of Investor Services redresses grievances of investors. BSE was the first exchange in the country to provide an amount of Rs.1 million towards the investor protection fund; it is an amount higher than that of any exchange in the country. BSE launched a nationwide investor awareness programmed- 'Safe Investing in the Stock Market' under which 264 programmes was held in more than 200 cities.

**The BSE On-Line Trading (BOLT):** E On-line Trading (BOLT) facilitates on-line screen based trading in securities. BOLT is currently operating in 25,000 Trader Workstations located across over 359 cities in India.

**BSEWEBX.com:** In February 2001, BSE introduced the world's first centralized exchange-based Internet trading system, BSEWEBX.com. This initiative enables investors anywhere in the world to trade on the BSE platform.

**Surveillance:** BSE's On-Line Surveillance System (BOSS) monitors on a real-time basis the price movements, volume positions and members' positions and real-time measurement of default risk, market reconstruction and generation of cross market alerts.

**BSE Training:** Institute: BTI imparts capital market training and certification, in collaboration with reputed management institutes and universities. It offers over 40 courses on various aspects of the capital market and financial sector. More than 20,000 people have attended the BTI programs.

**Sources:** [www.bseindia.com](http://www.bseindia.com)

#### **2.1.4.2 Shenzhen Stock Exchange (the SSE)**

The Shenzhen Stock Exchange (the SSE) is a mutualized national stock exchange under the China Securities Regulatory Commission (the CSRC), that provides a venue for securities trading. A broad spectrum of market participants, including 540 listed companies, 35 million registered investors and 177 exchange members, create the market. Buying and selling orders are matched in a fair, open and orderly market, through an automated system to create the best possible prices based on price-time priority.

Since its creation in 1990, the SSE has blossomed into a market of great competitive edges in the country, with a market capitalization around RMB 1 trillion (US\$ 122 billion). On a daily basis, around 600,000 deals, valued US\$ 807 million, trade on the SSE.

The SSE strives to create a fair, open and orderly market to meet diversified financing needs. The statutory obligations of the SSE include:

##### **1. Examine Listing Qualifications:**

The SSE is the statutory authority to vet listing qualifications of companies which have been offered to the public, as approved by the CSRC.

##### **2. Provision of Market:**

SSE provides the market and means of raising capital through equities and debt issues. It gives businesses, big and small, access to a liquid pool of investment capital. Trading information is disseminated to allow real-time access.

##### **3. Monitoring of Trading:**

A market surveillance team with auto-alert and trade analysis functions is put in place to deter market abuse.

##### **4. Ensuring Continuous Listing Compliance:**

The SSE works to ensure that listed issuers meet continuous listing standards. An issuer shall be suspended from trading or even de-listed if applicable criteria are not met.

##### **5. Supervision of Exchange Members**

The SSE monitors the Exchange members to see that they maintain financial integrity and comply with the Exchange rules. SSE's technology-led approach keeps it constantly in line with the state-of-the-art technologies in trading, clearing and regulation.

As commitment to its WTO obligations, China speeds up market deregulation. Increasing foreign investments are being channeled in. Sino-foreign securities houses and fund managing companies are set up and continue to add in number. So far, 39 qualified foreign institutional investors gain access to the market, with authorized investment quota of US\$6 billion.

As a full member of the WFE and AOSEF, the SSE has been playing an active role in the-world exchange community. The SSE has signed cooperative memorandum of understanding with exchanges worldwide, including Tokyo Stock Exchange, Korea Exchange, Australian Stock Exchange, Singapore Exchange, London Stock Exchange, Toronto Stock Exchange, Osaka Securities Exchange, Berlin Stock Exchange, National Stock Exchange of India, Chicago Board Option Exchange and Chicago Mercantile Exchange, with an aim of mutual benefits and development.

#### **2.1.4.3 Shanghai Stock Exchange (SSE)**

The Shanghai Stock Exchange (SSE) was founded on Nov. 26th, 1990 and in operation on Dec.19th the same year. It is a membership institution directly governed by the China Securities Regulatory Commission (CSRC). The SSE bases its development on the principle of "legislation, supervision, self-regulation and standardization" to create a transparent, open, safe and efficient marketplace. The SSE endeavors to realize a variety of functions: providing marketplace and facilities for the securities trading; formulating business rules; accepting and arranging listings; organizing and monitoring securities trading; regulating members and listed companies; managing and disseminating market information.

After several years' operation, the SSE has become the most prominent stock market in Mainland China in terms of number of listed companies, number of shares listed, total market value, tradable market value, securities turnover in value, stock turnover in value and the T-bond turnover in value. As at the end of 2008, SSE boasted 1,184 listed securities and 864 listed companies, with a combined market capitalization of RMB 9,725.191 billion and a total of 79.7287 million trading accounts. In 2008, listed companies raised RMB 89.291 billion on SSE through IPO and new share placement. A large number of companies from key industries; infrastructure and high-tech sectors have not only raised capital, but also improved their operation mechanism through listing on Shanghai stock market. Entering the new century, SSE is faced with great opportunities as well as challenges to further boost the market construction and regulation. Combining the cutting-edge hardware facilities, favorable policy conditions in Pudong, exemplary role of Shanghai economy, SSE is fully committed to the goal of State-owned industrial enterprises reform and developing Shanghai into an international financial center with great confidence

The new system boasts a peak order processing rate of about 80,000 orders per second. The system's daily bilateral volume of not less than 120 million orders is equivalent to the daily volume of RMB1.2 trillion on a single market , with a capability of parallel expansion.

The SSE has established a nation-wide satellite telecommunication network with the most sophisticated equipment, the most complete range of functions, the largest number of users and the widest coverage. It consists of more than 3000 one-way satellite substations and 1800 two-way substations.

SSE has established an effective and well-functioning real-time market monitoring system. It has put in place a self-regulatory framework with focus on supervision of listed companies, SSE members and the securities market.

SSE has membership with different international organization like International organization of *Securities Commissions (IOSCO)*, *Asian and Oceania Stock Exchange Federation (AOSEF)* and *World federation OF Exchange (WFE)*. SSE also has memorandum of understanding with 36 other international Stock exchange companies. The level and purpose of MOU is not same with all the 36 companies. The understanding started in 1994 with London stock Exchange and so the latest member joined in 2009 is Colombo stock exchange. (<http://www.sse.com.cn>).

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 exchange. 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 creating a resale market for outstanding securities, is a primary market in which new public issues are sold. (L.G.Gitman 1988; 30)

### **2.1.5 Securities Board of Nepal**

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

A board composed seven members including a chairman governs SEBO. The board has representatives from government line minister and institution as well as private sectors. The chairman of SEBO is appointed by Nepal government for four years. It is the government’s prerogative to re- appointed the chairman. Other member of the board include representatives one each from ministry of finance

(MOF), Ministry of law, Federation of parliamentary affairs, commerce and supplies., Nepal Rastra Bank (NRB), Federation of Nepalese Chamber of Commerce & Industries (FNCCI) and Institute of Chartered Accountants in Nepal (ICAN).

#### **2.1.5.1 Objectives of SEBON:**

Followings are the objective of SEBO:

- The main objective of SEBON is to regulate and develop the securities market and protect investor's rights.
- To render contribution to the development of capital market by making securities transaction fare healthy efficient and responsible.
- To promote and protect the interest of the investor by regulating the issuance sale and distribution of securities and purchase sale or exchange of securities.
- To supervise, look after and monitor the activities of the stock exchange and of corporate bodies carrying on securities business.

#### **2.1.5.2 Function of SEBON:**

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

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

- To conduct conference workshop and seminar are participating in such programmed conducted at regional or international level and join the forum and exchange with outside regulators.

## **2.1.6 Nepal Stock Exchange (NEPSE)**

### **2.1.6.1 Trading Procedure of NEPSE**

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

### **2.1.6.2 Order Matching Rules**

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

### **2.1.6.3 Trading Days and Hours**

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

### **2.1.6.4 The market timings of the equities are**

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

The market timings of the equities have be done on 12:00 Hours to 15:00 Hours. In case of Odd Lot Trading is done on Fridays on 12:00 Hours to 13:00 Hours.

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

#### **2.1.6.5 Trading Location**

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

#### **2.1.6.6 Trading Lot**

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

#### **2.1.6.7 Price Regulation**

The opening price of any day shall not be more or less than 5 percent of the previous trading day's closing price. Once the transactions are done within this range, the price can be changed within a limit of 2 percent in each consecutive transaction. In case of bond or debentures or government bond opening price shall not be more than or less than 0.20 percent of the previous trading day's closing price and a 0.10 percent for each consecutive transaction.

#### **2.1.6.8 Settlement**

NEPSE has adopted a T +3 systems which mean that settlement of transaction should be done within 3 working days following the transactions day. The trading is done at "T" and at T+1; the buying brokers have to submit bank vouchers for settlement with covering letter. At T+2, the selling brokers must submit share certificate with covering letter. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank. Once the settlement is done the buying brokers with the consultation of the clients must decide and present the purchased shares if they want to record it as blank transfer. This must be completed within T+5.

#### **2.1.6.9 Blank Transfer**

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

- This is related only with buy of the securities.

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

#### 2.1.6.10 Brokerage

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

**Table 4**  
**Brokerage for Equity**

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

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

**Table 5**  
**Brokerage for Government Bond**

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

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

**Table 6**  
**Brokerage for all other Stocks which is not listed in 1 and 2.**

S. No.	Trading Amount	Brokerage %
A	Up to 50,000	0.75

B	50,000 & < 50,00,000	0.60
C	50,00,000	0.40

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

### 2.1.7 Problems of Nepalese Securities Market

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

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

1. **Agro Based Economy:-**Although, Nepal has changed really since 1950, it is still an early stage of economic development. More than 90percent of the total population depend on agriculture. 41% of GDP is supported by agriculture and 80% of population lives in the country side. The absolute size of the urban economy is very small. It is one of the poorest country in the world i.e. 40% are still below Poverty line. Therefore, the size of the stock market is simply too small. Nepalese capital market is limited by size and population, it is itself a big problems.
2. **Political Instability:** The establishment of parliamentary democracy in 1990 opened the way for sweeping economic reform and a program of great scope was carried out between 1991 and 1994. This embraced policies on finance, foreign and domestic trade and investment, industry and foreign exchange and a start to privatization. Presently, Nepal is suffering from poor law and order situation: killing terror and violence obstructed the regular movement of activities of government. In fact the government was forced to declare the state emergency in the country for long period. All the mentioned factors definitely affect the smooth development of the stock market. Thus, political instability changes the investor's expectations about the prospects for the economy in a certain environment.
3. **Low Investors Confidence:** Investor's confidence in the Nepalese stock Market is relatively low because of the volatility of share price, low return on investment, inadequate information on which is to base decision, lack of understanding about the operation of financial market and instrument and a fare game. However, considerable progress has been made but it is not a

adequate to return in the form of both dividend rate and market gain must be reasonable enough to attract them.

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

- 4. Lack of Efficient and Suitable Tax Policy:** Tax Policy has an important on the methods and cost of capital. In Nepal, tax policy appears to have contributed to high cost of capital for private sector and over reliance on short term debt financing. Tax policy has stuck the development of stock market by increasing transaction cost and creating disincentives for equity and private bond market. Capital gain on securities transaction are taxed as ordinary income to cooperation and individual investors while most emerging market in Nepal, capital gains on investments in stock and bonds, are not taxed. Also there is no tax incentives taking on the burdens associated with the offering of share and disclosures of the information of the public. To rationalize the policies towards capital formation, to encourage private sector and secondary market transaction is also needed. There is the high level of taxation of transaction executed on the stock exchange. Stockholders pay about one third of commission earned in the form (NEPSE). High transaction casts and capital gain taxes discourage investment in the stock market and tend to reduce market liquidity.
- 5. Lack of Institutional Investors:** In Nepal the institutional investors base is small banking sector have dominated the financial sector. Institutional investor can mobilize saving in a cost effective manner for individual savers who otherwise might not participate in the stock. In Nepal, there are limited numbers of institutional investors in Nepalese capital market which are as follows:
  - NIDC
  - Citizen investment trust
  - Provident fund
  - Pension Fund
  - Commercial Bank
  - Finance and Insurance Companies
  - Venture capital firms etc.
  - Each type of institutional investors potentially offers a large pool of funds that could be invested in the money market and stock market.
- 6. Weak Legal affairs for stock market regulation and enforcement:** At present time there are twelve Acts, regulation and guidelines related to the stock market activities in Nepal, they are
  - Securities Exchange Act, 2063

- Securities Exchange Rules and Regulation 2066
- Company Act, 2063
- Bank and Financial Institution Act, 2063
- Foreign Exchange Regulation Act,1962
- Foreign Investment and Technology Transfer Act,2049
- Membership of Stock Exchange and Transaction bye-laws2063
- Securities listing bye-laws2008
- New issue management guidelines,2009
- Securities allotment guideline. 2010
- Securities registration and issue Approval guidelines,2009

**7. Need to Credit Rating Agencies:** A credit rating agency is an essential to the successful operation of money and bond market for private issuers. A credit rating is an opinion about credit risk, or an assessment of ability of issuers of debt securities to make timely payment of principle and interest in a security over the life of the instrument. In order to establishing a credit rating agency in Nepal, it will be necessary to take steps to further develop the information about public and private business enterprises that could be rated. Credit rating agencies are also able to rate the claims paying ability of insurance company and the solvency of banks and other establishment of Nepalese credit rating agency.

**8. Lack of Money and Bond Market:** There is an absence of private money market debt instrument and corporate debt securities in Nepal. Because of there has been a tendency for banks to dominate primary market. It is essential to have a critical mass of financial instrument that is need for an economically viable securities market. Development of money market in commercial paper and other renegotiable debt instrument would provide an alternative source of funding for the private sector and would faster, greater competition in the financial sector.

**9. Low Capital Formation:** There is low formation of capital in Nepal. Capital required for investment in business is raised from capital formation. The capital is formed from the saving of people. More than 90% of whole population of Nepal is still depended on agriculture being a developing country. Even saving is spent in unproductive activities rather than in commercial or industrial activities. Due to low saving, capital formation is also low and the primary market could not develop in Nepal.

**10.Shortcoming of existing Securities Law and Regulation:** Existing Securities law and regulation do not clearly define the regulatory, supervisory and enforcement function of the stock exchange and securities board. The securities exchange act and companies all are not clear on the division of authorities between the register of companies all are not clear on the division of authorities between the register of companies and the securities board regarding the

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

**11.Restriction to Foreign Agencies:** In Nepal, there is restriction on foreign portfolio investment in the local stock market. Government adopted various economic liberalization policies in various sectors of economy, such as hydropower, telecommunication manufacturing and processing industries. But no efforts have been made to allow foreign investment in Nepalese capital market accounting and auditing professionals are not permitted practice in Nepal. Because of this, there is little opportunity for transfer of technical and skills which is often available in developing countries at an early stage of stock market development. This has caused restriction not only in managerial aspects that can come through foreign investment.

