A STUDY ON BUSINESS FINANCING IN NEPAL WITH SPECIAL REFERENCE TO EQUITY MARKET

A THESIS

Submitted By: Chitra Maya Thapa Nepal Commerce Campus T.U Regd. No-7-2-421-16-2002 Campus Roll No-127/062 Exam Roll No-1978/064

> Submitted To: Office of the Dean Faculty of Management Tribhuvan University

In the Partial Fulfillment of Requirement for the Master's Degree of Business Studies (MBS)

> New Baneshwor, Kathmandu October, 2009

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

Chitra Maya Thapa

Entitled

A Study on Business Financing in Nepal with Special Reference to Equity Market

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

(Prof. Dr. Bihari Binod Pokharel) Head of Research Department & Thesis Supervisor (Diwakar Pokhrel) Campus Chief

VIVA-VOCE SHEET

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

Chitra Maya Thapa

Entitled

A Study on Business Financing in Nepal with Special Reference to Equity Market

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements For Master in business Studies (M.B.S.)

Viva-voce Committee

 Chairperson, Research Committee

 Member (Thesis Supervisor)

 Member (External Expert)

Date:

DECLARATION

I hereby declare this thesis entitled **A Study on Business Financing in Nepal With Special Reference to Equity Market** submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work as partial fulfillment of the requirements for the master's Degree of Business Studies (M.B.S.), under the supervision and guidance of Prof. Dr. Bihari Binod Pokharel, Head of Research Department of Nepal Commerce Campus.

October, 2009

••••••

•

Chitra Maya Thapa Researcher Nepal Commerce Campus T.U. Regd. No- 7-2-421-16-2002 Campus Roll No-127/062 Exam Roll No-1978/064

ACKNOWLEDGEMENTS

This thesis has been prepared to fulfill the partial requirements for the Degree of Master of Business Studies (M.B.S), Tribhuvan University, Nepal. In the process of preparation of this thesis, I got a lot of inspiration, Co-operation and Suggestion from various persons.

Firstly, I owe a debt of gratitude to my respected thesis adviser Dr. Bihari Binod Pokharel, Head of the Research Department, Nepal Commerce Campus for his valuable support and suggestion in the process of preparation of this thesis. I am extremely indebted by their efforts despite of their busy schedule.

I am also indebted to my respected teachers of Nepal Commerce Campus, who have assisted from their respected sectors. I am also thankful to the library members of NCC and Central Library of T.U.

I would like to express hurtful thanks towards all the members of my family who provided regular inspiration and continuous contribution for my success.

Chitra Maya Thapa

ABBREVIATIONS

ADB	_	Asian Development Bank
ANOVA	_	Analysis of Variance
B	_	Banking Sector
BBC	_	Bishal Bazar Co. Ltd.
BNL	_	Bottlers Nepal (Balaju) Ltd.
BOK	_	Bank of Kathmandu
BSE	_	Bombay Stock Exchange
CDS	-	Central Depository System
CIT	-	Citizen Investment Trust
CRO	-	Company Registered Officer
CV	-	Coefficient of Variation
F	-	Finance Companies
FDI	-	Foreign Direct Investment
FLL	-	Foreign Institutional Investors
GDP	-	Gross Domestic Product
Н	-	Hotels
HBL	-	Himalayan Bank Ltd
HGIC	-	Himalayan General Insurance Co. Ltd
Ι	-	Insurance Sector
IFC	-	International Finance Corporation
IMF	-	International Monetary Fund
IPO	-	Initial Public Offering
LSD	-	Least Square Significance Difference
Ltd	-	Limited
MA	-	Masters of Arts
MBA	-	Master of Business Administration
MBS	-	Master of Business Study
MOF	-	Ministry of Finance
MP	-	Manufacturing & Processing Sector
NEA	-	Nepal Electricity Authority
NECOIC	-	Neco Insurance Co Ltd
NEPSE	-	Nepal Stock Exchange Ltd
NFC	-	National Finance Ltd
NH	-	National Hydropower
NHFC	-	National Housing and Finance co Ltd
NPC	-	National Planning Commission
NPEDCL	-	National Productivity& Economic Development Center Ltd

