CHAPTER I

INTRODUCTION

1.1 Background of the Study

Financial market is a crucial component in the economic system. It is the engine that drives the economy, being a platform where surplus units meet deficit units and negotiate various kinds of financial agreement. The objective of financial market development is, therefore, to enhance the capability of the financial market to act efficiently as an intermediary. An efficient financial market is one with proper depth and breadth, that is on the supply side, there is a wide range of financial instruments, offering choices of issuers, credit risks, and etc. to satisfy all classes of asset demand. On the demand side, there has to be sizable investment demand from various types of investors, with different risk-return appetites. Also, a good diversity among issuers and investors usually brings about a good mix of market views, leading to an active exchange of financial assets. A highly liquid financial market as such is able to accommodate large and varied issuance of financial instruments with minimum price effect. Here, financial instruments can be quickly exchanged at reasonable cost. Efficient clearing and settlement system is a key supporting factor that helps lower transaction cost.

Finance helps to bring together all the factors of production in industrial unit. Therefore financing is a critical element for success of a business. In the absence of adequate finance, even the business having high potentiality may fail. Financial decision impacts on the long range. Financial strategies of the firm thereby putting affect on the value of the firm. Financial institutions provide the requisite funds to the business firms. Therefore, financial institutions in the economy play a crucial role in the process of economic growth of the country. For the development of a country, economic development is the major requisite. For economic development, financial sector plays a very important role, where they collect funds from customers by paying some percent interest and invest it to large industries and other business sector by taking some percent interest. The participation of private financial institutions play even more important role for the economic development. Beside the economic sector,

social culture, industrial and technology sector are also should be strong for the development and progress of a country (Chandra, 2006).

Rapid development in information technology and the advancement in transportation facilities have made the world as narrow as a village. The present world economy has been more competitive and complicated due to globalization of economies and market. Every sort of change occurring in one sector of the world affects the other. Healthy economy is dependent on efficient transfer of funds from people who are net savers to firms and individuals who need capital. Without efficient transfer the economy simply cannot function. Economic efficiency is simply impossible without a good system for allocating capital within the economy. Nepal has predominantly a subsistent agricultural economy, which contributes about 33.10% percent of GDP and provides employment to more than 65.7% percent of the economically active population (Ministry of Finance, 2017).

Financial markets are the catalyst in the development of the country's economy. As such, developed economies have highly sophisticated financial institutions.A financial market plays fundamental role in the economic development of the country. They are intermediary link in the facilitating the flow of funds from savers to investors. By providing intuitional mechanism for mobilizing domestic saving and efficiently channeling them in to the investment, they lower the cost of capital to investor and accelerate economic growth of country.

Stock market is the mechanism created to facilitate the exchange of the financial assets with a maturity period of more than one year. It is a wide term embracing the buyers and sellers of securities and constitutes all the agencies that assist the sale and resale of securities. In stock market people buy and sell securities which are less tangible than gold but not less valuable. Stock market facilitates the exchange of financial securities, which help to mobilize internal and external financial resources. Stock market is recognized as an effective way of raising funds for commercial enterprises, and at the same time providing an investment opportunity for individuals and institutions having surpluses. The enterprise can collect the funds from the stock market by issuing various securities, i.e. equities, corporate bonds, mutual funds, stock derivatives etc. similarly government can collect the funds from the stock market by issuing development bonds and municipal bonds. Nonetheless, the selling

of securities is possible only if individual and institutional investors have level playing field in the market with ample opportunities for the long term capital investment and short term speculative venture. Safeguarding the interest of the investors is equally important together with overall development and management of the market for attracting large number of domestic and international investors (Vacu 2013).

A small and scattered saving in the economy can be mobilized productively with the mechanism of stock market. A person with a small amount of savings can so invest in mutual funds and get a good rate of returns without sufficient knowledge of investment as the mutual funds are managed and operated by professional fund managers and the fund manager make portfolios of different securities that maximize returns to the unit fund holders. As information based market, stock market promotes alertness to the small investors by punishing them to their rumor driven behavior and providing good returns to their informed decisions. This built in nature of stock market in the economy will lead to reduce poverty.

Financial sectors development is a lengthy and evolutionary process. It is an indicator of the state of the economic development of the country, since an efficient and well developed financial market is only possible when there is substantial income generation and investment opportunities.

Financial markets play a fundamental role in the economic development of a country. They are the intermediary link in facilitating the flow of funds from savers to investors. By providing an institutional mechanism for mobilizing domestic savings and efficiently channeling them into productive investments, they lower the cost of capital to investors and accelerate economic growth of the country. Financial intermediation between borrowers and savers is done by commercial banks. This credit market enables debt financing for investments. An alternative method of intermediation is through equity financing. This is only possible through the development of capital markets. 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 (Luintel et al 2008).

Financial sector development is a lengthy, evolutionary process. It is an indicator of the state of economic development of the country, since an efficient well-developed financial market is only possible when there is substantial income generation and investment opportunities. Nepal is a landlocked, mountainous country situated between India and China. The Government began establishing manufacturing industries such as the jute industry, cement factories, and sugar factories. In order to support this industrialization process, government actively promoted financial institutions, such as commercial banks and capital market institutions.

Financial institutions and market is the key to development of any economy, whether developed or developing. Developed economies usually have a highly sophisticated financial market in place whereas developing economy usually has not well developed market. During the turn of twenty century a lot of countries gave of the moribund communist style economy towards modern capitalist economy. In this process a large number financial market has developed across the world, including our country Nepal (Shrestha 2005).

Some emerging market like India and china have been able to attract huge amount of foreign investment though well develop capital market.

In Nepal the act of rising fund by issuing share to the general public started in 1937. Though, the development of securities market could not be a national policy for long time, industrial policy of Nepal led to institutional development of security market with the establishment of security central in 1976. The security exchange central used to manage and operate primary and secondary market of long term government security and corporate securities. After years of establishment policy and programmed ware made to development and promote stock exchange, issue manger, under writer

security dealer stock broker and portfolio manager in the market with the objectives of avoiding possible conflict of interest between various market participants.

The Nepalese market had it began with the establishment of the security exchange central in 1976. In 1984 the security exchange act was promulgated and this institutional has converted into the security exchange central (SEC) under the ownership of Nepal government, Nepal Rastra bank and Nepal industrial development corporation. The main function of SEC was to assist in the development of capital market by performing role of the broker under writer and share issuer and also sell government bond. It operates and over the counter market for company share of various manufacturing, training and banking company become listed. Interestingly, the listed shareware dominated by public enterprises during this stage between 1984 and 1990, forty–two company were listed out of which more than twenty five companies had some form of government ownership the real boost into the capital market in the form of private sector led grow began with financial sector liberalization. In the mid-eighties, Nepal opened its door to foreign investors as a joint venture partner in the banking sector, which revolutionized commercial banking service in Nepal since the varieties of private sector based financial institutional have evolved. In 1992 the finance company act was amended. These enabled finance company to be established to function of various area such as leasing, housing finance and hire purchase this institutions ware also allow to performed capita; market function such as share issued, portfolio management market making and custodial services. The growth of financial institutions was complemented by establishment of Nepal stock exchange. In 1993, the security exchange was amended. The security exchange was converted into the Nepal stock exchange for security training by private broker and security exchange board was established for over side function as a regulator body. This amendment also permitted private sector market intermediaries and set the operating guideline for intermediary functions such as broking, marketing making, issue management and portfolio management. The economy environment which provides the main stimulus for a healthy growth of capital has also influence this market quite considerably.

The development of stock market in Nepal is critical in the sense that Nepal being capital deficient country requires capital at low cost for its development and growth without it funding long term and intermediate term development activities from

domestic and international sources at low cost seems distant. The increasing and dynamic stock market activities facilitating private sector participation in the industries and infrastructure development projects of the country ultimately contribute to the pro- poor and broad based economic growth that is required in the capital deficient and underdevelopment country like Nepal.