**12.Inefficiency of Securities Board Nepal (SEBO):** SEBO/N is responsible for regulating and monitoring of the entire securities business in Nepal. By analyzing, it's present organizational structure, the number of staffs, and resource available for the board to perform its role effectively and efficiency. There is also no clear enforcement power to SEBO regarding prospectus by public companies under the existing securities Exchange Act.

**13.High Cost of Public Issue:** SEBO has conducted a research recently with the objective of estimating cost and providing policy recommendation to public issue of the new companies in Nepal is relatively very high. But in contrast to fact cost on right issue in Nepal is very low. The cost associated with public issue is underwriting cost, advertising cost, printing and other expenses amount collection and refund changes and issuance commission. These costs are very high in Nepalese stock market.

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

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

Nepal is still at early stage of economic and social development. The establishment of parliamentary democracy in 1990 opened the way of sweeping economic reforms. Joint venture with foreign

financial and other organization were encouraged to some extent and privately owned industrial and commercial enterprises were permitted to develop in some fields.

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

- 1. Improvement in legal Provisions:** Some amendment has been made in “Securities Regulation and issue guidelines 2000” which is regarding the accordingly of information disclosed in the prospectus, regarding the risk of changes in the share prices, exemption Annual General Meeting (AGM) Provision and declaration regarding the complimented. “It is regarding the provision that brokers cannot transfer their ownership until five years from the date of getting NEPSE membership. The amendment is also made a provision that only up to 49% of ownership can be transformed to a cooperate body. As per the amendment, after ownership transfer one cannot again transfer the ownership for at least three years.
- 2. Increasing Interest of Businessman:** In this fiscal year SEBO granted permission to 63 companies to raise their capital worth Rs14875.1223 millions. Out of this 13 companies got the permission to raise their capital through public issue and 50 companies through right share.
- 3. Trading Government Securities through Stock Exchange:** With the view to implement Nepal Government program for the trading of government securities. In the stock exchange as announced in the budget a high level committee has been formed under the governorship of ministry of finance with representation from SEBO, NEPSE and Nepal Rastra Bank, the “Public Debt Act” 2000 has delegated authority to the Nepal Rastra Bank for necessary arrangement of primary and secondary transaction, in this context SEBO has also draft “government securities trading bylaws “based on the draft regulation proposed by Nepal Rastra Bank.
- 4. Supervision & Monitoring:** SEBO conducted on site inspection of the public issue of two companies. During the inspection, SEBO supervised whether the investors are given access to the prospectus, memorandum and articles of association of the issuing company, certificate of issue approval given by SEBO also other documents as well as checked, whether the issuing companies and the issue manager are paying attention to address investor’s complaints. SEBO

also provided suggestion to the issuing companies and the issue manager regarding the improvement in the public issue arrangement, during the inspection.

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

- 5. New Trading Systems in NEPSE:** NEPSE operates on the ‘NEPSE Automated Trading System ‘(NATS), a fully screen based automated trading system, which adopts the principle of an order driven market. Purchase & Sell of Physical Share certificates is done through NATS. The Automated Trading System was started from 24 August 2007.
- 6. Regulation with Securities Regulators:** Viewing the importance of cooperation with the order securities market regulations SEBO has made efforts in future enhancing the relationship with them. During this year efforts have made to harmonize the listing rules of the SAARC region. SEBO provided comments on the study conducted in this regard by south Asian Federation of exchanges (SAFE). In this year high level team of SEBO visited securities exchange board of India to exchange market experience and explore the area of mutual cooperation likewise in this sponsorship of World Bank office in Nepal, a team of SEBO, NEPSE and line ministry.
- 7. Publications:** SEBON published securities market review for each quarter and also placed in its website.
  - **Annual Report:** In pursuant to the section 26 of the securities exchange act 2007, SEBO has published its annual report for the fiscal year 2009/10.
  - **Investor’s Educational Materials:** SEBON published various tips in different newspapers in order to increase awareness of the investors regarding in securities. On the website of SEBON there is a column of investor education.
  - **Investors Training Program:** Considering accelerating general investors' awareness relating to securities market, Securities Board of Nepal has conducted basic level training programs for the general investors from June 07, 2009. A total of 89 investors divided into three groups participated in the program and certificates were distributed to the participants. The board has also appointed training expert in order to carry on training and education programmers more systematically.

- Securities Board of Nepal and a free student union of Baneshwor Unit, with a joint collaboration, organized a two days program entitled 'Securities Market Education Program' to impart basic knowledge relating to securities market to the participants. A total of 109 students of Baneshwor Campus had participated in the program instructed by the expert of SEBON.
- **Participation in Training and Seminar:** In the fiscal year 2009/10, SEBON staff participated in the training and seminar entitled. Emerging Issues and Challenges in Nepalese Finance' organized by Tribhuvan University, Infrastructure Development Challenges and Opportunities in Nepal' and 'Training on International Financial Reporting Standards (IFRS) and Way Forward to IFRS at national level. In the fiscal year, 2009/10, SEBON staff participated in the training and seminar namely APEC financial regulators training, investor education and training, Korea capital market seminar and AFIE seminar 2009, 10th annual emerging market programmer on managing the regulatory pendulum, 5th ASF seminar, regulation of new products, 12th Tokyo seminar on market regulation 2010, getting finance indicators conference 2010, and international institute for securities market development programmer 2010 at international level. Likewise, observation visits of India and Malaysia on mutual funds and central securities depository including other aspects of securities markets were made by the officials of SEBON, Ministry of Finance, and Ministry of Legal and Justice during the fiscal year.
- **Websites:** With an objective of acquainting the stakeholders with the up-to-date information and market scenario, SEBON has been updating its website regularly. Securities Act, regulations and guidelines, introduction of SEBON, annual report, securities market trimester review, grievance submission formats, market news and information and awareness materials for the investors are available on the website. The website address of SEBON is <http://www.sebonp.com>. Among the two websites registered in the name of SEBON as per the international practices in the area of the securities markets, the Board prepared to use [www.sebon.gov.np](http://www.sebon.gov.np) to replace the existing website [www.sebonp.com](http://www.sebonp.com) and [www.sedfar.gov.np](http://www.sedfar.gov.np) to use for the online reporting by the market participants.
- **Research & Study:** In the fiscal year 2009/10, SEBON provided various types of information and publications related to the securities market through its library to 1254 visitors such as investors, students, researchers and lecturer of the universities conducting research and study in the area of capital market with the objective of encouraging studies especially in the field of securities market, SEBO has been supporting the master's level students by providing grant for write thesis as a part of their academic requirement. Beside SEBO provides various types of information about the securities market through library and

publication to investor's students, researchers and lecturers of this university in fiscal year 2009/10.

### **2.1.9 Clearing & Settlement:**

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

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

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

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

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

All the above paragraph which are related to clearing and settlement function of stock market is taken from "clearing and settlement system on Nepalese securities market"(Bhattarai Rabindra 2002, unpublished MBS thesis).

## **2.2 Review of Literature**

In order to make a research on the subject some other literature should also reviewed. Main purpose of literature review is to find out the works done in the subject on areas of research. Some possible studies and conceptual perspectives available in this respect have been reviewed. For the different book reports, journals and research study published by various institutions and some thesis submitted by master's level students have been reviewed.

### **2.2.1 Review of International Studies:**

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

A number of studies on the relationship between stock price and the national economy have been found that change in the stock market tend to precede in business condition by an average of about four month. As a result the stock price index is major components of index leading economic indicators which consistently provide warning about change in economic activity (*Lorie1985:Dood1985: kimpton, 1985*).

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

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

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

### **2.2.2 Theoretical Reviews:**

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

Prof. M.K. Shrestha in his book "*shareholder's Democracy & AGM Feedback* has focused various issue related to protecting of their owners but how this accomplished can is main question. Thus it is necessary to develop a possible guidance effort enhancing the efficiency for public limited companies to contribute directly in the growth of national economy on one hand and ensuring handsome return to the stakeholders on the other hand to make their investment meaningful and worthwhile. At present,

the overall shareholder's democracy in term or the protection of their interest is basically focused on the payment of satisfactory dividend and the maximization of shareholder's wealth by appreciating the value of share they hold"( shrestha:1992:15) the prices, turnovers of stocks increased tremendously after the opening of trading floor. Even prices of stock with huge accumulate losses and the companies established only a couple of month back went up and up which is not conducive for the healthy growth of market. Such unnatural high prices are accounted for the poor transparency and pouring of large number of people without having a minimum knowledge of shares in the market (Joshi: 1998:22).

In the fiscal year 2008/09, SEBON published its special publication, SEBON Journal (Volume-3) by incorporating the articles written by internal and external experts. The journal has incorporated the research and other articles on the topics like building a dynamic capital market, price volatility and measurement of risk, NRB monetary policy and stock market impacts, regulation and development of Nepalese securities market, performance of Nepalese IPO's, dividend policy in Nepalese enterprises, and Institutional Investment in Nepalese securities market.

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

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

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

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

#### **Implementation of the policy:**

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

#### **While implementing this policy the securities board**

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

Siddhartha Bank Limited and Chilime Hydropower limited by its information should rather pull the market down (not pushed it upward) because such news prompt investors to cash their investment in the secondary and primary market. The most important reason why the NEPSE is reluctant to close the window is to profit motive to stock exchange. The window is helping to increase the trading volume where, by the stock exchange to get the higher commission income if the window is closed, the trading volume may decrease so will NEPSE income (*Bhattarai April 2006, Business age*).

#### **2.2.3 Review of Previous Thesis:**

A study done by Mr. Pokhrel (2008), entitled with “*A study of securities market in Nepal*”

##### **Main objectives of her study were as follows:**

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

Study was made in different sectors like Bank, Finance, insurance, manufacturing and service organization according to her “Among all sectors listed in securities market, banking sector has the highest expected return. (50-33%) finance sector with (47-36%). The sector having the lowest expected return are the one categorized as other just 10.3% and the trading sector with 10.65%.

Ms. Pokhrel has used different tools and techniques to analyze and interpret the data to meet the concrete report about securities market but she has not centralized her study on specific subject matter.

A study done by Mr. Poudel (2007), entitled with, “*Role of NEPSE in Nepalese securities market*”.

**Objectives:**

These are the following specific objective of this thesis.

- To evaluate stock price behavior in Nepal
- To analyze the rate of newly listed companies and inter sector comparisons
- To examine the future of business and economic activity of NEPSE

**Findings:**

Following are the major findings of this study.

- Studying the annual trends analysis of Nepalese stock price market, it was found that stock price trends is decreasing from many years as smoothly but from one year price of stock is decreasing as rapidly.
- Most of the investor was asked for their preference of investment sector and they said that they were attracted towards banking and financial for making investment.
- According to the major portion of respondents of Nepalese stock market it were found that government policy is not clear and perfect in Nepalese stock price market.
- According to the field of survey in the Nepalese stock market, it was found that investors are not aware about investment.
- Studying the sector wise monthly trend analysis one year the systematic activities of Nepalese stock price market were found, no experts can certainly forecast about the stock price.
- It was found that investor's motive owing shares of company is to receive the dividend from the shares.
- While analyzing the rate of listing of new companies showed that increasing trend from the year 1997 to 2001 but decreasing in year 2002 and again it is in increment trend to 2005.

A study done by Mrs. Joshi, (2006), entitled with “*Study on the Role of NEPSE in Securities Market*”

**Objectives:**

The objectives of the study were as follows.

- Introduction of securities market, composition of primary and secondary market, and its performance behaviors.
- To prescribe way and means by which secondary market would be more effective and meaningful.
- To forecast the future trends of business and other various kinds of activities in the NEPSE in terms of quality, volume and value.

- To assess the past and present behavior of business operation in NEPSE market.
- Study on legal provision relating to protection of investors interest.

### **Following are the Major Finding of the Study**

- Public response is high due to lack of investing opportunity in other fields.
- There is significant increment in the number of listed companies in stock exchange, as compared to the growth of public companies.
- The dynamism of the stock market has been greatly reduced by the domination of the long term share holders.
- The performance of banking group is highly attractive and liquid.
- The secondary market which presents an institution mechanism that was inadequate, nontransparent, hardly regulated and rarely geared to investor's protection.
- The stock price should indicate the direction in which community's saving should be invested. Price system established on the share exchange provides guidance to investors and helps them directly.
- Significant changes have been found in the primary market which is the establishment or merchant's banks, provision of speedy allotments, proportionate allotment of shares etc.

A study done by Mr. Aryal, (2005), entitled with "*The General Behavior of Stock Market Price*".

### **Objectives:**

The prime objectives were as follows:

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

Finally with respect to distribution of price changes, from the investor point of view, the sole interest is in the shape of distribution that is the only information needs to make meaningful investment decision.

## **2.3 Research Gap:**

Today's world is marked by rapid changes and new development such as researcher conducted a few years back, may not be adequate to explain current phenomena. Thus continuous effort needs to make an investment decision. Through many affiliate researches have been done in this area but there have been very few exclusive researchers on this subject. The recent research by Mrs. Joshi suffers a short

coming of having inadequate graphical analysis. Moreover the tremendous development calls for new researches to be conducted. To bring the forth new development and to bridge the gap between the past research and the present situation, I see out to conduct the research in this intriguing topic. I have been through many literature reviews and given best to fulfill this work.

Also this researcher had a burning desire to understand the reasons behind the slow pace development in the area of stock exchange, in spite of being established since 1994. I wanted to unveil reasons behind common people ignorance and lack of participation in this field and their tendency to pursue the traditional system of investment. In my research effort had been made to understand the role of NEPSE and hope this research will be helpful to the future researchers for references.

## CHAPTER III

### RESEARCH METHODOLOGIES

#### 3.1 Introduction:

This chapter deals to the research methodology research. Research is a continues process, it never ends, the procedure and the findings may change bet research continues process, in literature review researcher takes hints from past dissertation but he or she should take need of replication. It is a vital & mandatory process of research works.

“Research means to research the problems again and again to find out something more about the problems” (*Kothari: 1999:10*).