NRB	-	Nepal Rastra Bank
NSML	-	Nepal Share Market Ltd
NTC	-	Nepal Telecom
NTL	-	Nepal Trading Ltd
NYSE	-	New York Stock Exchange
0	-	Others Sectors
OTC	-	Over the Counter
PE	-	Public Enterprises
PhD	-	Doctor of Philosophy
RNAC	-	Royal Nepal Airlines Corporation
SAFE	-	South Asian Federation of Exchange
SEBI	-	Security and exchange board of India
SEBO	-	Security Board Nepal
SEC	-	Security Exchange Center
SH	-	Soaltee Hotel Ltd
STC	-	Salt Trading Corporation Ltd
Т	-	Trading Sector
YYH	-	Yak & Yeti Hotel

TABLE OF CONTENTS

Page

VIVA VOCE-SHEET RECOMMENDATION DECLARATION ACKNOWLEDGEMENTS TABLE OF CONTENTS LIST OF TABLES LIST OF FIGURES ABBREVIATIONS

CHAPTER -I

	0111112101	
INTRODUCTION		1-14
1.1	General Background of the Study	1
1.2	Focus of the Study	8
1.3	Statement of Problems	9
1.4	Objectives of the Study	12
1.5	Significance of the Study	12
1.6	Limitations of the Stud	13
1.7	Organization of the Study	13

CHAPTER-II

REVI	EW OF	LITERATURE	15-50
2.1	Conce	eptual Review	15
	2.1.1	Clients of Financial System	16
	2.1.2	Financial Decision	17
	2.1.3	Potentiality of Equity Capital as a source of Finance	
		30	
	2.1.4	Equity Market; Nature and its role	33
	2.1.5	International Context	
		35	
	2.1.6	Globalization of Financial Markets	35
	2.1.7	Equity Markets in Asia and Developing Countries	
		36	
	2.1.8	Legal Arrangement of corporate securities Market in Nep	al
		38	
2.2	Review of Related Studies		41
	2.2.1	Review from Book	41
	2.2.2	Review of Journals, Articles and Newspapers	43
	2.2.3	Previous Research Review	47

CHAPTER-III

RESEARCH METHODOLOGY

51-57

3.1	Research Design	51
3.2	Population and Sample	51
3.3	Nature and Source of Data	52
3.4	Coverage of Study	52
3.5	Presentation and Analysis of Data	53
3.6	Tools for Analysis	53
	3.6.1 Financial Tools	53
	3.6.2 Statistical Tools	54

58
52
66
/1
73
7
78
35
77

Major Findings	85
4.12.1 Findings from Secondary Data	85
4.12.2 Findings from Primary Data	
86	

CHAPTER-V

SUM	MARY, CONCLUSION AND RECOMMENDATIONS	88-103
5.1	Summary	88
5.2	Conclusion	92

5.3 Recommendations

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

Table No.		Page No.
3.1	Total Population and Number of Sample Companies	
	52	
4.1	Public Issue of Various Financial Instruments	62
4.2	Equity Market Development Indicator	63
4.3	Key Indicators of Equity Markets Development	65
4.4	Public Issue Approval	
	66	
4.5	Public Issue Made	67
4.6	Number of Issue Approved and Number of Issue Made	68
4.7	Amount of Issue Approved and Amount of Issue Made	69
4.8	Sector wise D/E Ratio over the Period	70
4.9	One-Way ANOVA Table	70
4.10	Significance of difference sectors	71
4.11	Trend Value of Equity capital over the Period	73
4.12	Equity Capital over the Period in 2006 to 2010 (Rs in Million)	74

LIST OF FIGURES

Figure No.		Page No.
4.1	Market Capitalization over the period	64
4.2	NEPSE Index	64
4.3	Percentage of Public Issue Approval	
	66	
4.4	Percentage of Public Issue of Various Instruments	
	67	
4.5	Number of Issue Approved and Number of Issue Made	68
4.6	Amount of Issue Approved and Amount of Issue Made	69
4.7	Trend Values of Equity Capital over the Period	74
4.8	Response on Market Development	75