1.2 Statements of the Problems

Nepalese people are still under the line of literacy. And among the literate ones as well maximum do know nothing about the practice of stocks. They do not know what the securities mean at all. How can we expect them to invest in the securities? And even among the aware people there is still lack of confidence level. They do not want to take risk. In developing country like Nepal, security market is still new phenomenon.Development of securities market in general and stock market in particular is a must for a sound industrial development of the country. Securities market institutions help to mobilize the surplus unit into the deficit units for productive investments. As it mobilize the scattered resources and channels them in productive sector. It is an effective instrument of expanding productive capacities of the country. Due to the lack of information and poor knowledge investors are manipulated or exploited by the financial institutions or other market intermediaries such as extent that investing in common stock is intolerably hazardous. Investor's attitude and perception plays a vital role irrational decision which is influenced by the knowledge and access to the data required for the analysis. Most of Nepalese investor invests their fund in single securities because of less knowledge about risk-return behaviors of the securities.

In Nepal, development of securities market in Nepal is both challenging and difficult. The problem like lack of professionalism in brokers, independent buyers and sellers, well trained manpower; management delay of shares, rational investor exist from Nepalese stock market. Because of embryonic nature, Nepalese stock market is not effective enough to evaluate the price of stock. There are no private open investment companies (mutual fund) operating at present time. Therefore the government needs to create incentives for capital mobilization remove impediments to private sector development and provide basic legal regulatory reforms. The companies used different rules and regulation in stock market development. There is not consistency

between Acts and Niyamabali. They are not matching each other.A special institute in corporate under a special charter governs accountancy profession. These institutes regularizes the profession also issues accounting standards and guidelines .All the members are required to follow mandatory, which discharge their duties. These practice helps to maintain a reasonable standardize performance by professional accountants.

Nepalese securities market is very small in comparison with other developed stock markets. There are a few numbers of brokers, limited number of listed companies, very few transactions and most importantly investors are unknown about the pros and cons of the stock market. The market is almost totally captured by individual investors who buy very little number of shares and therefore they do not bother analyzing the data and information before buying and selling stock. The variety of securities available in the market allows each investor to select asset that suit his risk, preferences and beliefs. But there is lack of different types of securities in the stock market.

Likewise, it is needed to check to how security market affects and is affected by different macro environment factor. So this to answer the following research question:

1. What is the scenario of security market development in Nepal?

2. What is the position of NEPSE index?

3.What are the problems and prospects of security market in Nepal?

1.3 Objectives of the Study

The main objective of this study is to identify the development and challenges of the Nepalese security market. The other specific objectives of this study are as follows:

1. To assess the development of security market in Nepal.

2. To examine the NEPSE index in the secondary market.

3. To identify the problems and prospects of securities market.

1.4 Significance of the Study

The study of the development and challenges ofmarket in Nepal is a crucial study because it will presents the sector wise trend of NEPSE and problems related to capital market. The significance of the study can be point out as follows:

1. To the general public who are interested and are willing to invest in capital market of Nepal.
2. Importance to further researcher.
3. It will be important to all other interested parties.
4. The study is significant to me (researcher) because it will polish my knowledge and ability.

1.5 Limitations of the Study

Due to various constraints this study is focused to analyze the certain development of securities market in Nepal. Along with problem and prospects having outlined the objectives, statement of problem and methodology of the study, now brief note of its principal limitation which is as following:

1. The present study is based on real aspect of development securities market in Nepal. The study does not consider availability of different instrument and institutions for trading purpose.
2. Secondary data has the own limitation (i.e. reporting error) and in case of primary data the respondent sometimes may not be willing to give exact opinion. And some of the questionnaires have been returned by the respondent with incomplete responses.
3. This study covers only the 10 years period upto 2016/17.

1.6 Organization of the Study

This whole study has been organized in the following ways:

Chapter I: Introduction: This chapter deals with general background, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter II: Literature Review: This chapter consists of review of theoretical and empirical studies.

Chapter III: Research Methodology: This chapter includes the research methodology used in the study, which includes research design, population and sample sources of data, data collection procedure, data processing procedure and data analysis tools and techniques and models.

Chapter IV: Presentation and Analysis of Data: This chapter explains the results with in this chapter many sub-headings are included base on the nature of the availability of data.

Chapter V: Summary, Conclusions and Recommendations: This chapter finally summarizes the study in few paragraphs and tries to conclude the whole study; that is the result of the research. And finally depending upon the summary and conclusion, recommendations have been given.

At the end of the chapters, bibliography and appendices have also been incorporated at the end of the study.

CHAPTER-II

LITERATURE REVIEW

This chapter deals with the exploration of the background to the work and a comprehensive review of recent and relevant literature. In this regard, an effort has been made to grasp the knowledge and information that is available from libraries, document collection centers, other information managing bureaus and concerned commercial banks. This chapter helps take an adequate feedback to broaden the information base and inputs to the study. The conceptual framework given by different researchers, authors, practitioners, scholars is reviewed from research papers, books, annual reports, articles.

- Conceptual framework
- Review unpublished thesis
- Research gap

2.1 Conceptual Review

2.1.1 Financial Market

A 'financial market' is a market in which people trade financial securities and derivatives such as futures and options at low transaction costs. Securities include stocks and bonds, and precious metals.

The term "market" is sometimes used for what are more strictly *exchanges*, organizations that facilitate the trade in financial securities, e.g., a stock exchange or commodity exchange.Much trading of stocks takes place on an exchange; still, corporate actions (merger, spinoff) are outside an exchange, while any two companies or people, for whatever reason, may agree to sell stock from the one to the other without using an exchange.

Trading of currencies and bonds is largely on a bilateral basis, although some bonds trade on a stock exchange, and people are building electronic systems for these as well, similar to stock exchanges.

All securities, whether in the money or capital market are initially issued in the primary market? This is the only market in which the company or government is

directly involved in the transaction and receives direct benefit from the resale of securities. Once the securities began to trade among individuals, business, government, or financial institutions, savers and investors, they become part of the secondary market. The primary market is where" new securities are sold" and the secondary market can be viewed as a "used" or "preowned" securities market (Bhandari, 2013).

In short, we can divide financial market into money market and capital market. And these markets can be further divided into primary and secondary market.

2.1.2 Capital Market

The capital market is the market for securities, where companies and governments can raise long teem funds. The capital market includes the stock market and the bond market. The capital market consist of the primary market, where new issue are distributed to investors, and the secondary market, where existing securities are traded. Capital market can play vital role to mobilize the market follows capital to invest on the corporate sectors by the means of securities.

Capital market includes:

〕 Activities relating to the organization, distribution and trading of securities.
〕 Organizations, which facilitate these activities.
〕 Individuals and institutions, which buy and sell securities.
〕 Rules and regulations, customs and practices that control the organization and conduct the business in the market.

The capital market is a financial relationship created by a number of institutions and arrangements that allows the supplier and demanders of long term funds (funds with maturities of more than one year) to make transactions. Included among long term funds are securities issue of business and government. The backbone of the capital market is formed by the various securities exchanges that provide a forum of debt and equity transactions. The smooth functioning of the capital market, which is enhanced through the activities of investment bankers, is important to the long-run growth of business (Gitman, 1992: 456). The capital market is the trading center for the financial instrument. In capital market different types of financial securities such as

ordinary share, preference share, treasury bills, and debenture are traded. This market can be further divided into two parts:

⟩ Non-securities market
⟩ Securities market

2.1.2.1 Non-Securities Market

Non-securities market is a market where financial needs of the borrower (demanders) are fulfilled for a longer period of time without issuance of any securities like shares, bonds and debenture. Financial transactions between the lending institutions such as banks, business houses, saving institutions or individuals come under this non-securities market.