#### 3.2 Research Design:

“A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information is to be collected, form which sources and by what procedures.” (Kothari C.R, 1994 page 55)

A study design is also called by research design as, “a research design is the agreement of conditions for collection and analysis of data in the manner that aim to combine relevance to research purpose with economy in procedure. (Ibid page 45 1996)

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

Research design in other words, can also be defined as plan, structure and strategy of investigation concerned so as to obtain answer to research questions for which it is not possible for a researcher to conduct a research projects without research design. A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. This research attempts to analyze the opinion of the respondents. It includes natures of data, specification of the method of the proposed study and detail plan for carrying out the study with various practical data for the analysis of problems etc. Thus, the design is basically base on presentation, analysis and interpretation of result. First the data are presented in table (or diagram), second presented data are analyzed by using various financial and

statistical tools and at last analyzed data are compared and interpreted for the conclusion. The stated objectives in mind, both the descriptive and analytical type of research are employed. A descriptive analysis is used because the secondary sources of empirical data have been employed to analyze the using variables, which is related to condition and growth and prospects of stock market. According to the topic “Performance of Nepal Stock Exchange in Security Market”, Primary sources of data as questionnaire, interviews related to higher officials is used to show the present trend and market responses, present situation of market.

### **3.3 Population and Sample**

The analysis of Performance of Nepal Stock Exchange in Security Market and its impact to the growth of economy largely depends on the number of companies listed in the Nepal Stock Exchange, share issuance by these companies and contribution of stock market to capital mobilization. Therefore, all the companies listed in the stock exchange and major economic indicator (GDP, Turnover etc) is taken as total population. Moreover the companies that are in existence and doing share transaction in NEPSE (altogether there were 176 companies listed in the NEPSE) and the factors that affect the present economic growth are considered as the sample of the study.

### **3.4 Data Collection Techniques:**

In order to collect the necessary information and data for the present analysis, a systematic process has been implemented as follow:

- Firstly identify the need of the study
- On the basis of need identification, nature of data has been identified.
- In order to collect some data and information most relevant organization and official authorities has been identified.
- Personal approach has been made to collect the required data and information.
- On the basis of such information and data analysis has been done
- Analyzed data are drawn for meaningful conclusions.

### **3.5 Source of Data:**

In order to satisfy our objectives as well as fulfilling the predetermined objectives, we need a relevant data which must be studied and analyzed for the meaningful thesis work. The Required data have been collected from secondary sources. Secondary data are mainly based on booklets and reports. The monthly NEPSE index is derived from various annual reports and trading published by Nepal Stock Exchange. Besides this, some well known information are collected from magazines and journals. The library of various books and writers as well as from the office copies of the publication maintained by the exchange have also been consulted for the collection of additional information in completing this

study more steadily. The website of NEPSE, [www.nepalstock.com](http://www.nepalstock.com) and some other website are also used for references.

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

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

- 1 Statistical Tools
- 2 Financial Tools

#### **Statistical Tools**

Statistical methods are mathematical techniques used to facilitate the analysis and interpretation of numerical data secured from groups of individual or groups of observation from a single individual the figures provide detail description and tabulate as well as analyze data without subjectivity but only objectivity (Joshi:2002:22).

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

#### **Percentage Analysis**

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

- Financial Methods
- Market Price of Stock

One of the major data of this study is market price of stock there price records available (i.e., high, low and low closing price of each year). So two approaches either average price of high and low price of the closing can be used. The main argument of average price may be that it represents the price of the whole year.

It was very difficult to obtain and include these all information and average of high and low price may not be reliable and representation information. Hence, the closing price is used as market price of stock, which has a specific time span of one year and the study has focused on an annual basis.

## **Qualitative Analysis**

Regarding the primary data, the qualitative analysis is done, rather than quantitative analysis. Qualitative analysis is restricted only up to classification and portions the views of the respondents. As qualitative analysis, the issues relating the subject matter is discussed according to the theoretical accepted standard and the support formed through the data collected from field survey to form a rationalized implementation of the issues. The issues are categorized using weighted average scores wherever felt essential return.

With the most investment and individual or business spends money today with the expectations of earning even more money in the future. Thus the concept of returns provides investors with a convenient way of expressing the financial performance of an investment.

## Expected Returns on Common Stock

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

$$R = \frac{\sum R_n}{n}$$

### Where

R = Expected Rate of Return

N = number of year that the return is taken

$\Sigma$  = Sign of summation

## Return of Common Stock Investment

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

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

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

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

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

Where,

$R_f$  = Risk free rate

$E(R_m)$  = Expected market return

$B_j$  = beta coefficient on stock 1

## Risk

Risk & Return are the determinant for the valuation of securities. However risk means that we do not know what is going to happen even though we occasionally have a good idea of the range, of possibilities that face. In other words it is what the firm should recognize that forecast return may or

may not be achievement. This is the element of risk in the decision making process. Therefore risk may be defined as the like hood that the actual return from an investment will be less than the forecast return.

Risk in a financial analysis is the variability of return. The deviation between the expected and actual return brings variability in the return and the variability is termed as risk. The higher the deviation between expected and actual return the higher will be the risk.

Risk, in other words is defined as uncertainty of returns and if there is certainty there is no risk at all. Risk and Return in investment go together and without risk no more return can be expressed.

### **Standard Deviation**

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

It is the square root of the variance and measured the unsystematic risk of stock investment. Symbolically can be expressed as follows;

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

### **Variance of stock**

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

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

## Coefficient of Variance

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

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

Where,

$$\begin{aligned} \text{CV} &= \text{Coefficient of variance} \\ &= \text{Standard Deviation of returns on stock } j \\ R &= \text{Expected rate of Return on stock } j \end{aligned}$$

## Covariance

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

It is calculated as follows

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

## Correlation

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another variable. Two or more variables are said to be correlated if change in the value of one variable appears to be related or linked with the change in the other variables. The most widely use in the practice for calculating correlation coefficient between two variables j and m usually is denoted by  $R_{(jm)}$  or  $R_{jm}$ .

In our study correlation coefficient is relationship between market return and stock return. It also rescales the covariance to facilitate comparison with corresponding value for other pairs of random

variables. It always lies between -1 and +1. A value of -1 represents perfect negative correlation and a value of +1 represents Perfect positive correlation.

$$\text{Correlation (j,m)} = \text{Cov (R}_m\text{-R}_j\text{)} / \sigma_{R_j} \cdot \sigma_{R_m}$$

### **Beta Coefficient**

The beta coefficient is an index of systematic risk. Beta can be used for an ordinary ranking of systematic risk of the assets; it assumes that the total market risk is equal to 1. Beta indicates the risk associated with the company's stock in comparison with the market risk. Beta is a measure of risk. It captures systematic risk common to the entire economic system, the market, IT measures the sensitivity of a stock's return on market portfolio. Beta is a famous static in finance, it is functionally related to the correlation and covariance between the security and the market portfolio in the following way

$$\text{Beta (b)} = \frac{\text{cov.}(R_m\text{-}R_j)}{\text{Var.}(R_m)}$$

### **Graphical Analysis**

Various graphical methods were used during our interpretation of data which I pie chart, bar diagram, histogram and numerous number of tables. It is presented in as simple as possible. We have studied on different heading to gain details knowledge of NEPSE.

## CHAPTER IV

### Data Presentation and Analysis

#### 4.1 Introduction:

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

#### 4.2 Analysis of yearly Volume and value of traded stock and NEPSE Index:

Table -7

Yearly Volume and Value of Traded Stock and NEPSE Index

Year	No .of compa nies	No. of share transaction (000)	Market capitalization Rs.(million)	Total traded turnover (million)	Annual total turnover value in Rs (million)	Yearly NEPSE
2005-06	135	97374	96763.74	12222.42	3451.75	386.83
2006-07	135	120510	186301.3	18147.25	8360.1	683.95
2007-08	136	150800	366247.5	28599.77	22820.8	963.36
2008-09	170	209091	512939.07	30547.16	21681.14	749.10
2009-10	198	213733	376871.37	26231.35	11851.11	477.73

*Source: Annual Report SEBO2009-10*

In the fiscal year 2009/10, annual turnover decreased to be Rs. 11,851.11 million as compared to turnover of Rs. 21,681.14 million in the fiscal year 2008/09. In the fiscal year 2009/10, the market capitalization of the listed companies decreased to be Rs. 3,76,871.37 million as compared to market capitalization of Rs. 5,12,939.07 million in the fiscal year 2008/09. In the fiscal year 2009/10, the price index of the listed securities in Nepal Stock Exchange Ltd. (NEPSE Index) reached to 477.73 points with the decrease of 271.37 points as compared to fiscal year 2008/09. After fiscal year 2007/08, annual total turnover and yearly NEPSE is decline year by year.

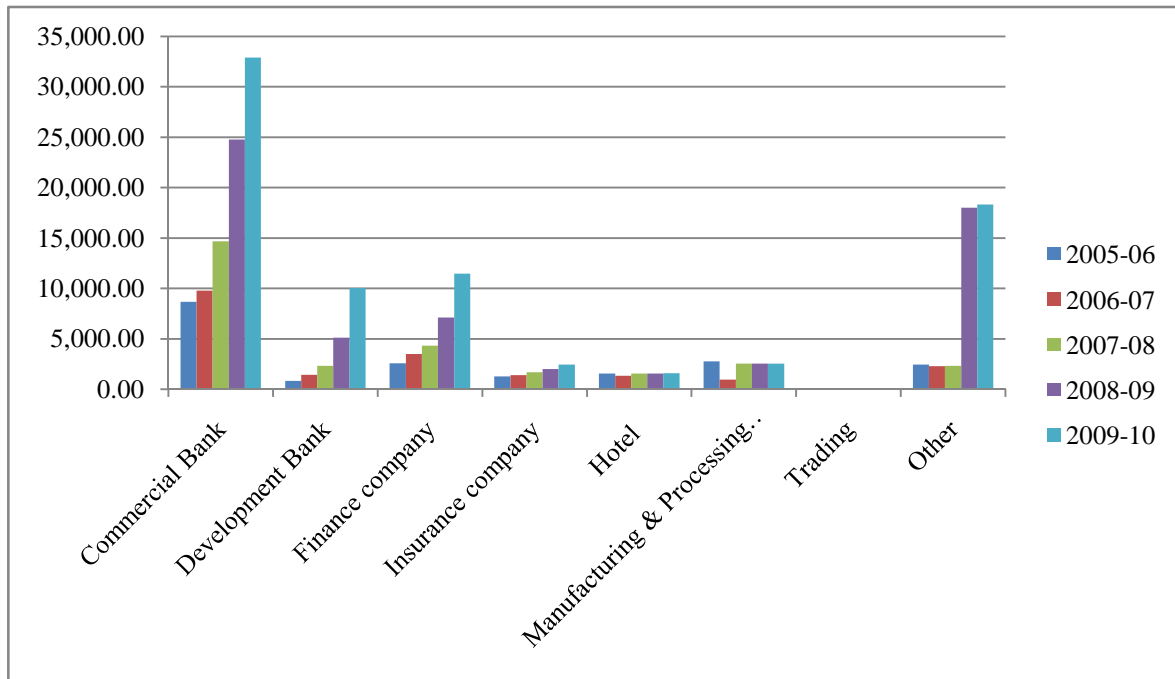
#### 4.2.1 Sector wise paid up value in fiscal year 2005/06-09/10

Table-8  
Sector wise Paid of Value

<b>S. No.</b>	<b>Sector</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
1	Commercial Bank	8,666.73	9,772.93	14,667.23	24,757.87	32,900.64
2	Development Bank	816.91	1,419.74	2,322.7	5,101.17	10,027.14
3	Finance company	2,564.81	3,482.18	4,317.3	7,100.90	11,466.39
4	Insurance company	1,256.70	1,411.70	1,669.7	1,997.75	2,432.94
5	Hotel	1,552.88	1,331.96	1,552.9	1,561.57	1,580.71
6	Manufacturing & Processing company	2,756.96	954.75	2,539.7	2539.70	2,539.74
7	Trading	76.64	54.13	78.4	78.46	82.18
8	Other	2,460.92	2,283.98	2,317.8	1,8002.97	18,326.98
	<b>Total</b>	<b>20,152.55</b>	<b>20,711.37</b>	<b>29,465.73</b>	<b>6,1140.39</b>	<b>79,356.73</b>

*Source: Annual Report of SEBO2005/06 -2009/10*

**Figure 1  
Sector wise Paid up Value**



**Source: Table 8**

The above table shows the paid up value of in the Fiscal Year 2005/06 to 2009/10. The table and the graph clearly indicates that commercial bank paid of values has been increasing from 2005/06 to 2009/10 (the latest data available) where as paid up value for development bank and insurance companies is also following the same growth but the rate of growth is very slow as compared to commercial bank. It can be observed that the paid up value for Hotel, Trading, manufacturing and processing and other sectors are not as impressive as that of commercial banks.

### 4.3 Analysis of Sector wise Turnover:

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

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

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

**Table 9  
Sector wise annual turnover to total turnover on the basis of amount traded Yearly  
(In %)**

S.N.	Sector	2005-06	2006-07	2007-08	2008-09	2009-10
------	--------	---------	---------	---------	---------	---------

1.	Commercial Bank	78.12	70.04	60.57	57.22	60.72
2.	Development Bank	2.40	4.26	8.68	12.64	11.17
3.	Finance Company	8.86	7.69	10.11	12.07	10.66
4.	Insurance Company	3.76	2.45	1.16	0.98	1.55
5.	Hotel	0.57	0.09	0.15	0.08	0.08
6.	Mfg & Processing Company	0.50	0.29	1.55	0.12	0.32
8	Trading Company	0.46	0.13	0.12	0.15	0.30
7.	Other Company *	5.33	15.06	17.66	16.74	15.19
	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Annual report of SEBO (2005/06-2009/10)*

*\*Amount of preference share and mutual fund*

Above table 4.3 5 shows that the commercial banks has highest turnover for the F/Y 2005/06 after that it is decreased respectively in other year. Table no. 4.3 shows that manufacturing and processing has made tremendous improvement in the fiscal year 2007/08 but the table showed unexpected downfall in this fiscal year 2008/09. And the other hand development bank and the finance companies were rapidly increased where as the hotel, trading and other sectors result was not seen satisfactory so far.

