

**ANALYSIS OF RISK AND RETURN ON COMMON STOCK OF
INSURANCE COMPANY IN NEPAL**

(A CASE STUDY OF NEPAL LIFE INSURANCE COMPANY)

Submitted to

Office of the Dean

Faculty of Management

Tribhuvan University

By

Kamalesh Teli Gupta

Lumbini Banijya Campus, Butwal

T.U. Registration No.7-1-302-134-99

Campus Roll No.

Exam Roll No.3020232

In Partial fulfillment of the Requirement for Master's

Degree in Business Studies (M.B.S.)

Butwal, Nepal

April, 2013

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Kamalesh Teli Gupta

Entitled

**ANALYSIS OF RISK AND RETURN ON COMMON STOCK
OF INSURANCE COMPANY IN NEPAL
(A CASE STUDY OF NEPAL LIFE INSURANCE COMPANY)**

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

Signature.....

Name: Tara Prasad Upadhyaya

Head of Research Department

Signature.....

Name: Bharat Bhusal

Thesis Supervisor

Signature.....

Name: Dr. Ishwor Gautam

Campus Chief

VIVA-VOCE SHEET

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

By

Kamalesh Teli Gupta

Entitled

**ANALYSIS OF RISK AND RETURN ON COMMON STOCK
OF INSURANCE COMPANY IN NEPAL**

(A CASE STUDY OF NEPAL LIFE INSURANCE COMPANY)

And found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirements for Master's Degree of Business Studies (M.B.S.)

VIVA – VOCE COMMITTEE

Head of Research Department

Campus Chief

Members (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entailed "Analysis of Risk and Return on Common Stock of Insurance Company in Nepal (A Case Study of Nepal Life Insurance Company)" submitted to office of the dean, faculty of management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies (M.B.S.) under the supervision of Mr. Bharat Bhusal of Lumbini Banijya Campus.

.....

Kamalesh Teli Gupta

Lumbini Banijya Campus

T.U. Registration No.:**7-1-302-134-99**

Campus Roll No.

Date : April, 2013

ACKNOWLEDGEMENT

It is my great pleasure to submit this thesis under the guidance of Mr. Bharat Bhusal Lecturer of Lumbini Banijya Campus. I heartily appreciate his invaluable supervision and useful guidance and no words can fully express my feeling of gratitude to him.

I extend my heartily thank to the Campus Chief Dr. Ishwor Gautam of Lumbini Banijya Campus for providing me additional support to complete this research. With due respect, I would like to express my appreciation towards my brothers Umesh Gupta.

I express my thanks to my friends Sandeep Shrestha, Dinesh Pandey, Mukesh Barnawal, Narendra Poudel, Gyani Ram Panthi, Yamuna Thapa for their co-operation. Thank also goes to investors of different financial institutions who co-operated to fill up the attached questionnaire and also thanks goes to the staff of NLIC of Butwal for providing me information.

Lastly I extended my heartily thanks to B&B Communication for typing and setting this thesis.

Kamalesh Teli Gupta

Date:.....

Table of contents

Recommendation	
Viva-voce Sheet	
Declaration	i
Acknowledgement	ii
Table of Content	iii
List of Table	iv
Abbreviation	v
CHAPTER-I	
INTERODUCTION	1-7
1.1 Background of the Study	1
1.2 Statement of Problems	3
1.3 Objective of the Study	4
1.4 Need or Significance of the Study	5
1.5 Research Methodology	5
1.6 Limitation of the Study	6
1.7 Organization of the study	7
CHAPTER-II	
REVIEW OF THE LITERATURE	8-38
2.1 Introduction	8
2.2 Conceptual Review	9
2.2.1 Common Stock	9
2.2.2 Meaning of Return	10
2.2.2.1 Single Period Rate of Return	11
2.2.2.2 Required Rate of Return	12
2.2.2.3 Expected Rate of Return	12
2.2.2.4 Expected Rate of Return Based on Historical Data	14
2.2.2.5 The Return on Common Stock Investment	17
2.2.3 Risk	19
2.2.4 Relationship between Risk and Return	24

2.3	Capital Assets Pricing Model (CAPM)	24
2.4	The Range	28
2.5	Measurement of Risk and Return	29
2.5.1	Standard Deviation (SD)	29
2.5.2	Coefficient of Variation (CV)	31
2.5.3	Beta coefficient	31
2.6	Sources of Risk	31
2.7	Portfolio Management	35
2.8	Review of Previous studies	37
2.9	Review of Thesis	40
2.10	Research Gap	47

CHAPTER-III

RESEARCH METHODOLOGY 48-55

3.1	Introduction	48
3.2	Research Design	48
3.3	Population and sample	48
3.4	Sources of Data	49
3.5	Data Analysis Tools	49
3.5.1	Financial Tools	49
3.5.1.a	Market Price of Stock (P)	49
3.5.1.b	Dividend (D)	50
3.5.1.c	Return on Common Stock (R _j)	50
3.5.1.d	Expected Rate of Return on Common Stock E (R _j)	51
3.5.1.e	Return on Market	51
3.5.1.f	Expected Return on Market E(R _m)	52
3.5.1.g	Standard Deviation (σ_j)	52
3.5.1.h	Coefficient of Variation (C.V.)	53
3.5.1.i	Beta Coefficient (β_j)	53
3.5.1.j	Correlation coefficient, (ρ_{ij})	54
3.5.1.k	Systematic Risk and Unsystematic Risk	54

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA 56-67

4.1	Analysis of Nepal Life Insurance	56
4.1.1	Comparative Study of Market Price of Stock of Nepal Life Insurance Company Over 5 Years	57
4.1.2	Comparative Study of Dividend Per Share of Sample Company for the purpose of Risk and Return Analysis	58
4.2	Rate of, Expected Return, Standard Deviation, and Coefficient of Variation and Trend line of return of NLIC Ltd	60
4.3	Analysis of Market Risk and Return	62
4.4	Calculation of beta (β) Coefficient and other value of Sample Company's	63
4.4.1	Calculation of beta (β) Coefficient and other value of NLIC	63
4.5	Total Risk and its Division	65
4.6	Price Evaluation of Sample Companies	65
4.7	Major Findings	66

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS 68-70

5.1	Summary and Conclusion	68
5.2	Recommendation	69

Bibliography

Appendices