2.1.2.2 Securities Market

The securities market is known as the market where all types of securities are traded. Security market is a broad term embracing a number of markets in which securities are bought and sold. Securities markets includes how an individual investor goes about the business of placing any order to buy or sell, how the order is executed, the process of setting the payment and transfer costs, and one hopes the payment of federal personal income taxes on the profits from the transaction.

Security market sets a price for the securities it trades and makes it easy for people to trade them. Securities market facilitates the sale and resale of transferable securities. The security market can be defined as the mechanism for bringing together buyer and seller of financial assets to facilitate trading. Securities market is classified into two, the market in new securities are sold is called primary market and the market in which existing securities are resold is called the secondary market. Secondary markets are created by brokers, dealers and market makers. Brokers bring buyer and seller together with themselves actually buying and selling; dealers set price at which they themselves are ready to buy and sell (bid and ask price respectively). Broker and dealer come together in organized market or in stock exchange (Gitman, 1992: 457).

The securities market may also be divided into two parts:

⟩ Primary Market

⟩ Secondary Market

a. Primary Market

The primary market is that part of the capital market that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of new stock or bond. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock, the sale is an initial public offering (IPO), though it can be found in the prospectus.

Features of Primary market:

⟩ Market for new long term capital.
⟩ The securities are sold for the first time.
⟩ The securities are issued by the company directly to investors.
⟩ Used by the companies for the purpose of setting up new business or for expanding or modernizing the existing business.
⟩ Facilitates capital formation in the economy.

b. Secondary Market

In the secondary market the share once issued in the primary market are traded. So, the secondary market liquidates the shares and provides the opportunity between the investor and seller of the securities. The company must list the securities in the security market for the transaction purpose. Secondary market provides no capital to the original issuer.

In the secondary market existing securities are traded and thus enabling disposal of these securities whenever the owners wish. An active secondary market is therefore a necessary condition for an effective primary market, as no investor wants to fell 'locked in' to an investment.

i. Investment Consideration to Potential Investors in the Primary Market

Rules and regulations alone would not be able to protect the interest of investors. They should be able to analyze and evaluate following aspects of the company before taking their investment decision.

Investors should select those companies share which are regarded as well operating and good future prospects, reliable management, beneficial sectors or higher growth. Investing in the shares of these companies is less risky than others. The investors who invest in stock, they must compare the price and the value or the share in the market and should select the share which has lower market price in comparison to its value.

The investors should take information regarding company's promoters, size, growth, environment, board of directors, past statements and as well as budgeted statements, which can be obtained from memorandum, prospectus, articles of the concerned company.

ii. Investment Consideration to the Potential Investors in the Secondary Market

Investors should be informed about the following matters before investing in the secondary market.

- Keep information of the companies return to the shareholders in the form of cash dividends, stock dividends, bonus shares etc. they should also be informed about Earning per share (EPS), book value of share (BVS), price earning ratio (P/E Ratio), future plan, growth expectancy of the company through the annual, quarterly and half-yearly performance reports, profit and loss account (P/L a/c), balance sheet (B/S) and annual reports.
- Analyze the price related information provided by SEBON and NEPSE about the listed companies.
- Study the trading statements and financial analysis of the listed companies published by NEPSE.
- Study articles related to the trading of shares and economic matters published in different newspapers and magazines.
- Study the annual report of SEBON.
- Study the act and regulation concerning to the shareholder's right.

Once the investors think of making investment, he approaches to the broker to choose a firm that is suitable for his needs of investments and to select a representative of the firm with whom he can work. The representative should be able to furnish the investor at all times, on reasonable choice, information on any specific company's securities.

iii. Pricing Differences

We may have found that there can be large differences between the price of an Initial Public offering (IPO) and the price when the IPO shares start trading in the secondary market.

The pricing disparities occur most often when an IPO is "hot" or appeals to many investors. When an IPO is "Hot", the demand for the securities far exceeds the supply of shares. The excess demand can only be satisfied once trading in the IPO shares begins. This imbalance between supply and demand generally causes the price of each share to rise dramatically in the first hours or days of trading. Many times the price falls after this initial flurry of trading subsidies.

2.1.3 Money Market

Money market is the market for the short term securities like treasury-Bills, Government bonds, certificates of deposits, banker's Acceptances and commercial paper or promissory notes. It includes both primary and secondary market activities. The money market exists because certain individuals, businesses, governments and financial institutions have temporarily idle funds that they wish to place in some kind of liquid assets or short term interest earning instrument. Like this other individuals, businesses, governments and financial institutions are in need of seasonal or temporary financing. Thus the money market provides the platform for the supplier (who have idle funds for some period) and demand makers of short-term liquid funds.

In theory, we found money market different from the capital market. In practice, however in most countries with efficient financial markets, where money and capital market is combined, the merchant banks are active in both. This is because negotiable money market instrument for all practical purposes is simply a short term capital market instrument. Therefore, the techniques and facilities needed to operate money

market are almost same as those needed to operate the capital market (Shrestha and Bhandari, 2010).

2.1.4 Theories on Security Market Development

This section presents the theories of capital market development. There are six basic theories of capital market development namely Calderon-Rosell theory, Efficient Markets Theory (EMT), Capital Asset Pricing Theory, Capital Market Theory, Inter-temporal Capital Asset Pricing Model (ICAPM) and Markowitz Pricing Theory (MPT).There are numbers of theories explaining development and challenges of security market. Some of them are mentioned below:

Calderon-Rosell Theory

Calderon-Rossell (1991) developed a model which explored the main determinants of capital market development. To date, this model represents the most serious attempt to build up the foundations of financial theory of CMD. In this model, stock market liquidity and economic growth are considered as main indicators. Yartey (2008) tailored the Calderon-Rossell model to incorporate other factors that might influence the capital market development. The determinants are categorized into two sets known as macroeconomic and institutional factors. Macroeconomic factors include savings, income level, the banking sector development, private capital flows, investment, stock market liquidity and macroeconomic stability. The Institutional variables are corruption, law and order, democratic accountability and quality of bureaucracy.

Efficient Market Theory (EMT)

The Efficient Markets Theory (EMT) is a theory that explains the capital market development. This theory was developed by Fama in 1965 and was used by Ewahetal (2009), Hodnett and Hsieh (2012). It state that the price of an asset reflects all relevant information available about the intrinsic value of the asset known as present value of the cash flows the owner of the security expects to receive. However, the profit opportunities represented by the existence of undervalued and overvalued, stocks motivate investors to trade and their trading moves the prices of stocks toward the present value of future cash flows. Again, Fama E. (1991) pointed out that market efficiency is a continuum because the lower the transaction costs in a market including the cost of obtaining information and trading, the more efficient the market.

The informational efficiency of stock prices matters in two ways. First, investors care about whether various trading strategies can earn excess return that is to say beat the market. Second, if stock prices accurately reflect all information, new investment capital market goes to its highest-valued use as a result the capital market development goes up. The author further mentioned three different forms of market efficiency such as weak form, semi-strong form and strong form. Each form of Efficient market Theory has ability to rule out the possibilities of consistent outperformance by a certain group of investors who use certain type of information as the tool in their trading activities. However, under assumption of efficient Capital markets, all investors are risk averse and completely rational in making their decisions.

Capital Asset Pricing Theory

The specific equilibrium model of interest to many investors is known as the Capital Asset Pricing Theory, typically referred to as the CAPM. The CAPM of William Sharpe (1964) and John Linter (1965) mark the birth of asset pricing theory (resulting in a Nobel Prize for Sharpe in 1990). The attraction of the CAPM is that it offers powerful and intuitively pleasing predictions about how to measure risk and relation between expected return and risk. It allows people to measure the relevant risk of individual securities as well as to assess the relationship between risk and the returns expected from investing. The CAPM is attractive as an equilibrium model because of its simplicity and its implications. As a result of serious challenges to the model over time, however, alternatives have been developed. The primary alternative to theCAPM is the Arbitrage Pricing Theory, or APT, which allows for multiple sources of risk. While the CAPM is a simple model that is based on sound reasoning, some of the assumptions that underlie the model are unrealistic. Some extensions of the basic CAPM were proposed that relaxed one or more of these assumptions (Black, 1972). Note that no matter how much investment can be diversified, it is impossible to get free of all the risk.