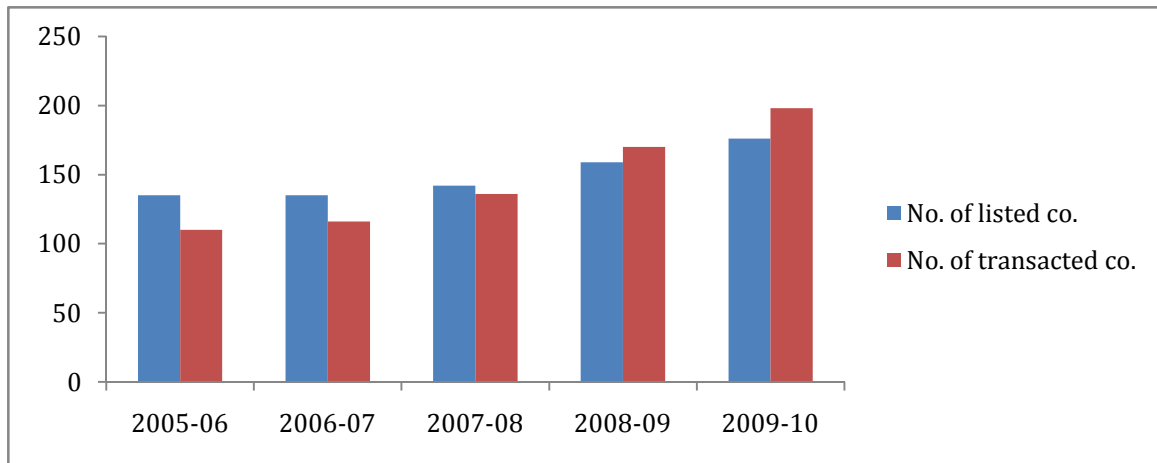
#### **4.3.2 No. of Listed Companies & Transacted Companies:**

**Table 10**  
**No of listed companies & transacted companies**

<b>Year</b>	<b>No. of listed co.</b>	<b>No. of transacted co.</b>
2005-06	135	110
2006-07	135	116
2007-08	142	136
2008-09	159	170
2009-10	176	198

*Source: Annual Report of SEBO 2009/10*

**Figure -2**  
**No of listed companies and Transaction companies**



*Source: Table 10*

The number of listed companies always exceed the no. of transacted companies but in this year the no. of transacted co, is higher than the listed companies.

#### **4.3.3 Monthly Turnover for the year 2009-10:**

Monthly turnover in the fiscal year 2009-10 is presented in table 4.10. As the deal cancel is subtracted from the annual turnover the total monthly turnover diminished to Rs. 2081.51 million.

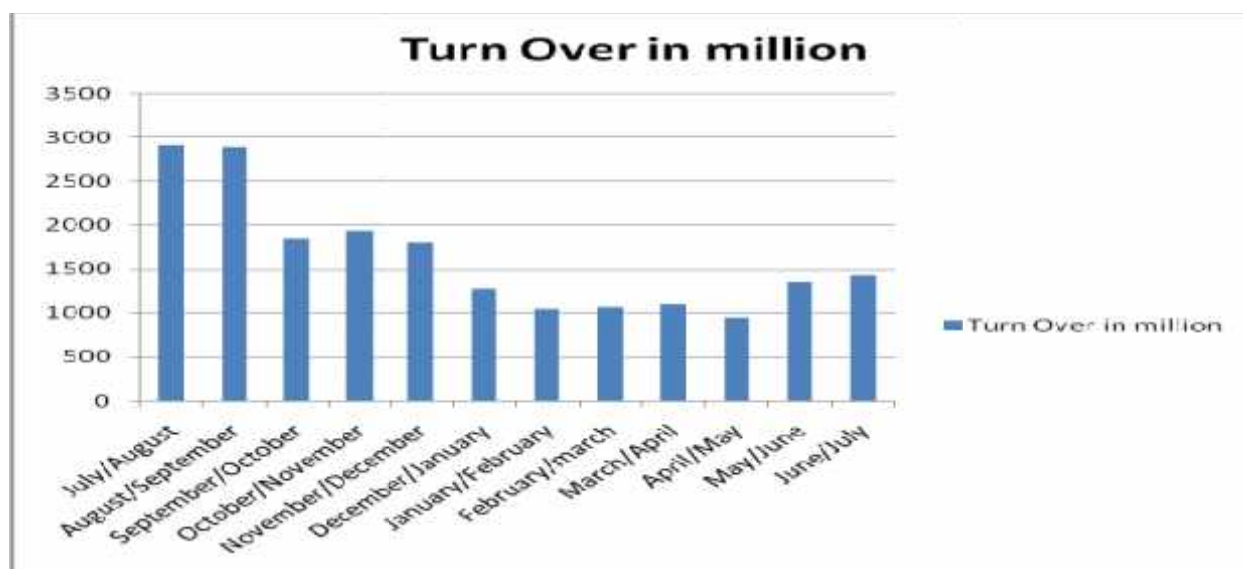
**Table 11**  
**Monthly turn over for the year 2009-10**

<b>Months</b>	<b>Turn Over in million</b>
---------------	-----------------------------

July/August	1858.81
August/September	2101.86
September/October	922.51
October/November	973.49
November/December	906.56
December/January	954.08
January/February	652.25
February/march	428.75
March/April	484.93
April/May	397.90
May/June	815.80
June/July	555.46

Source: SEBON Annual Report 2009/10

**Figure 3**  
**Monthly Turnover for the year 2009-10**



Source: Table 11

The above graph shows monthly turnover of fiscal year 2009-10, the maximum improvement in the month of July-august where as the lowest in the month of April-May.

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

Total paid up value is the function of the number of listed share and companies and paid up value per listed share. Thus, the total paid up value is derived from by multiplying no. of listed shares of these

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

Paid up value and market capitalization both serves as a means to evaluate the important of the stock market. In Nepal both paid up value and market capitalization has increased since 1996/97 after the trading floor began, paid up values of listed share have increased more than doubled. In fiscal year 2005/06 paid up value of listed share was 16,771.9 million and reached to 376,871.37 Million in 2009/2010.

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

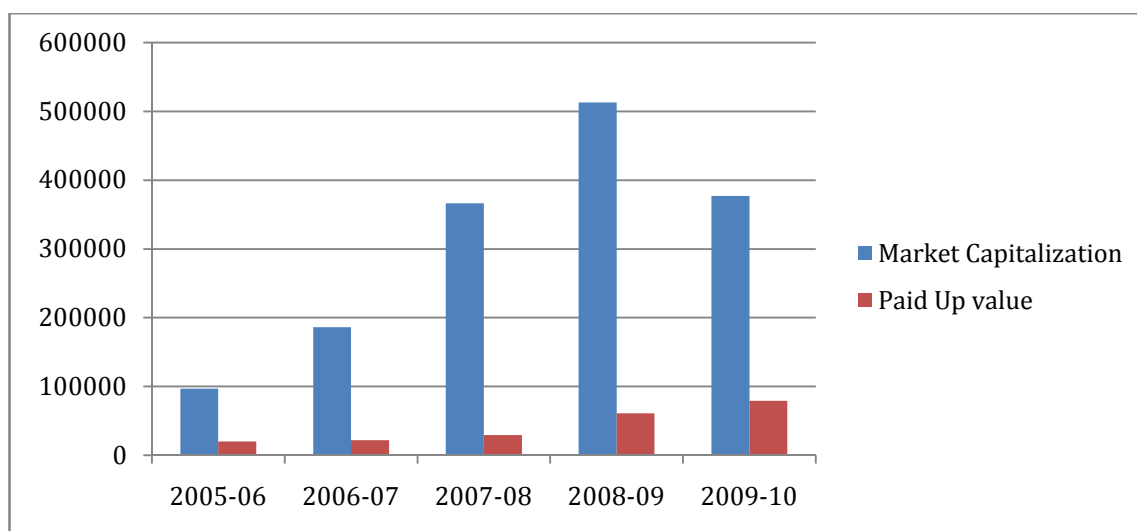
**Table 12**  
**Paid of value and market capitalization**

*(NRs. in Millions)*

<i>Fiscal Year</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>
Market Capitalization	96763.74	186301.3	366247.5	512939.07	376,871.37
Paid Up value	20008.60	21798.8	29465.00	61140.0	79356.00

*Source: SEBON Annual Report 2009/10*

**Figure 4**  
**The paid of value and market capitalization in last 5 years**



*Source: Table 12*

The above finding shows that market capitalization growth is exponential from fiscal year 2005-06 to 2009-10 where as the paid up value growth is very slow.

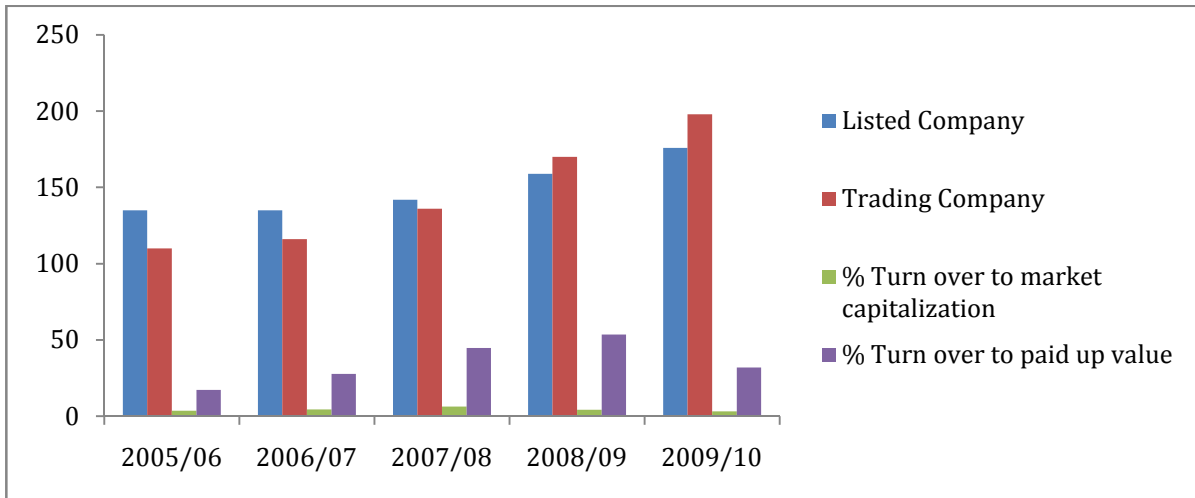
#### 4.4.2 Current Development of Stock Market in Nepal:

**Table 13**  
**Development of stock market in Nepal**

Year	Listed Company	Trading Company	% Turn over to market capitalization	% Turn over to paid up value
2005/06	135	110	3.57	17.29
2006/07	135	116	4.48	27.78
2007/08	142	136	6.23	44.62
2008/09	159	170	4.22	53.43
2009/10	176	198	3.14	31.86

*Source: SEBON Annual Report 2009/10*

**Figure 5**  
**Development of Stock Market in Nepal**



*Source: Table 13*

The above graph shows that from the fiscal year 2005-06 the Turn over paid up value has increased and then decreased in fiscal year 2008-05 then onwards it keeps on increasing till fiscal year 2009-10. Similarly almost the same pattern is there in Turn over to market capitalization in first 3 years but after that it had upwards.

#### **4.5 Market Capitalization:**

By the end of fiscal year 2008-09 the market capitalization of the listed securities reached to Rs. 512939.07 million. The capitalization was Rs. 366247.5 million in the fiscal year 2007-08. The highest market capitalization recorded in the fiscal year 2008-09 was Rs. 612542.7 million on August 31<sup>st</sup> 2008 and the lowest was Rs. 334305.2 million on January 21, 2009 by the end of fiscal year 2008-09. In the fiscal year 2009/10, the market capitalization of the listed companies decreased by 26.5 percent to be Rs. 3,76,871.37 million as compared to market capitalization of Rs. 5,12,939.07 million in the fiscal year 2008/09. In the fiscal year 2009/10, the preliminary estimate of the contribution of market capitalization to the GDP is 31.86 percent.

**Table 14**  
**Sector wise Market Capitalization from 2005-06 to 2009-10**

*(Rs. in Millions)*

S. No.	Sector	2005-06	2006-07	2007-08	2008-09	2009-10
1	Commercial Bank	68694.36	138086.43	259955.3	302223.7	206282.52
2	Development Bank	1577.45	5980.80	17997.8	27134.48	27488.87
3	Finance Companies	4950.03	11491.405	37674.4	42984.30	29869.59
4	Insurance Companies	4952.19	7959.78	11241.4	10515.25	9756.61
5	Hotels	2344.21	1935.59	4809.6	4872.92	5285.58
6	Manufacturing & processing companies	5472.11	3760.28	7516.9	5385.86	7592.03
7	Trading company	764.4	787.40	1170.2	1692.70	1617.51
8	Other	8008.94	16503.02	25881.9	115770.35	88978.67
	<b>Total</b>	<b>96763.69</b>	<b>186504.7</b>	<b>366247.5</b>	<b>512939.07</b>	<b>376871.37</b>

*Source Annual report of SEBO*

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

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.

#### **4.6 Sector wise number of Share Traded in Qty from 2005-06 to 2009-10:**

**Table 15**  
**Sector wise number of Share Traded in Quantity**

*Quantity in (000)*

S. No.	Sector	2005-06	2006-07	2007-08	2008-09	2009-10
--------	--------	---------	---------	---------	---------	---------

1	Commercial Bank	5534.90	9090.95	11241.41	13301.43	9680.62
2	Development Bank	386.39	1360.53	2534.88	3631.81	3535.07
3	Finance Companies	1957.68	2343.46	3094.26	3552.01	3265.92
4	Insurance Companies	575.00	627.61	433.26	418.43	629.90
5	Hotels	392.18	81.70	158.07	95.89	50.28
6	Mfg. & processing companies	59.80	82.92	1655.08	95.12	360.68
7	Trading company	15.22	11.47	14.97	14.65	12.01
8	Other	3301.54	4474.49	7258.91	4242.94	5199.83

*Source Annual Report of NEPSE*

#### 4.7 Sector wise amount of share traded from 2005-06 to 2009-10:

**Table 16**  
**Sector wise amount of share traded in last five years.**

*(Rs. in Millions)*

S. No.	Sector	2005-06	2006-07	2007-08	2008-09	2009-10
1	Commercial Bank	2696.28	5563.49	13822.14	12406.45	7196.24
2	Development Bank	82.76	577.55	1981.05	2740.36	1323.53
3	Finance Companies	305.85	713.57	2307.53	2615.40	1263.94
4	Insurance Companies	129.90	204.97	264.86	212.80	183.47
5	Hotels	19.77	7.09	27.67	18.69	10.15
6	Mfg & processing	17.19	24.27	343.44	26.08	37.74
7	Trading company	15.80	10.42	33.65	33.49	35.43
8	Other	183.88	1258.76	1207.68	1383.94	970.28

*Source Annual Report of NEPSE*

#### 4.8 Top Ten Companies 2005-06 to 2009-10:

##### 4.8.1.1 Top Ten Companies on the basis of Share Traded 2005-06:

In the F/Y 2005-06 on the basis of share traded amount Bank of Kathmandu, NIC Bank and Nepal Investment bank Ltd are in 1<sup>st</sup>, 2<sup>nd</sup> & 3<sup>rd</sup> respectively. The details of top ten companies on the basis of traded amount are shown below.

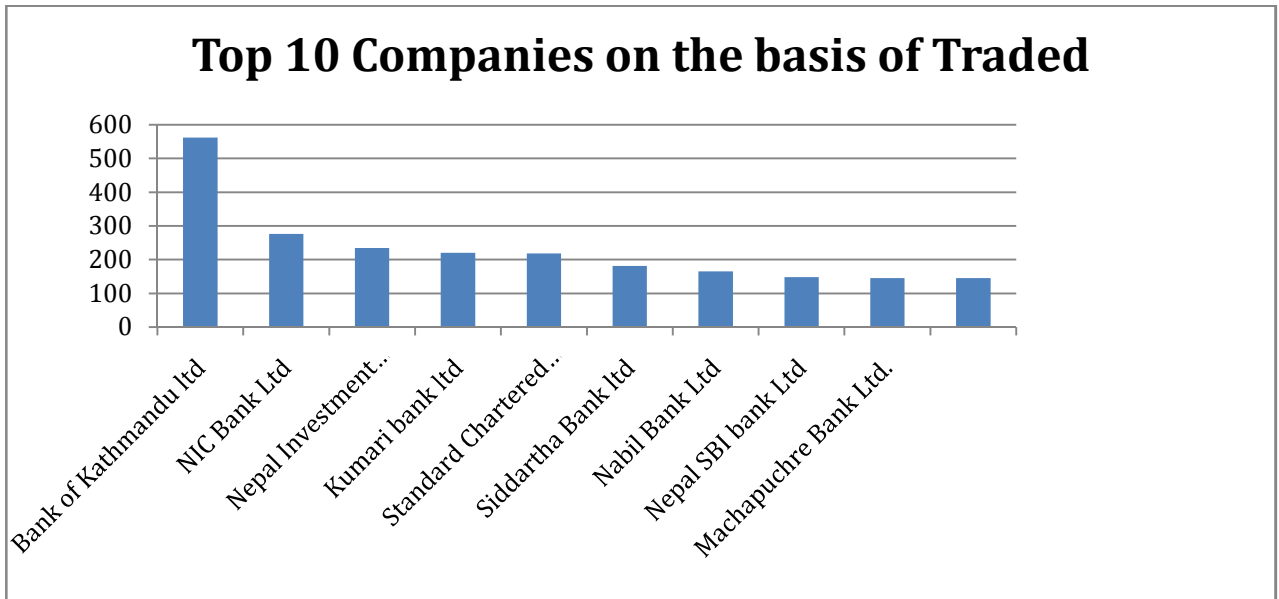
**Table 17**  
**Top 10 companies on the basis of traded amount in the year 2005/06**

<b>S. No.</b>	<b>Name of Companies</b>	<b>Traded amount(Rs. in Millions)</b>
1	Bank of Kathmandu ltd	562.21
2	NIC Bank Ltd	275.81
3	Nepal Investment Bank Ltd	234.44
4	Kumari bank ltd	220.51
5	Standard Chartered Bank Ltd	218.26
6	Siddartha Bank ltd	181.44
7	Nabil Bank Ltd	165.21
8	Nepal SBI bank Ltd	147.76
9	Machapuchre Bank Ltd.	144.90
10	Chilime Hydropower Company Limited.	144.78

*Source: NEPSE Annual Report 2009/10*

**Figure 6**

**Top 10 Companies on the basis of traded amount in the year 2005-06.**



*Source: Table 17*

#### **4.8.1.2 Top Ten Companies on the basis of Share Traded:**

In the Fiscal Year 2005-06 NCM mutual fund took the first position where as Laxmi bank Ltd was in last position to trade the share.

**Table 18**

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

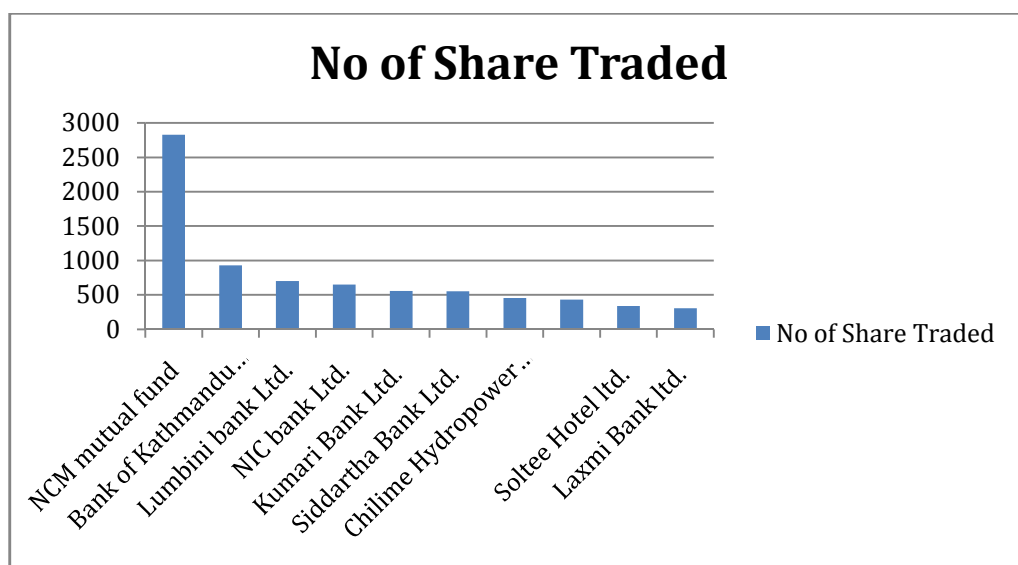
*(Qty in thousands)*

S. No.	Name of Companies	No of Share Traded
1	NCM mutual fund	2827
2	Bank of Kathmandu ltd.	929
3	Lumbini bank Ltd.	702
4	NIC bank Ltd.	651
5	Kumari Bank Ltd.	557
6	Siddhartha Bank Ltd.	552
7	Chilime Hydropower Co. Ltd	457
8	Machapuchre Bank Ltd.	432
9	Soltee Hotel ltd.	341
10	Laxmi Bank ltd.	308

*Source: NEPSE Annual Report 2009/10*

**Figure 7**

**Top 10 companies on the basis of Share Traded.**



*Source: Table 18*

**4.8.1.3 Top 10 Companies on the basis of Market Capitalization:**

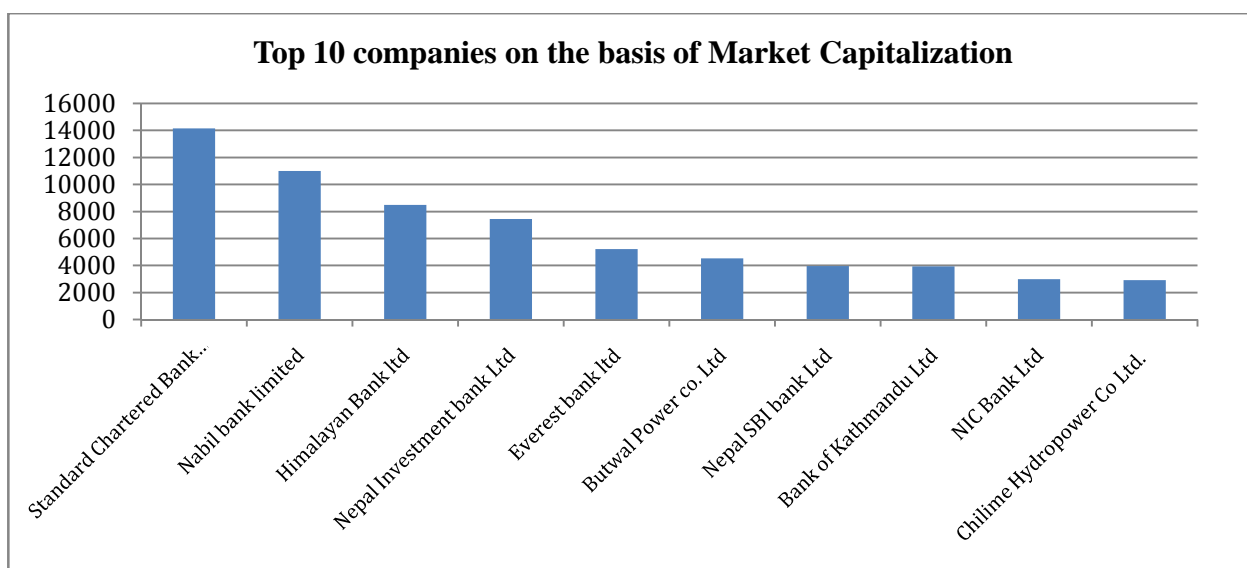
In the fiscal year 2005-06 in the basis of market capitalization Standard chartered bank ltd, Nabil bank ltd and Himalayan bank ltd are in first , second and third position respectively. The details are shown as below:

**Table 19**  
**Top 10 Companies on the basis of Market Capitalization**

S. No.	Name of Companies	Market Capitalization( Rs. in Millions)
1	Standard Chartered Bank Limited	14142.68
2	Nabil bank limited	10998.29
3	Himalayan Bank ltd	8494.20
4	Nepal Investment bank Ltd	7441.38
5	Everest bank ltd	5212.62
6.	Butwal Power co. Ltd	4530.91
7.	Nepal SBI bank Ltd	3964.56
8	Bank of Kathmandu Ltd	3940.44
9	NIC Bank Ltd	2976.00
10	Chilime Hydropower Co Ltd.	2918.40

*Source: NEPSE Annual Report 2009/10*

**Figure 8**  
**Top 10 companies on the basis of Market Capitalization**



*Source: Table 19*

#### 4.8.2.1 Top 10 Companies on the basis of Traded Amount in 2006-07:

In the Fiscal Year 2006-07 Bank of Kathmandu Ltd was in the first position similarly Kumari Bank Ltd in the second and National Hydro Power were in the third position.

**Table 20**

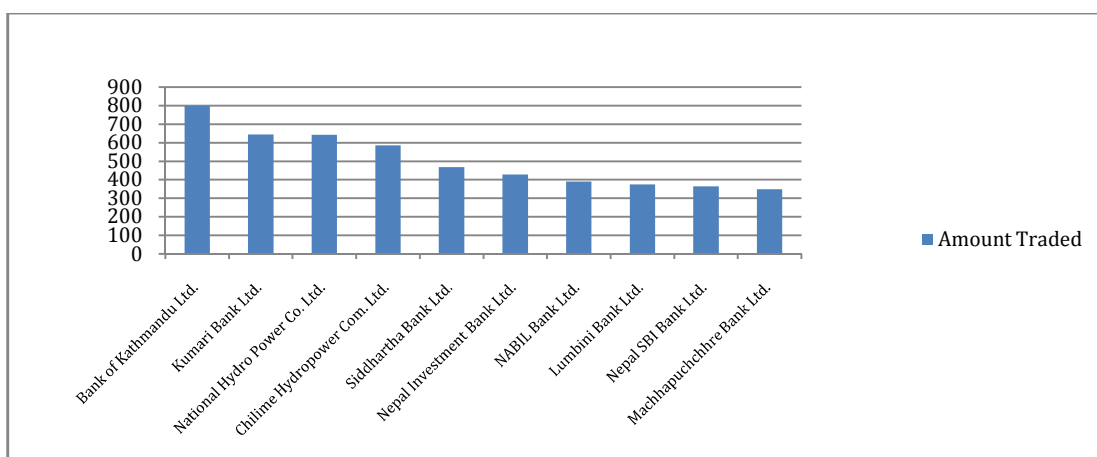
**Top Ten Companies On The basis of traded amount in 2006-07**

S. No.	Name of the Companies	Amount Traded(Rs. in Millions)
1	Bank of Kathmandu Ltd.	798.80
2	Kumari Bank Ltd.	644.92
3	National Hydro Power Co. Ltd.	642.36
4	Chilime Hydropower Com. Ltd.	584.98
5	Siddhartha Bank Ltd.	467.99
6	Nepal Investment Bank Ltd.	429.16
7	NABIL Bank Ltd.	390.75
8	Lumbini Bank Ltd.	374.5
9	Nepal SBI Bank Ltd.	365.01
10	Machhapuchchhre Bank Ltd.	348.59

*Source: NEPSE Annual Report 2009/10*

**Figure 9**

**Top Ten Companies on the basis of traded amount in 2006-07**



*Source: Table 20*

#### 4.8.2.2 Top 10 companies on the Basis of Share Traded in 2006-07:

In the fiscal year 2006-07 National Hydropower Co Ltd. Was first to trade maximum no of share where as Lumbini Bank Limited and Kumari bank were in second and third.

**Table 21**

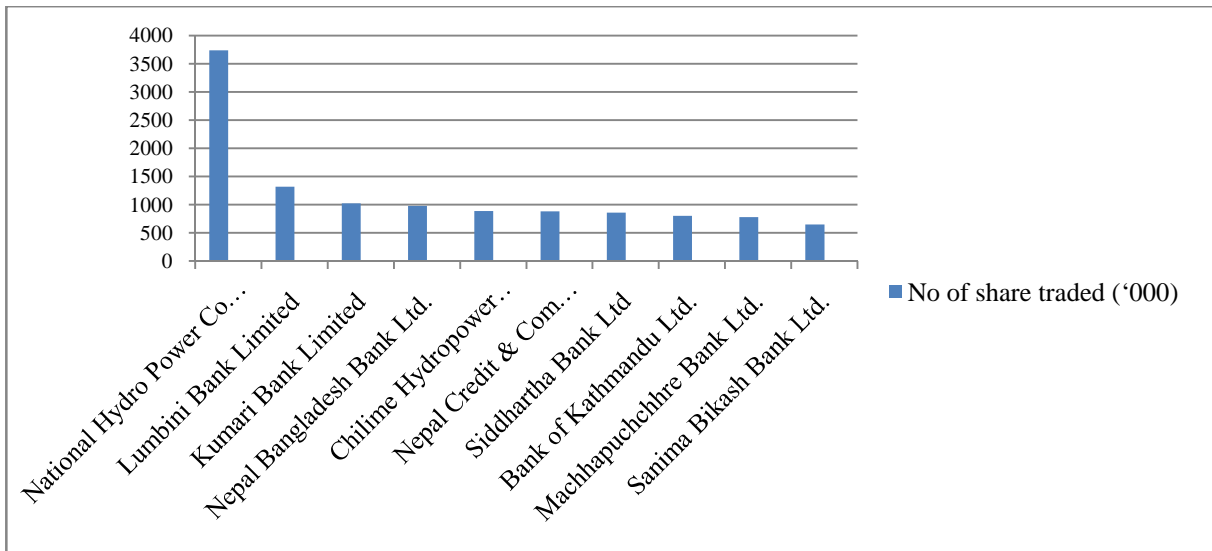
#### **Top 10 companies on the Basis of Share Traded in 2006-07**

S.N	Name of the Companies	No of Share Traded ( <i>Qty in thousands</i> )
1	National Hydro Power Co. Ltd.	3740
2	Lumbini Bank Limited	1318
3	Kumari Bank Limited	1023
4	Nepal Bangladesh Bank Ltd.	976
5	Chilime Hydropower Com. Ltd.	885
6	Nepal Credit & Com. Bank Ltd	879
7	Siddhartha Bank Ltd	860
8	Bank of Kathmandu Ltd.	803
9	Machhapuchchhre Bank Ltd.	776
10	Sanima Bikash Bank Ltd.	650

*Source: NEPSE Annual Report 2009/10*

**Figure 10**

#### **Top Ten Companies on the basis of traded amount in 2006-07**



*Source: Table 21*

#### **4.8.2.3 Top Ten on the Basis of Market Capitalization in 2006-07:**

In the fiscal year 2006-07 Nabil Bank market capitalization was maximum followed by Standard Chartered Bank and Himalayan Bank.