Capital Market Theory

Capital market theory followed modern portfolio theory by Markowitz, as researchers, explored the implications of introducing a risk-free asset. Sharpe is generally credited with developing the CAPM, but Lintner and Mossin derived similar models

independently in the mid1960s. Assumptions made regarding Capital Market Theory include: All investors are Markowitz efficient investors who choose investments on the basis of expected return and risk, investors can borrow or lend any amount at a risk-free rate of interest; all investors have homogeneous expectations for returns. The capital market theory is a model that seeks to price assets, most commonly, shares. Capital market theory sets the environment in which securities analysis is performed. Capital market theory is a positive theory in that it hypothesizes how investors do behave rather than how investors should behave, as in the case of modern portfolio theory (MPT)

Inter-temporal Capital Asset Pricing Model (ICAPM)

The CAPM is static, or single –period models. As such, it ignores the multi-period nature of participation in the capital markets. Merton's (1973) inter-temporal capital asset pricing model (ICAPM) was developed to capture this multi-period aspect of financial market equilibrium. The ICAPM framework recognizes that the investment opportunity set might shift overtime, and investors would like to hedge themselves against unfavorable shifts in the set of available investments. If a particular security tends to have high returns when bad things happen to the investment opportunity set, investors would want to hold this security as a hedge. This increased demand would result in a higher equilibrium price for the security (all else constant). One of the main insights of the ICAPM is the need to reflect this hedging demand in the asset pricing equation.

Markowitz Pricing Theory (MPT)

Capital market theory is built on the Markowitz portfolio theory. Any discussion of the theory of stock price behavior has to start with Markowitz (1952, 1959). The Markowitz model is a single period model, where an investor forms a portfolio at the beginning of the period. The investor's objective is to maximize the portfolio's expected return, subject to an acceptable level of risk (or minimize risk, subject to an acceptable expected return). The assumption of a single time period, coupled with assumptions about the investor's attitude toward risk, allows risk to be measured by the variance (or standard deviation) of the portfolio's return. Building on the Markowitz framework, Sharpe (1964), Lintner (1965) and Mossin (1966) independently developed what has come to be known as the Capital Asset Pricing

Model (CAPM). This model assumes that investors use the logic of Markowitz informing portfolios. Capital market theory therefore involves a set of predictions concerning equilibrium expected returns on risky assets .It is typically derived by making some simplifying assumptions in order to facilitate the analysis and help to understand the arguments without fundamentally changing the predictions of assets theory.

2.2 Review of Empirical Studies

2.2.1 Journals and Articles

Joshi (2005) analyzed the relationship between stock market development and economic growth this uses Karl Pearson correlation. Significance of the relation has been tested by using Probable Error (PE) for the period of 1993-2011. This evaluates the relationship between stock market development and economic growth in Nepal. In the first stage of stock market development, the results are to be statistically insignificant. In second stage, both measures of stock market development market size and liquidity are positively related with economic growth. In aggregate, there is positive relationship between stock market development and economic growth in Nepal.

Yartey (2008) examined the macroeconomic and institutional determinants of capital market development. He used a Secondary panel data from the period of (1990 -2004) and represented by 42 countries. Calderon-Rossell model was used. The study found that gross domestic investment, private capital flows, stock market liquidity, income level and banking sector development are important determinants of capital market development. The findings further revealed that the institutional factors such as political risk, law and order, and bureaucracy quality are important determinants of capital market development. Based on his findings, he suggested that at early stages of its development, the banking sector is a complement to the capital market in financing investment. However, as they both develop, banks and the capital market begin to compete with each other as vehicles for financing investment and also the resolution of political risk can encourage investor confidence and propel the growth of the capital market.

Odhiambo (2010) analyzed the causality in the stock market-growth relationship in South Africa, found a causal link between these variables, with a stronger causality

running from stock market to growth, and valid results in the short-run as well as long-run. His choice of variables is similar to this research. He used market capitalization, value of traded stocks and turnover ratio to proxy stock market development, and used real GDP per capita for economic growth. He applied an Autoregressive distributed lag (ARDL) bounds testing technique with yearly data from 1971 to2007. Causality in this study varied according to the stock market variable chosen to proxy stock market. In the instance where market capitalization was used, economic growth was found to granger cause stock market, yet this was not the case when turnover ratio and value of traded shares were used to proxy stock market.

Cherif and Gazdar (2010) investigated the macroeconomic and institutional determinants of capital market development. They used panel data from MENA countries from 1990 to 2007. By using both panel data and instrumental variable techniques (fixed and random effects specification), they found that income level, saving rate, stock market liquidity, and interest rate influence capital market development. The findings further found out that the banking and capital market sectors are complementary instead of being substitutes. They recommended that a well-developed banking sector is important for the capital market development in the region and play a vital role in promoting the capital market as demonstrated by the experience of many East Asian countries. Domestic saving is also an essential determinant of capital market development.

Sahu (2011) explored the causal relationship between stock market indicators and macro-economic variables of India by using both correlation and Ganger Causality regression techniques for the period 1981 to 2006. The findings of this study reveal that there is no causal relationship between stock market indicator and micro-economic variable.

Regmi (2012) examined the causal relationship between stock market development and economic growth in Nepal by using both correlation and Ganger Causality regression techniques for the period 2000 to 2010. The finding suggests that stock market development has significantly contributed to the economic growth in Nepal. In this perspective, a refined policy measures should be adopted to strengthen and improve the role of stock market in order to expedite and maintain the strong growth of the economy.

Vacu (2013) examined the long-run association between stock market development and the growth of the South African economy, using quarterly time series data form 1990 first quarter to 2010 fourth quarter. He used market capitalization, turnover ratio and all share index as proxy for stock market and GDP as proxy for economic growth. The research employed Johansen co integration test and found a long run relationship existing between the variables in study. The short run and long run dynamics were also captured using the Vector Error Correction Model (VECM). The stock markets effect on growth was found to be statistically weak. The Granger causality test revealed that economic growth to stock market.

Mainali (2014) examined the problems and prospects of stock market in Nepal. And correlation and regression analysis statistical tools are used to analyze the secondary data and chi- square test is performed to analyze survey responses from investors, stockbrokers, NEPSE and SEBON. The major conclusion of this study is that stock market development is unable to show significant positive impact on the national economy. And the finding based on primary data suggested that coordination among authorities (SEBON, NEPSE, NRB and Insurance Board) and political stability are necessary for the sustainable development of stock market in Nepal. It was indicated that Nepalese stock market is characterized by small number of listed companied, low market capitalization ratio, low value traded ratio, low turnover ratio, high volatility high concentration, illiquid and risky market. The study noticed that insufficient information of stock market; unavailability of CDS service; poor institutional strengthening of SEBON; low instrument diversification; mal-practices on stock transaction; frequent changes on policies; poor attention of government for its development are the major Nepalese stock market.

Kadariya (2015) analyzes the market reactions to tangible information and intangible information in Nepalese stock market and to examine the investors' opinions in Nepalese stock market issues. The sample size is 185 stock investors and the response rate is 27 percent. The major findings of the study are: the capital structure and average pricing method is one factor that influence the investment decisions, the next is political and media coverage, the third factor is belief on luck and the financial education, and finally the forth component for stock market movement is trend analysis.

Thus, it is conducted that both the tangible and intangible information are essential to succeed in Nepalese capital market.

The primary data analysis shows that Nepalese stock market starts to attract younger investors in recent period as the majority of the stock investors are younger.The proportion of educated investors is high in the market, most of them are self-employed and small investors have strong voice in the Nepalese stock market.The limited investors use their own skills and analytical power in investment decision. The most influencing factors for decision making are media and friends.Majority of the stock investors prefer capital gain rather than the usual cash dividends and seasonal issues.Banking and finance sector remains the most popular investment sector among the Nepalese investors.The most used methods of investment are fundamental analysis, and the market noise, media and informal talks.