**Table 22**

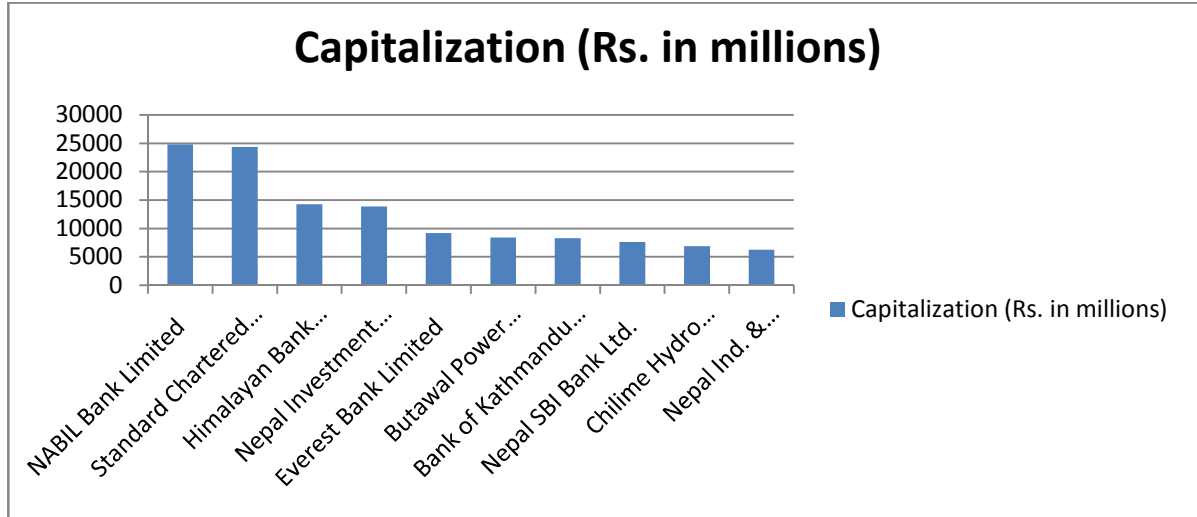
**Top 10 Companies on the basis of market capitalization in 2006-07**

S.N	Name of the Companies	Market Capitalization (Rs. in Millions)
1	NABIL Bank Limited	24795.25
2	Standard Chartered Bank NP Ltd.	24382.03
3	Himalayan Bank Limited	14270.26
4	Nepal Investment Bank Limited	13855.39
5	Everest Bank Limited	9185.40
6	Butwal Power Company Ltd.	8390.58
7	Bank of Kathmandu Limited	8293.19
8	Nepal SBI Bank Ltd.	7618.17
9	Chilime Hydro Power Com. Ltd.	6858.24
10	Nepal Ind. & Commercial. Bank	6270.00

Source: NEPSE Annual Report 2009/10

**Figure 11**

**Top 10 Companies on the basis of Market Capitalization in 2006-07**



Source: Table 22

**4.8.3.1 Top 10 Companies on the basis of Traded Amount in 2007-08:**

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

**Table 23**

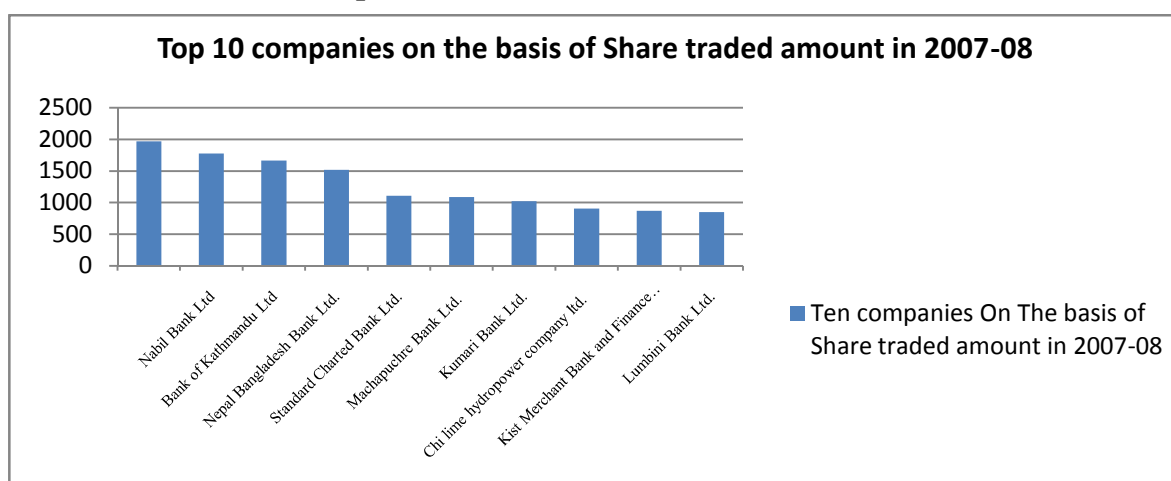
**Ten companies On The basis of Share traded amount in 2007-08**

S. No.	Name of Companies	Shared Traded (Rs. in Millions)
1.	National Hydro Power Company Ltd.	1969.85
2.	Nabil Bank Ltd	1777.02
3.	Bank of Kathmandu Ltd	1663.84
4.	Nepal Bangladesh Bank Ltd.	1519.69
5.	Standard Chartered Bank Ltd.	1110.80
6.	Machapuchre Bank Ltd.	1089.68
7.	Kumari Bank Ltd.	1024.18
8.	Chilime hydropower company ltd.	905.43
9.	Kist Merchant Bank and Finance Ltd.	871.03
10.	Lumbini Bank Ltd.	851.33

Source: NEPSE Annual Report 2009/10

Figure 12

Ten companies on the basis of Share traded amount in 2007-08



Source: Table 23

4.8.3.2 Top 10 companies on the basis of Share Traded:

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

Table 24

Top 10 companies on the basis of Share Traded

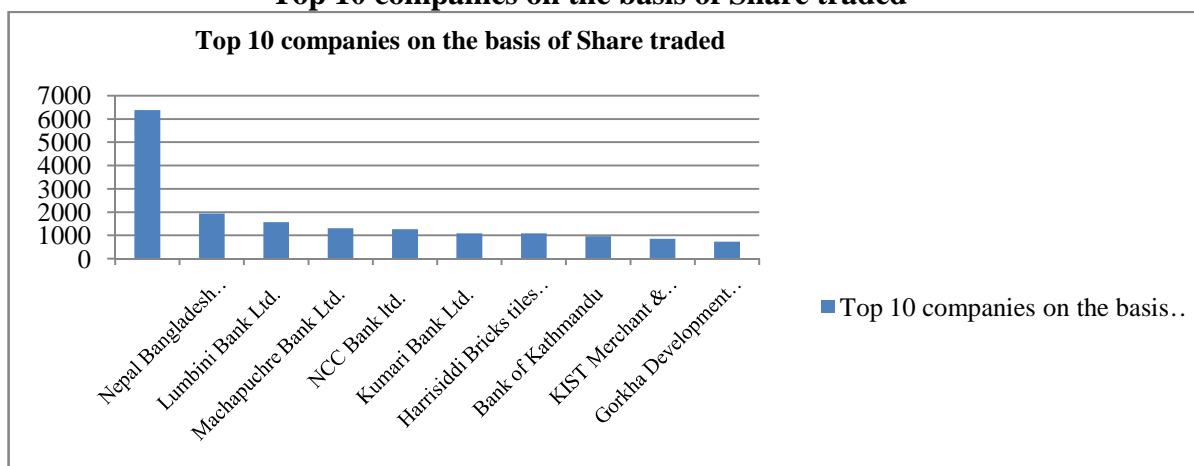
S. No.	Name of Companies	No of share Traded(Qty in thousands)
1	National Hydro Power Company Ltd.	6384
2	Nepal Bangladesh Bank Ltd.	1936

3	Lumbini Bank Ltd.	1567
4	Machapuchre Bank Ltd.	1304
5	NCC Bank ltd.	1269
6	Kumari Bank Ltd.	1087
7	Hari siddi Bricks tiles Factory.	1082
8	Bank of Kathmandu	956
9	KIST Merchant & Finance Co. Ltd.	855
10	Gorkha Development Bank	733

Source: NEPSE Annual Report 2009/10

Figure 13

Top 10 companies on the basis of Share traded



Source: Table 24

4.8.3.3 Companies on the basis of Market Capitalization:

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

Table 25

Top 10 companies on the basis of market capitalization

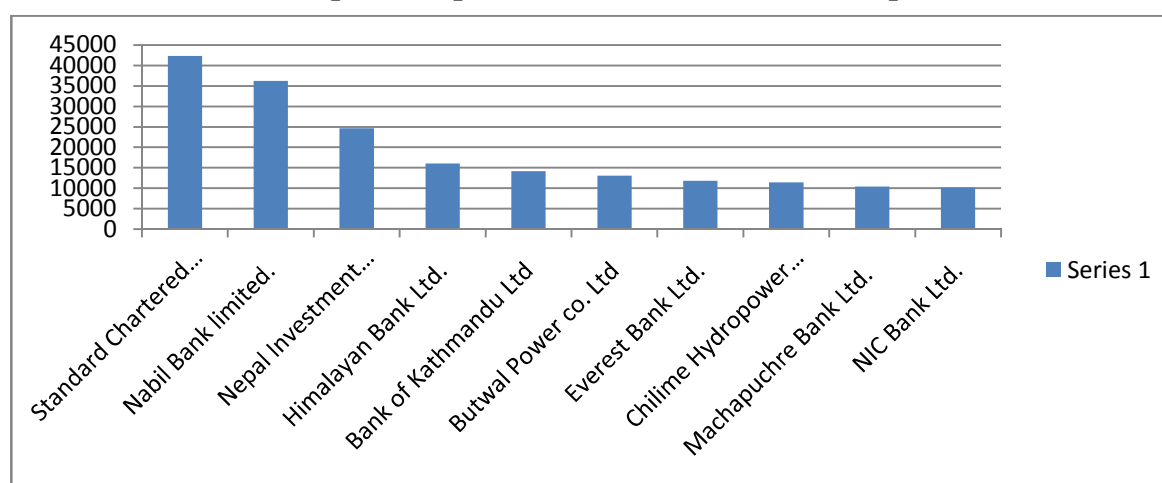
S. No.	Name of Companies	Market capitalization( In millions)
1	Standard Chartered Bank Ltd.	42337.95
2	Nabil Bank limited.	36259.98
3	Nepal Investment bank Ltd	24654.54
4	Himalayan Bank Ltd.	16054.04
5	Bank of Kathmandu Ltd	14173.82

6.	Butwal Power co. Ltd	13080.91
7.	Everest Bank Ltd.	11838.96
8	Chilime Hydropower Co Ltd.	11396.35
9	Machapuchre Bank Ltd.	10393.89
10	NIC Bank Ltd.	10169.28

Source: NEPSE Annual Report 2009/10

Figure 14

Top 10 companies on the basis of market capitalization



Source: Table 25

4.8.4.1 Top Ten Companies On The basis of Share Traded Amount in 2008-09:

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

Table 26

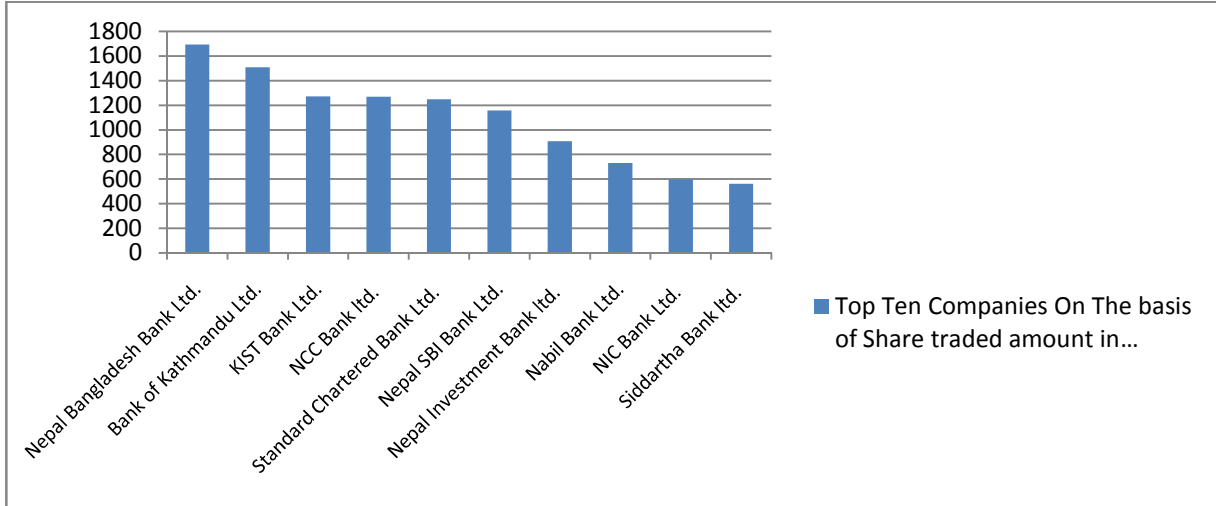
Ten companies On The basis of Share Traded amount in 2008-09

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

10	Siddhartha Bank Ltd.	561.69
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Source: NEPSE Annual Report 2009/10

**Figure 15**  
**Ten companies On The basis of Share Traded Amount in 2008-09**



Source: Table 26

#### 4.8.4.2 Top 10 companies on the basis of Share Traded in 2008-09:

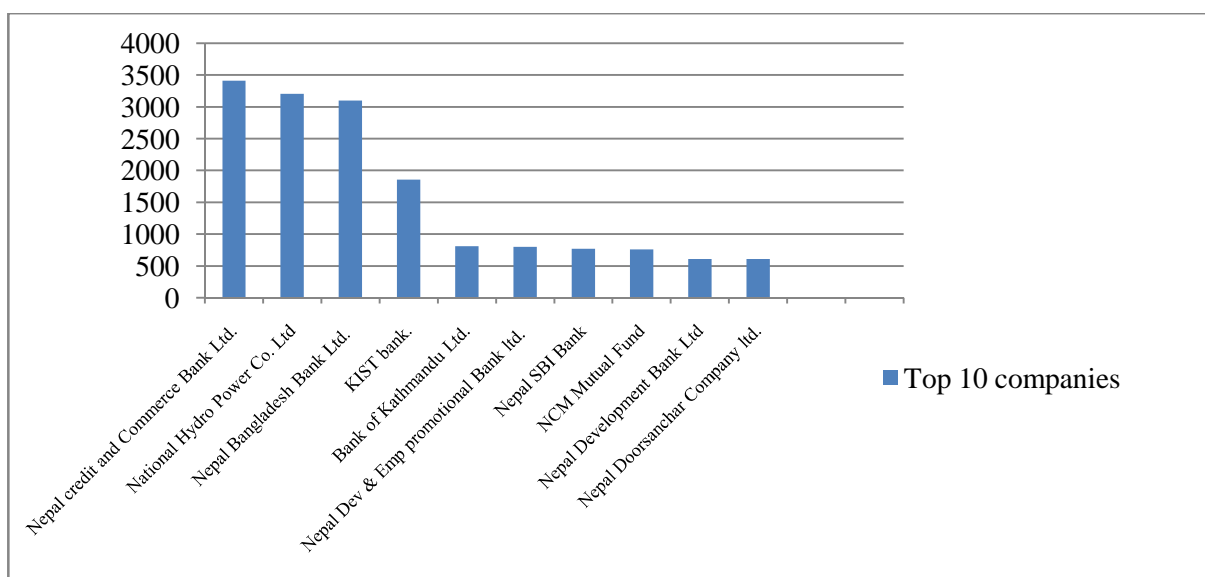
In the fiscal year 2007-08 National Hydropower Co. Ltd took the first position where as Gurkha Development Bank Ltd was in last position to trade the share.

**Table 27**  
**Top 10 companies on the basis of Share Traded in 2008-09**

S. No.	Name of Companies	No. of Share Traded ( <i>Qty in 000</i> )
1	Nepal credit and Commerce Bank Ltd.	3411
2	National Hydro Power Co. Ltd	3207
3	Nepal Bangladesh Bank Ltd.	3100
4	KIST Bank.	1858
5	Bank of Kathmandu Ltd.	808
6	Nepal Dev & Emp promotional Bank ltd.	799
7	Nepal SBI Bank	768
8	NCM Mutual Fund	758
9	Nepal Development Bank Ltd	610
10	Nepal Doorsanchar Company ltd.	611

Source: NEPSE Annual Report 2009/10

**Figure 16**  
**Top 10 companies on the basis of Share traded in 2008-09**



Source: Table 27

#### 4.8.4.3 Top 10 Companies on the basis of Market Capitalization in 2008-09:

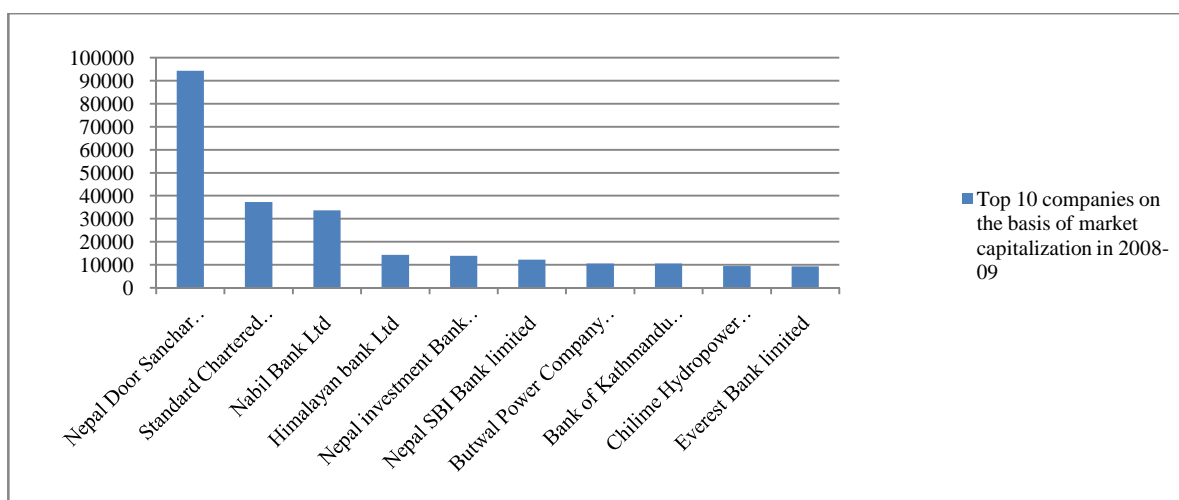
In the fiscal year 2008-09 in the basis of market capitalization Nepal Doorsanchar Co. Ltd, Standard Chartered Bank and Nabil Bank Ltd are in first, second and third position respectively. The details are shown as below.

**Table 28**  
**Top 10 companies on the basis of market capitalization in 2008-09**

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

Source: NEPSE Annual Report 2009/10

**Figure 17**  
**Top 10 companies on the basis of market capitalization in 2008-09**



Source: Table 28

#### 4.8.5.1 On the basis of Share Traded Amount in 2009-10.

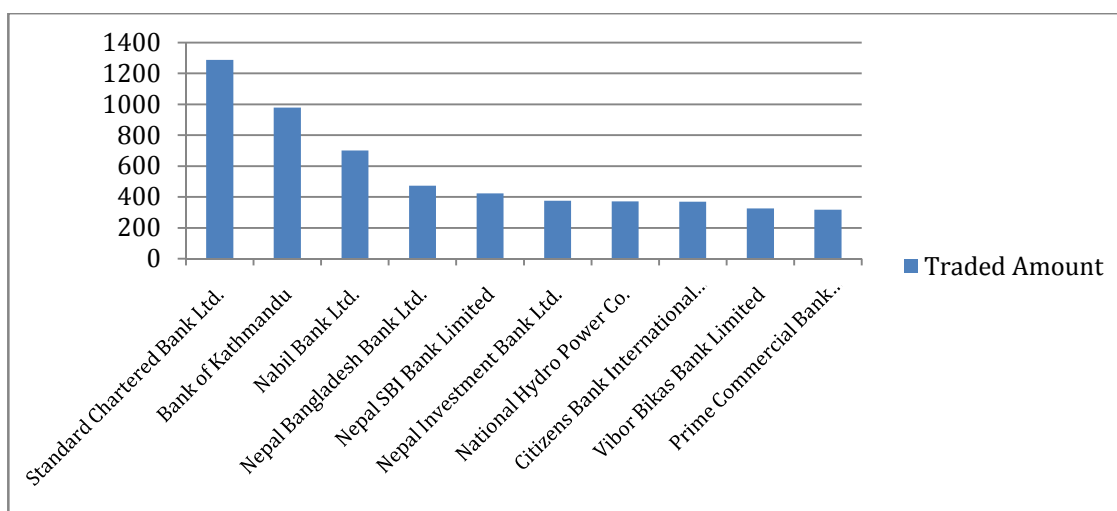
In the fiscal year 2009-10 on the basis of share traded amount Standard Chartered Bank Limited, Bank of Kathmandu and Nabil Bank Limited are in 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> respectively. The details of top ten companies on the basis of traded amount are shown below.

**Table 29**  
**Top 10 companies on the basis of traded amount in the year 2009/10**

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

Source: NEPSE Annual Report 2009/10

**Figure 18**  
**Top 10 companies on the basis of traded amount in the year**



*Source: Table 29*

#### 4.8.5.2 On the basis of Share Traded:

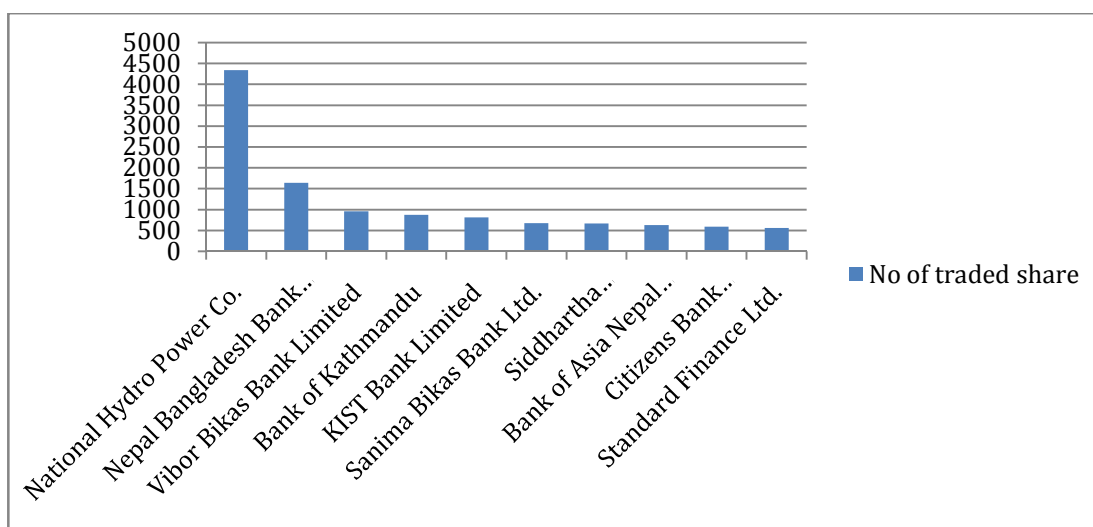
On the basis of share traded National Hydro Power Company, Nepal Bangladesh Bank Limited and Vibor Bikash Bank Limited are 1<sup>st</sup>, 2<sup>nd</sup> & 3<sup>rd</sup> position respectively.

**Table 30**  
**Top 10 Companies on the basis of Share Traded in 2009/10**

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

*Source: NEPSE Annual Report 2009/10*

**Figure 19**  
**Top 10 companies on the basis of share traded in 2009-10**



Source: Table 30

#### 4.8.5.3 On the basis of Market Capitalization:

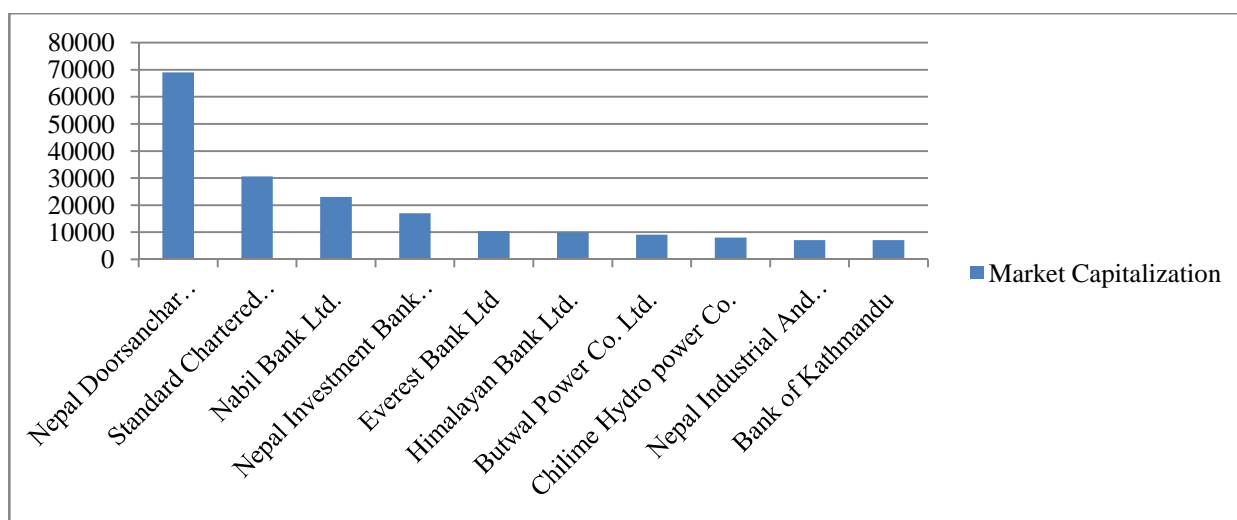
In the fiscal year 2009-10 in the basis of market capitalization Nepal Doorsanchar Company Limited, Standard chartered bank & Nabil bank are in 1<sup>st</sup>, 2<sup>nd</sup> & 3<sup>rd</sup> position respectively. The details are shown as below.

**Table 31**  
**Top 10 companies on the basis of Market Capitalization**

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

Source: NEPSE Annual Report 2009/10

**Figure 20**  
**Top 10 companies on the basis of market capitalization**



Source: Table 31

#### 4.9 Analysis of Secondary Market Development:

Table 32

##### Analysis of Secondary Market Development

Fiscal year	Listed Company	Market Capitalization (Rs in millions)	Annual Turnover (Rs in Millions)	Yearly Closing NEPSE	Market Capitalization as % of nominal GDP
2004-05	125	61365.89	4507.68	286.67	12.17
2005-06	135	96763.79	3451.43	386.83	17.35
2006-07	135	186301.28	8360.07	683.95	27.78
2007-08	142	366247.65	22820.67	963.36	44.62
2008-09	159	512939.07	21681.14	749.10	53.43
2009-10	176	376871.37	11851.11	477.10	31.86

Sources: SEBON Annual Report 2009/10

In the last fiscal year, total listed companies in Nepal Stock Exchange Ltd. were 159 which reached to be 176 in the fiscal year 2009/10. In the fiscal year 2009/10, annual turnover decreased by 45.3 percent to be Rs. 11,851.11 million as compared to turnover of Rs. 21,681.14 million in the fiscal year 2008/09.

In the fiscal year 2009/10, the market capitalization of the listed companies decreased by 26.5 percent to be Rs. 3,76,871.37 million as compared to market capitalization of Rs. 5,12,939.07 million in the fiscal year 2008/09. In the fiscal year 2009/10, the preliminary estimate of the contribution of market capitalization to the GDP is 31.86 percent.

In the fiscal year 2009/10, the price index of the listed securities in Nepal Stock Exchange Ltd (NEPSE Index) reached to 477.73 points with the decrease of 271.37 points as compared to fiscal year 2008/09.

**4.10 No. of Business Securities Persons**

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

**Table No. 33  
Securities Business Persons**

<b>Securities Business Persons</b>	<b>Number</b>
Security Broker	23
Issue Manager	8
Market Maker	3
Security Dealer	1
Total:	35

*Sources: SEBON Annual Report 2009/10*

**4.11 Stock Price Index of Nepal Stock Exchange**

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

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

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

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

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

Where,

$P_{01}$  = NEPSE Price Index

$P_1$  = Today's stock price

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

$P_0$  = Base market price

$Q_0$  = Base listed Price

After the initiation of trading floor, NEPSE started to calculate the NEPSE index. For this purpose of calculation of index, NEPSE has taken 12 February as a base period. The base period value for the index was initially set as 100. Thus 100 multiply the ratio of current market value to base period market value.

In 1995-96 market index remained at 185.61 point. Then it started to move and reached to a peak level of 360.7 in year 1999-2000. It never reached to this highest level since five years. Thereafter it is highly fluctuated in decreasing trend over the years.