Dhungana (2016) explored an empirical analysis of Nepalese stock market and their performance during the period of around past two decades. The research is carried with to develop on appropriate remedial measure that how the recent scenario of Nepalese stock market can be improved and the public confidence can be enhanced. Hence, descriptive statistics, trend analysis and other relevant statistical tools have been applied to analyzed stock market development and Nepalese economy, regulatory and institutional indicators and correlations between various indicators of stock market development.

The study found that market index of Nepalese Securities has decreased. The recent scenario of market seems to be conducive to investors and it has been unable to maintain the public faith. Similarly, lack of internet based trading and unavailability of supplementary business broker services are the roadblocks on investment promotion. The study concluded that Capital market should be developed as a sustainable and trustworthy medium for capital mobilization through institutional sector transparent through implementation of International Finance Reporting Standards (IFRS) arrangement for conducting continuous studies,   researches, investor education, public awareness and training programs. The study concluded that sound investment environment are the major factors for enhancing the degree of public confidence towards the Nepalese stock market.

Gurung (2016) attempts to study the growth trend and analyze the performance of Nepalese securities market. Likewise, the variables such as number of listed and traded companies and their securities, number of transactions, trading turnovers, paid up value, market capitalization and NEPSE index are analyzed for the secondary market. Securities market plays a pivotal role in mobilizing savings and channeling them in productive purposes and many more like providing liquidity on securities so that one can minimize the risk and maximize the returns. The study on the securities market performance reveals that there is no synchronization among different securities market performance indicators, but it is true that they almost have depicted an erratic trend during the observed period. This indicates the unstable and poor performance of securities market. Relative to the overall economy, the size of securities market is very small and the liquidity of securities also is poor. These facts suggest that the Nepalese capital market now is passing through a bearish situation. The growth and performance of Nepalese securities market, even after the introduction of new mechanism in 1993/94, are not satisfactory though it is improving gradually.

Koirala and Bajracharya (2017) highlighted that the capital market remains important for all types of investors to participate in economic development. Nepal lags behind to develop a healthy capital market with a sound financial infrastructure though the Nepal Stock Exchange was formalizedeighteen years ago in 1985 and NEPSE established only in 1994. Regulatory measures are slowly updating incorporating the contemporary issues but that has not been found effective because of governance problem in the corporate sector. Corporate sector is generally not transparent. The culture of keeping books of account secret is still alive. Minority shareholders have no access to the books of accounts kept as secret documents. Capital market in Nepal is confined to equity market only. Debt transaction is negligible in Nepal Stock Exchange. Turnover as well as market capitalization are very small relative to its GNP. Besides, NEPSE is not integrated into the world markets. Capital market, at the present position, is beneficial to the investors who can overlook the rules of game. It is yet to be rational to a discerning investor. Unless, it is changed, capital market will not contribute in a desirable way to contribute to growth. In order to improve it, accounting and auditing standards, disclosure and corporate governance need to be

upgraded significantly and on the other the monitoring and policy response capacity of SEBO should be enhanced.

2.2.2 Review of Previous Thesis

Vaidya (2012) found that profitability, dividend, bonus & right share declaration by listed companies in Nepal as have high importance in the overall Nepse Index movement. Investors are showing dividend behind the Nepse movement, but the amount of dividend is too small vis-à-vis the market price of shares from the primary data analysis. The national political situation has been the major factor in the market movement in Nepal. He found the mid-July effect under the month–of-the-year effect in Nepalese stock market. Similarly, he also found the Tuesday has been the bearish day for the Nepalese stock market every time under the day-of-the week effect. Finally, he concluded that the behavior of Nepalese investors towards the stock market can be termed as an irrational exuberance.

Siwakoti (2014)found that there lacks the proper knowledge about the right shares and its impact of in wealth position. Due to this, free movement of share price during rights on and ex-rights are not confirmed. He also found, theoretically, after the issue of rights the earning per share of companies decreases. But if the company utilizes the rights offering, so it raised fund in effective way the earning per share can be increased. He found the similar results in his study.

Paudel (2014) concluded that general investors in Nepal do not have sufficient information regarding the primary market and in spite of this they are interested in investing money in the primary market. They are more interested in financial sector than non-financial sector. The study also summarized that pace of initial public offering in Nepal seems to be irregular. Even though the organization's process of public offering is quite long, the service provided to the investors seems to be satisfactory. Public response in stock market is high due to lack of opportunities for investment in other sector. Despite this, public are attracted towards shares to increase their value of investment.

Pandey (2015) found that public response in primary market is high due to lack of opportunities for investment in other fields.No public are attracted towards shares than other securities basically to increase their value of investments, be it dividend gain or bonus shares.It can be seen that public response to primary issues on Banking

and financial Sectors is normally higher than that of the manufacturing and services sector. There was poor response in the period 2005-2008 because interest rates were higher as compared to dividend yield, the public companies were not performing well, and people were unaware about the importance of investing in securities. Now the response is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

Khadka (2016) found that the government market is more developed, but prices are not market oriented. The state of development of equity markets indicates how well versed issuers, investors, and intermediaries are in dealing with securities at the primary and secondary market levels. Nepal's overall market is still in its infancy, however. The Nepal Stock Exchange (NEPSE) is a late development, founded only in 2013. It is owned by the government and is a not-for-profit making institution.

The equity market of Nepal is relatively small from the international standards. With only 129 companies being listed in about 12 years of establishment of NEPSE, the equity market in Nepal requires more effort and contribution from the privately held companies as well as the investors. The status of Nepalese equity market is being elaborated in the following extraction of a report

It is also mentioned that well informed and speculating investors, when they know that the shares being floated are highly under-priced, approach various financial institutions fro loans to place their share applications. Banks tend to be reluctant to offer small size loans for IPO's; especially when they have bigger players can avail of loans from such financial institutions and apply for a large number of shares. So it is also possible that the big players may avail of loans from financial institutions in the name of their relatives, friends and families and make more than one application thus increasing the possibility of allotment fro more shares to enjoy the short run over performance of IPO's. Uniformed investors and small players, who also want to enjoy some benefits of the IPO's rarely, approach the financial institutions for funding and even if they do so, the possibility of these players being funded is low mainly due to their lack of relationship with such financial institutions and their not-to-big funding requirements. As a consequence, most shares are allotted to the handful of big

investors though in different names and lesser shares are allotted to smaller investors. In this way, bigger players tend to enjoy more from IPO's than small players, which go against the principles of stock market where investors need to have a level playing field.

IPO's are also supposed to signal the health of companies making the IPO's. There are two ways in which IPO's, after being announced, provide important signals about the company; one when they are announced and the other at the start of trading. Oversubscription of IPO's after announcement signals a reasonably good health of the company and under-pricing of shares as more and more investors try and take benefit of IPO. However, due to availability of loans from financial institutions, the true picture of the company may no longer prevail. This could be due to asymmetric information as even those who know little about stock valuation(primarily speculators rather than rational investors) may approach financial institutions fro loans so that they could enjoy more from a short run performance of IPO's. Besides, more shares being allotted to bigger players in the market, informal buy sell deals happen even before the start of trading (because they could not win allotment during IPO), the price generally paid by the investors is more and the start of the trading day, we could well observe that the share prices are more than the normally expected and unrealistic.

Pandey (2016) summarized the public response in primary market is high due to lack of opportunities for investment in other fields. No proper investment analysis is been made. Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend capital gain or bonus shares. It can be seen that public response to primary issues on Banking and Financial sectors is normally higher than that of the manufacturing and services sector. Major causes for poor response in the period 2005-2008 were; interest rates were higher as compared to dividend yield, the public companies were not performing well and people did not know about the importance of investing securities. Now the response is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

Shrestha (2017)found thefact that the scope of primary market is recent days in booming. Even the general investors heavily invest their saving in the new issue of shares causing over subscription to a great deal. It was also asserted that the growth of the primary market in encouraging since many public limited companies including joint venture banks have been successful in tapping capital through the floatation of shares to the general public. The positive response of the investors to the companies is a direct manifestation of the growing public confidence in the primary market. The general public simply taps everything that comes on their way, regardless of the promoter's background and company feasibility. Each company come into the market has been successful in tapping the capital from the market and the issue closed within the minimum stipulated time of seven days with huge over subscriptions.

He further adds that the public response varies from one business sector to another business sector. The mismanagement that follows when the subscription list is open and the subsequent deal in the allotment of shares tend to undermine the confidence of the investors thereby hindering the future growth of the primary market. Primary market is affected by the projected dividend, ROI through prospectus and issue managers, etc. on the contrary; there exist other uncontrollable forces, which hinder the smooth functioning of the primary market. Economic policy, capital formation, investor's attitude, alternative investment opportunities, legal provisions and foreign investment policy belong to this category.

2.3Research Gap

The literature reviewed above does not deal with the study on development and the challenges faced by the securities market of Nepal. This study has tried to focus on the issue of challenges and development of the securities market in Nepal. This study also consists of secondary data and primary data that are acquired through the questionnaire method. Hence the study helps to trace out the challenges and development of Nepalese securities market. So, this study will be fruitful to those interested person, parties, scholars, professors, students, businessman and government for academically as well as policy perspective.

CHAPTER-III

RESEARCH METHODOLOGY

Research is a systematic method of finding right solution for the problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. In other words research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study. It is the plan, structure and strategy of investigations conceived to answer the research question or test the research hypothesis.

3.1 Research Design

Research design is important for scientific investigation. Research design gives students/investigator a direction to research systematically. In this study, analytical cum descriptive research design is used. A research design is a plan, structure, and strategy to obtain the objectives of the study.This study is based on the secondary as well as primary data and information. Hence, the descriptive as well as analytical research design has been used. The variables related with the performance of the company, market information and relevant concepts and variables are included in the study.

3.2 Population and Sample

For this study brokers, investors and experts are taken as a population and from the population brokers, experts and investors as well as the official of the companies are taken as sample. The research has taken an interview with staffs of SEBON, NEPSE, commercial banks and brokers. For this a questionnaire containing 10 questions has been prepared and 40 questionnaires has been distributed among them from SEBON staffs, NESPSE staffs, commercial banks, broker's firm and remaining from the management sector's teacher and students and all the 40 copies of the questionnaire were collected during the study period. And for secondary data collection total number of listed company in SEBON.

The study covered the period of 10 years from the fiscal year 2007/08 to 2016/17. Data are taken from NEPSE and SEBON and all the analysis is made on the basis of these ten years' data. Also, the questionnaires are disbursed and the primary data analysis is done.

3.3 Sources of Data

The secondary data have been collected from the various sources like annual reports of SEBON, NEPSE and Economic Survey published by Ministry of Finance. The main source of data is annual report of the SEBON. Besides annual report, various bulletins available and useful to the study are also taken into consideration. The research is mainly based on the secondary data.

3.4 Data Collection Procedure

3.4.1 Primary Data

The primary data are collected through questionnaire and informal interview of concerned persons like officer of SEBON, NEPSE, share broker, Bank staff and investors. All together 50 copies of questionnaires, were distributed to the persons and institution respective of their professions and nature of activities of which 80 percent of questionnaire have been collected during the study period.

3.4.2 Secondary Data

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

3.5 Data Processing Procedure

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Data processing technique is one of the most important parts of the research study. The researcher should adopt that data processing technique to process the information and data which is suitable and feasible according to nature and objects of the research study. The available information and data should be present in different way, which can easily be understood by the general public. In this study, the required available data and information are shown in figures. The computation has been done with the help of calculator and computer.

3.6 Data Analysis Tools and Techniques

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic (Cottle et al: 1988). After the collection of data analysis of the data and the interpretation of the results are necessary because data collected from various sources might be in raw form. So, they cannot be used directly. Further, they need to be verified and simplified for the purpose of analysis. The obtained data should be classified and tabulated in the required format according to the nature of data and requirement of the study. As both data primary as well as secondary has been used, analysis techniques for the both have been used. Data analysis helps to make the reader more clear about the research and helps to draw conclusions. This part contains several statistical tools and techniques.

Statistical Tools:

3.6.1 Pie-diagram

A pie- diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In this method all the given data are converted into 360 degree as the angel of a circle is 360 degree and all components of the data are presented in terms of angels that total 360 degree for one set of data.

3.6.3 Percentage

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

3.6.4 Trend Analysis:

Trend analysis is a form of comparative analysis that is often employed to identify current and future movements of an investment or group of investments. It is based on the idea that what has happened in the past gives trader an idea of what will happen in the future.

For that following equation has been used

$Y = a + bx$

Where, **Y** is the dependent variable, **X** is the independent variable, **b** is the slope of line and **a** is the value of **Y.**

3.6.5 Correlation Coefficient:

The correlation co- efficient is denoted by 'r' and indicates the direction of relationship between variables. In other words, correlation is the relationship between (or among) two or more variables (only one variable dependent and one or more variable (s) independent). Correlation analysis is defined as the statistical technique which measure the degree of relationship (or association) between / among the variables. Correlation analysis does not tell anything about cause and effect relationship. There are three types of correlation: simple, partial and multiple. But our concern is only the simple correlation. A method of measuring correlation is called ' Pearson's coefficient of correlation'. Correlation of Co- efficient is given by following formula:

Where,

$$r(x, y) \, X \frac{(X \, Z\bar{X}) \, (Y \, Z\bar{Y})}{\sqrt{(X \, Z\bar{X})^2} \, \sqrt{Y \, Z\bar{Y})^2}}$$

The value of correlation coefficient range between -1 and +1. Following rules are available in interpreting the value of correlation coefficient:

⟩ When r=0, then variables are uncorrelated.

⟩ When r falls between 0 to +1, two variables are increasing or decreasing to the same direction.

⟩ When r ranges between 0 to -1, two variables are increasing or decreasing in the opposite, direction.

⟩ When r= +1, it indicates there is perfect positive relationship between the variables.

⟩ When r= -1, it means there is perfect negative correlation between the two variables.

3.6.6 Regression analysis

This study used regression model for data analysis. To justify this, different authors have adopted this type of model including Lazaridis and Trofornidis, (2006),

Yartey(2008) and Aduda.*J.et al* (2012). Thus, the study was divided into two models namely, theoretical model and empirical model. Theoretical model is generally developed based on analysis of the literature in which forms the basis for collecting and analyzing data. In case of this study, theoretical model included the following components such as Y, which stands for CMD, β_0,for constant term of the model, β_i; 2....4,stands for the coefficient of the predictors, ϵ_t,stands for the Error term for each observation and Xi 2 ---4, stand for the predictor as independent variables.

Therefore,

Theoretical model is

$Y = \beta_0 + \beta_i Xi + + \epsilon_i$

Where;

Y= Market capitalization (Dependent variable)

β_0 =Constant term of the model

β_i = Coefficient of slope of regression model

ϵ_i =Error Term

Xi; = Turnover value (independent variable)

Research variable

1. Market Capitalization

Market capitalization is the aggregate valuation of the company based on the current share price and the total number of outstanding stocks. It is calculated by multiplying the current market price of the company's share with the total outstanding share of the company.

2. Turnover Value

It is the amount of transaction in monetary terms traded on a particular period. It tells us how much money is turned over from the trading of stock. It is computed by multiplying the number of share traded by the market price.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This chapter consists of analysis and presentation of secondary and primary data related with different variables using different tools as described in Research Methodology. In order to achieve the objectives, described in first chapter the gathered data are presented and analyzed with the help of above described tools.