NEPSE index started to decrease in the year 1996 and it continued till 1997-98 but it is slightly increased in 1998-99 and reached to 216.92 points. There is slight improvement in NEPSE index in the year 1999-2000 as it reached to highest point 360.70. Then onwards NEPSE index is on decreasing trend and reached to 222.04 points in 2003-04 and in the fiscal year of 2004-05 it rise to 286.67 points. Finally in the year 2005-06 NEPSE index showed a big improvement, which rises to 386.83 point. Then after it rises continuously at 2006-07 & 2007-08 at 683.95 and 963.36 point respectively but in this fiscal year 2008-09 NEPSE Index falls down to 749.1 point. Further, in fiscal year 2009/10, Index was falls down to 477.73.

#### 4.12 Annual Trend Analysis:

One of the important and suitable techniques of data analysis is annual trend analysis. For this purpose NEPSE index of 5 years was taken i.e. from 2005-06 to 2009-10. Tabular as well as graphical measures are considered for presenting and analyzing the data.

#### Annual trend analysis from Fiscal Year 2005/06 to 2009/10

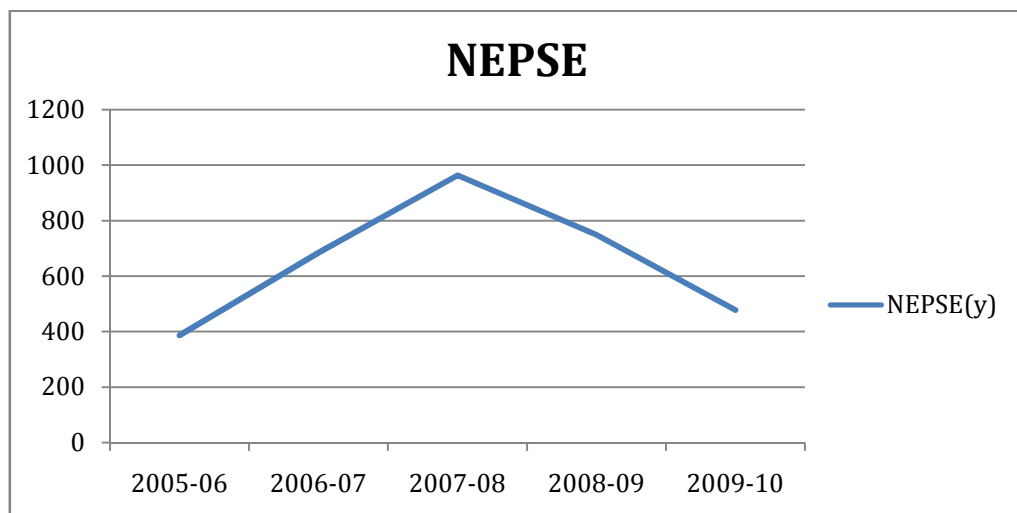
**Table 34**  
**Annual Trend Analysis**

Year	NEPSE
2005-06	386.83
2006-07	683.95
2007-08	963.36
2008-09	749.1
2009-10	477.73

*Source Annual Report NEPSE*

By using the formula  $Y_c = a + bx$ , we can forecast NEPSE Index for next two years, after calculate the result is NEPSE Index for year 2011 is 948.54 point and year 2012 NEPSE index is 997.924 point. Calculation is shown in Appendix I

**Figure 21**  
**Trend Analysis**



*Source: Table 35*

As one of the major economic indicator the decreasing trend of NEPSE index indicates that the economic performance of the nation is not satisfactory. In this fiscal year the NEPSE is falls down than

previous year. But forecasting coming two year by using formula  $yc = a + bx$  the result is found the NEPSE index will rise.

#### 4.13 Monthly Trend Analysis:

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

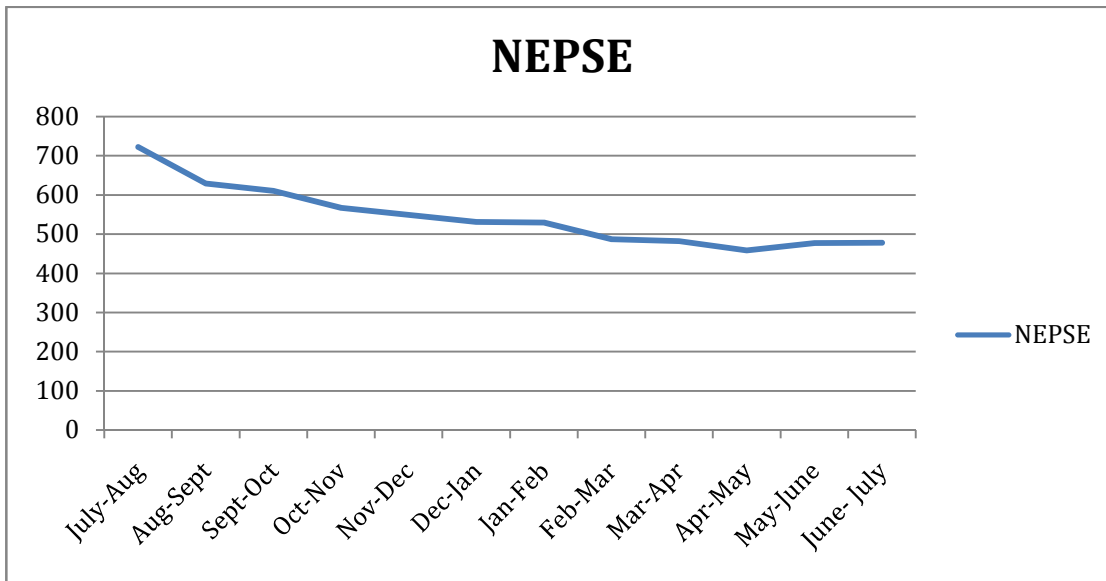
**Table 35**  
**NEPSE Index of different months during the year 2009-10**

<b>Months</b>	<b>NEPSE</b>
July-Aug	721.95
Aug-Sept	628.34
Sept-Oct	609.55
Oct-Nov	566.94
Nov-Dec	548.61
Dec-Jan	530.96
Jan-Feb	528.9
Feb-Mar	486.25
Mar-Apr	481.19
Apr-May	457.81
May-June	476.69
June- July	477.73

*Source Annual Report NEPSE*

Figure 22

Monthly NEPSE Index 2009-10



Sources: Table 35

#### 4.14 Comparisons with the Market:

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

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

Table 36  
Comparisons with the Market

Year	NEPSE index	$R_m = \frac{NEPSE_t - NEPSE_{t-1}}{NEPSE_{t-1}}$	$R_m - R_m$	$(R_m - R_m)^2$
2005-06	386.83	0.3488	0.0664	0.00441
2006-07	683.95	0.7680	0.4856	0.23580
2007-08	963.36	0.290	0.0076	0.00006
2008-09	749.10	-0.286	-0.5684	0.32307
2009-10	477.73	(0.36226)	(1.12080)	1.25619
<b>Total</b>		<b>0.7585</b>		<b>1.81953</b>

Source: Annual Report 2009/10

Performance analysis of NEPSE for five fiscal year 2005/06 to 2009/10, Return on market ( $R_m$ ) , Standard deviation of market ( $\sigma_m$ ) and Coefficient of Variance (CV) are 0.1517, 0.4588 and 2.39 respectively (*refer: appendix II*).

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

According to the nature and objectives of the study primary data as well as secondary data has been used to meet the objective of the study. Secondary data were collected from the annual report of securities. Secondary data were collected from the annual report of securities Board of Nepal (SEBON), daily newspaper, websites and journals.

Questionnaires were distributed to the general investors who are interested in share market. Information was tabulated and presented as per requirement of the study. The liquidity position of our country is also high this could have also led to high public response to share application. There is no proper analysis to make and peoples and people's invest in share looking at the market present situation and by making some wild guesses. Public are attracted towards shares market than other companies, basically to increase their values of investment.

- According to the field survey in the Nepalese stock market, it was found that investors are not aware about investment.
- Most of the respondents consider Profit, Performance and price of the share while purchasing the share in secondary market.
- Most of the investors purchase the share to gain profit, some of them purchase the share to secure their future. Similarly some of them purchase share to raise their social status and increase the no. of share also.
- It was found by field survey that the main reason to falls share price is political instability and increase in capital gain tax.
- Bonus share and Right shares are the main expectation of investors, it was found from field survey.
- It was found that investors of Nepalese stock market take decision on the basis of their own analysis.
- Taking interview with experts of Nepal stock market most of them follow the technical as well as fundamental analysis method of stock price movement.
- Most of the investors want to invest their investment in financial institution. It was found from field survey.
- According to the major portion of respondents international environment directly affects the Nepalese stock market.
- Most of the investors think that Government policy is not so clear to handle the stock market of Nepal.

- Most of the investors sometimes have complained to security market of Nepal.
- According to investors that Government should be make a clear policy to improve securities market of Nepal.
- And NEPSE should be improving secondary market by installation CDS and giving transparent information about companies.
- To improve secondary market of companies share, Nepal companies should be providing transaction details, Profit & loss and market perception to their investors. It was found from field survey.
- While studying there no. of securities business persons showed that in decreasing trend. It means there are no good opportunities in the stock market.

# CHAPTER V

## SUMMARY, CONCLUSION AND RECOMMENDATION

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

### 5.1 Summary:

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

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

Now a big number of people are involving in share market. Some of them are involved in full knowledge about share market but some are involve without any proper knowledge

about share market. The main problems of investors are lack of adequate knowledge about the share market in Nepal. The performance of many listed companies especially in the hotel and trading sector are poor. The company's performance is improved since 3-4 years but in this fiscal year stock market is not seen satisfactory due to the government instability political chaos and recession.

The stock price index at present around 477.73 points was not satisfactory as compared to 2008-09 which was 749.10. Price index is used to measure the performance of the stock market. The highest index suggests the increased in the market price of stocks and implies the better performance of the companies and vice versa. NEPSE index of share prices has computed by using standard and poor's index method with the base period 12<sup>th</sup> February 1994.

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

The paid up values of the listed companies have been decreased during this study periods because it is directly related to the no. of companies listed in all groups but other hand market capitalization has been great change and reached to 376,871.37 million in this fiscal year from 512,939.07 million in 2008/09.

## 5.2 Conclusion:

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

- Public response is high due to lack of opportunities for the investment in other fields. No proper investment analysis has been made. Despite of this public attracted towards shares than other sector basically to increase their value of investment.
- Majority portion of the investors of Nepalese stock market invest their money from the view point of the income which was found from the field survey.
- According to the major portion of the investors international economy directly affects the Nepalese stock market.
- It was found that government policies are not clear to handle the Nepalese securities market in Nepal.
- At the time of field survey, it was found that the under writer of Nepalese stock market are honest.
- It was also found that investors motive for owing shares of company is to received the dividends from shares.
- It was also found that investors are not aware about investment.
- Studying the monthly trend analysis for one year 2009-10. The unsystematic activities of stock market were found. No expert can certainly forecast about the stock price.
- Studying the annual trend analysis of Nepalese stock price market it reached to 477.73 points with the decrease of 271.37 as compared to fiscal year 2008-09.
- While studying the number of security business person it showed that in decreasing trend from 2005-06 to 2009-10, it means that there is no good opportunity in the stock market.
- Total market capitalization of the listed companies at the end of this fiscal year 2009-10 is recorded to be Nrs.376871.37 million which is decreased by 26.53% than the last fiscal year 2008-09. In this fiscal year the contribution of the market capitalization to the GDP have been estimated to be 31.86%.
- While studying the sector wise annual turnover for this fiscal year commercial bank represents highest percentage (40.51 Nrs.24757.87million).
- While studying the sector wise annual turnover from the fiscal year 2005-06 to 2009-10 commercial bank ,development bank, manufacturing and processing and finance companies showed an increase in trend but insurance ,hotels , trading and others sectors showed fluctuating trends.
- While studying the monthly market capitalization in this fiscal year the month of August and September has been 413,633.77 million this is highest for the whole year.

### **5.3 Recommendation:**

Government of Nepal formulates proper and perfect rules and regulations but such formulated rules and regulation may not be applied in practical life, similarly while formulating such kinds of rules and regulations national and international stock experts has to be hired to develop and formulate the system.

Investors are the basic variables and backbone of the capital market. After having awarded them, stock market development is possible and meaningful.

Stock market investment is a risky job. To be in the stock market, investors should be always clear own strength weakness needs desires risk taking capabilities and how to react on different and ever-changing market conditions. This is own game where self knowledge, superior fisting availability, sound understanding on the information of stock market can give a winning edge to the investors. NEPSE Index plays vital role for creating investment prosperity so far removing stock market difficulties such as transactions facilities, investor's interest and investment facilitates should be managed in effective way by formulating investor's protection act.

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## Appendix:

### I. Calculation of Regression Equation:

Year	NEPSE(y)	x	x <sup>2</sup>	xy
2005-06	386.83	-2	4	-773.66
2006-07	683.95	-1	1	-683.95
2007-08	963.36	0	0	0
2008-09	749.1	1	1	749.1
2009-10	477.73	2	4	955.46
<b>Total</b>	<b>3260.97</b>		<b>10</b>	<b>246.95</b>

$$Y_c = a + bx$$

Where,

$$a = 3260.97/5 = 652.194$$

$$b = 246.95/5 = 49.39$$

So,

$$y = 652.194 + 49.39x$$

### II Calculation of Expected Return

#### Comparisons with the Market

Year	NEPSE index	$R_m = \left( \frac{\text{NEPSE}_t}{\text{NEPSE}_{t-1}} - 1 \right)$	$R_m - R_m$	$(R_m - R_m)^2$
2005-06	386.83	0.3488	0.0664	0.00441
2006-07	683.95	0.7680	0.4856	0.23580
2007-08	963.36	0.290	0.0076	0.00006
2008-09	749.10	-0.286	-0.5684	0.32307
2009-10	477.73	(0.36226)	(1.12080)	1.25619
<b>Total</b>		<b>0.7585</b>		<b>1.81953</b>

Now,

$$\begin{aligned}
 \text{Expected Return on market (R}_m) &= R/N \\
 &= 0.7585 / 5 \\
 &= 0.1517
 \end{aligned}$$

$$\begin{aligned}
 \text{Standard deviation of market (s}_m) &= \frac{\sum (R_{it} - R_m)^2}{N-1} \\
 &= \frac{1.81953}{5-1} \\
 &= 0.4588
 \end{aligned}$$

Therefore standard deviation is 0.4588

$$\begin{aligned}
 \text{Coefficient of Variance (CV)} &= \frac{s_m}{R_m} \\
 &= 0.4588 / 0.1517 \\
 &= 2.39
 \end{aligned}$$