Data presentation and analysis is one of the important part of the research work. In this section the study tries to find out the proof from the mathematical calculation for the theoretical statement. Once the study is completed successful to prove the statement, if would, of course, be the concrete and substantial. In this chapter are to analysis and calculate the collected data from NEPSE, Security Board Nepal (SEBON), and different books and articles are analyzed to find out the problem associated with stock market and future potential to develop the stock market in Nepal. Also, appropriate statistical and financial tools have been used to perform the analysis.

4.1 Presentation and Analysis of Secondary Data

This part will reveal the presentation and analysis of secondary data. Secondary data also helps to supports the development of securities market. The main purpose of the study is the development of the securities market in Nepal.

4.1.1 Secondary Market

Secondary market is the market for the existing securities. The main function is to provide liquidity to the purchasers of the securities. Since this market provides liquidity to the securities, the investors are encouraged to buy securities in the primary market. As such we will be dealing with the calculation under this heading.

4.1.2 Listed Companies

A listed company means that company who are approved by the NEPSE to trade in its trading floor. All the companies are not worthwhile to enlist. The company which do not attain the set of criteria, are not eligible for listing

Table: 4.1

No. of Listed Company in NEPSE

Fiscal Year	Listed Companies
2007/08	135
2008/09	142
2009/10	159
2010/11	176
2011/12	207
2012/13	216
2013/14	230
2014/15	232
2015/16	232
2016/17	229

Source: SEBON Annual Report,(2016/17)

Table 4.1 it can be concluded that the total number of listed company in the fiscal year 2007/08 was only 135 but at the end of study period 2016/17 the total number of company was 229, which is the highest number ever listed in the last 10 years.

4.1.3 Market Turnover Volume and Value

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

Table: 4.2

Annual Turnovers in Value and Volume

Year	Annual in value(million)	Annual in volume (000)
2007/08	8360	18147.3
2008/09	22821	28599.8
2009/10	21681	30547.2
2010/11	11581	26261.4
2011/12	6665	26240.4
2012/13	10272.8	41478.9
2013/14	22048.9	81571.7
2014/15	77298.6	214143.56
2015/16	65331.6	159717
2016/17	163950	302000

Source: SEBON Annual Report, (2016/17)

Figure: 4.1 Annual Turnover in Value and Volume

From table and figure, it can be concluded that the highest annual turnover in value was in 20015/16 and lowest in 2007/08, whereas, the volume of market turnover was highest in the year 2016/17 and lowest in the year 2007/08. The performance of the

market during the period of 2007/08 to 2016/17, as shown by the various indicators: instability of the government, strike, investors' interest to other sectors like real estate and others have greatly influenced the securities market of Nepal in the recent year and thus the NEPSE index has been fluctuated. Despite this, it can be concluded that the affectionate of the securities market in investors have been growing in greater extent and thus investors are defraying more market price for taking the possession on shares. The increasing trend of market capitalization indicates increase in market price per share of the companies listed, which indicates positive impact of securities market on the investors.

4.1.4 NEPSE Index

Nepal Stock Exchange (NEPSE is an organized secondary market for listed securities. NEPSE calculates the index, which is known as NEPSE index. It is an equity index. An equity index is an index that measures the changes in the aggregate market value of common stocks.

Table: 4.3

NEPSE Index at the Different Fiscal Year

Fiscal Year	NEPSE Index
2007/08	683.95
2008/09	963.40
2009/10	749.10
2010/11	477.37
2011/12	362.85
2012/13	389.74
2013/14	518.33
2014/15	1030.11
2015/16	961.23
2016/17	1388.63

Source: SEBON Annual Report, (2016/17)

Figure: 4.2 NEPSE Index

The NEPSE index was highest in the year 2016/17 with 1388.63 and it was the lowest in the year 2007/08 with 683.95 points. At certain point of time there can be seen many fluctuation in the NEPSE index. There might be a various reason and one of them could be the market of speculation which still prevails. Then on later years it can be seen a dramatically change in the NEPSE index points. It was due to NRBs' monetary policy, where investors were lured into buying shares of commercial banks at higher price. But, later on NRB changed its previous monetary policy, such policy confused the investor sand immediately brought a setback in the stock market transactions.

4.1.5 Number of Transaction and Listed Securities in NEPSE

Securities that are listed in the stock exchange have its own code of conduct. The present system in the stock exchange is that the securities have to be listed in the stock exchange within the 45 days after the allotment. And listing and delisting of securities are based on the rules and regulations of the stock exchange.

Table: 4.4

No. of Listed and Transaction of Securities in NEPSE

Year	No. of Transaction	% Change	Listed Securities(000)	% change
2006/07	97374	-	226540	-
2007/08	120510	23.76	243504	7.49
2008/09	150800	25.13	321131	31.88
2009/10	209091	38.66	637868	98.63
2010/11	213733	2.22	821746	28.83
2011/12	302364	41.47	1033674	25.79
2012/13	293489	-2.94	1140081	10.29
2013/14	292366	-0.38	1297841	13.84
2014/15	566389	93.73	1614978	24.43
2015/16	477278	-15.73	2553109	58.1
2016/17	831997	74.32	3642900	42.68

(Source: SEBON Annual Report, (2016/17)

$$\% \text{ Change} = \frac{(\text{This year transaction- Last year transaction})}{\text{Last year transaction}} \times 100$$

Figure: 4.3Number of Share and Transaction in NEPSE

The above table 4.4 shows that the number of transactions is fluctuating indifferent fiscal year. In the fiscal year 2007/08 there was a growth rate by 23.76 percent. fiscal year 2012/13 and 2013/14, there was a negative change in transactions by -2.94 and -0.38 respectively, and again in the fiscal year 2015/16 there was negative change in the transaction by -15.73. This shows that market is not in stable position or else there would have been a steady changing. There could be various factors affecting the growth.

The significant change can be traced in the fiscal year 2014/15 by 93.73 percent as compared to the growth rate of 3.56 percent of fiscal year 2013/14.

Securities that are listed in the stock exchange have its own code of conduct. The present system in the stock exchange is that the securities have to be listed in the stock exchange within the 45 days after the allotment. And listing and delisting of securities are based on the rules and regulations of the stock exchange. As such the numbers of listed securities was highest in the fiscal year 2016/17 with 3642900 numbers and lowest in the year 2007/08 with 243504. The highest percent change was in the year 2009/10 by 98.63 percent and lowest was in the year 2007/08 by 7.49 percent. There is positive growth rate in the number of listed securities.

4.1.6 Market Capitalization

One of the important ways of measuring securities market size is the Market Capitalization. Market capitalization is the total market value of all company's outstanding shares. Note that market capitalization is a market estimate of a company's value, based on perceived future prospects, economic and monetary conditions. Market capitalization simply refers to the market price of listed securities. It is derived by multiplying the number of listed securities of all companies by the closing market price of corresponding securities and summing up them.

The following figure shows the market capitalization and of Nepalese securities market.

Table: 4.5

Market Capitalization

Year	Market Capitalization (Rs in millions)	% change in Market Capitalization
2005/06	96813.7	-
2007/08	186301.3	92.43
2008/09	366247.5	98.03
2009/10	512939.1	40.05
2010/11	376871.4	-26.53
2011/12	323484.3	-14.17
2012/13	371115.7	14.72
2013/14	514492.1	38.63
2014/15	1057166	105.48
2015/16	989404	-6.41
2016/17	1890130	91.04

Source: SEBON Annual Report, (2016/17)

The computation is as follows:

$$\% \text{ Change in M C} = \frac{\text{This year MC- Base year MC}}{\text{Base year Market Capitalization}} \times 100$$

Figure: 4.4:Market Capitalization

 Table 4.5 shows that the market capitalization of the listed companies has followed increasing trend in 2014/15, decreasing in 2015/16 and after increase in 2016/17. The market capitalization has ranged from Rs186301.3 millions in the fiscal year 2007/08 to Rs. 1890130millions in the fiscal year 2016/17. The Percentage change rate in market capitalization is highest (105.48%) in the fiscal year 2014/15 and lowest (-26.53%) in the fiscal year 2010/11. The increasing trend of market capitalization indicates increase in market price per share of the companies listed, which indicates positive impact of securities market on the Investors.

4.1.6.1 Analysis of Percent of Turnover on Market Capitalization

Table: 4.6

Analysis of Percent of Turnover on Market Capitalization

(in Millions)

Fiscal Year	Market Capitalization	Annual Turnover	% of Turnover on Market Capitalization
2007/08	186301.3	8360	3.56
2008/09	366247.5	22821	4.48
2009/10	512939.1	21681	6.23
2010/11	376871.4	11581	4.22
2011/12	323484.3	6665	3.14
2012/13	371115.7	10272.8	2.06
2013/14	514492.1	22048.9	2.77
2014/15	1057166	77298.6	4.29
2015/16	989404	65331.6	7.31
2016/17	1890130	163950	6.60

Source: SEBON Annual Report (2016/17)

Figure: 4.5Analysis of Market Capitalization and Annual Turnover

Table 4.6 shows market capitalization in year 2007/08 is 186301.3 and it is grows continuously up to 512939.07 in 2009/10 than it decreases to 376871.37 and 323484.34 in 2010/11 and 2011/12 continuously, then it increases to 371115.74 and 514492.1in 2013/14 and 2014/15, then after decrease trend in 2015/16 and increase in 2016/17. In above figure the highest Market Capitalization is in 2016/17.

The Annual Turnover in 2007/08 it increases up to 2008/09 and reached 22820.8 then it continuously decreases in 2009/10, 2010/11 and 2011/12 and reached to 6665.33 then it increase in 2012/13 and 2013/14. Last two year turnover reached to 989404 and 1890130 in 2015/16 and 2016/17 respectively. Nepal stock market is the still at an underdeveloped stage, characterized by legal inadequacy, low resource availability to the regulator, low liquidity, double taxation on dividend and capital gain tax, poor corporate governance practice, low involvement of institutional investors, poor discloser practices, high cost of public issue, high transaction cost, lack of enforcement of accounting and auditing standard, lack of qualified manpower, lack of sufficient knowledge to the investor etc.

4.1.7 Paid up Capital

Total paid up capital is the function of the number of listed securities of traded companies and paid up value per share. Market capitalization simply refers to the market price of listed securities. It is derived by multiplying the number of listed securities of all companies by the closing market price of corresponding securities and summing up them. Thus, the paid up capital indicates the actual investment in the financial assets whereas market capitalization indicates the present value of the investments.

The following table and figure shows the paid up capital of Nepalese securities market.

Table: 4.7

Percentage Change in Paid- up Value

Year	Paid up value(Rs in millions)	% change in Paid up value
2007/08	29465	8.95
2008/09	61140.4	35.17
2009/10	79356	29.81
2010/11	100238	30
2011/12	110611	26
2012/13	126064	10
2013/14	126064	14
2014/15	145090	15.09
2015/16	210590	45.14
2016/17	321820	52.82

Sources: SEBON: Annual Reports; (2016/17)

Where,

$$\% \text{ change} = \frac{\text{This year paid up value- Last year paid up value}}{\text{Last year paid up value}} \times 100$$

Figure: 4.6 Paid-up Value

The amount of paid up capital has increased in every subsequent FYs. However, the annual growth rate has not increased in the same ratio. Paid up capital of overall listed securities has increased from Rs.29465 million in 2007/08 to Rs.321820 million at the end of 2016/17. This indicates the pace of investment in corporate sector through securities is still in snail's pace.

At the end of the fiscal year 2016/17, the paid up value of listed securities increased by 52.82% amounting to Rs. 321820 million as compared to the last fiscal year which amount to Rs.210590. The highest increase of paid up value was in the year 2016/17 by 52.82% and lowest in the year 2007/08 by 8.95%.

The paid up value of listed securities has been increasing steadily though not in the same rate every year. This is because the people have become more aware of the stock market. They have started realizing about the capital gain and how profitable it can be while investing in the market.

4.1.8 Industrial-wise Issue of Securities

As per SEBON, nine different groups are issuing securities in Nepal. They are commercial banks, development banks, finance company, insurance, hotel, trading, production and manufacturing, hydropower and others.

Table: 4.8

Industrial Wise Issue of Securities

Groups	No. of listed company	Percentage
Commercial Banks	29	12.66
Development Banks	95	41.48
Finance company	46	20.09
Insurance	22	9.61
Hotel	4	1.75
Production and Manufacturing	18	7.86
Trade	4	1.75
Others	3	1.31
Hydropower	8	3.49
Total	229	100.00

Sources: SEBON: Annual Reports, (2016/17)

As per table finance company hold higher proportion of issued securities and followed by development banks. The trade sector is holds Nepalese securities markets is dominant by financial sectors which covers the almost 83.84 percent of total issued securities.

Figure: 4.7 No of Listed Companies

4.1.9 Trend Analysis

To estimate the value of NEPSE index & market capitalization in the next ten year periods, the trend analysis has been conducted, which fulfills the third objective of the study.

4.1.9.1 Trend Analysis of NEPSE Index

The predicted values of NEPSE Index using the trend analysis for the next ten fiscal years (from FY 2017/18 to FY 2026/27) are presented in the table.

$$Y = 752.47 + 47.79 \ X$$

Table 4.9

Trend Forecasted Value of NEPSE Index

Fiscal Year	NEPSE Index
2017/18	540.971
2018/19	585.206
2019/20	632.996
2020/21	680.79
2021/22	728.87
2022/23	776.37
2023/24	824.16
2024/25	871.95
2025/26	919.74
2026/27	967.53

(Source: Appendix I)

Figure: 4.8:NEPSE Index Trend

The table 4.9 and figure 4.8 shows positive and negative relationship between the NEPSE index and the time period, which indicates that along with the lapse of time, the NEPSE index continuous increase trend. The NEPSE index will be 540.97, 585.206, 632.996, 680.79, 728.87, 779.37, 824.156, 871.95, 919.74 and 967.53 point in the fiscal year 2017/18 to 2026/27.The past trend of NEPSE index, the securities market of Nepal has good prospects in future.

4.1.10 Correlation Analysis

Correlation is the relationship between two or more variables (only one variable dependent and one or more variable independent). Correlation analysis is defined as the statistical technique which measures the degree of relationship between the variables. Correlation analysis does not tell anything about cause and effect relationship. There are three types of correlation: simple, partial and multiple. But our concern is only the simple correlation. A method of measuring correlation is called Pearson's coefficient of correlation.

Table: 4.10 Correlation Analysis

		TV
MC	Pearson Correlation	$.950^{**}$
	Sig. (2-tailed)	.000
	N	10

**. Correlation is significant at the 0.01 level (2-tailed).

Showing the above table 4.10, the Pearson Correlation coefficient between market capitalization and turnover value among Nepalese securities market is 0.950, which implies that the two variables are positively correlated. The positive coefficient of correlation is 0.950 at 1% significant level.

Hypothesis

H_01: There no significant relationship between market capitalization and Turnover value

The correlation analysis shows that there is a positive correlation between market capitalization and Turnover value. The correlation is significant at 1% where p-value is less than alpha i.e. $0.00 < 0.01$.

Hence, the null hypothesis (H01) is rejected. It means alternative hypothesis accepted.

4.1.11 Regression Analysis

The meaning of the word regression is stepping or returning back to the average value. The term was first developed by Sir Francis Galton in 1877.These days there is growing tendency of the modern writers to use the term estimating line instead of regression line because the expression estimating line is more clarification in character. We can explain the few definitions of the term regression:

Regression is the measure of the average relationship between two or more variables in terms of the original units of the data.

The term regression analysis refers to the methods by which estimates are made of the values of variables from knowledge of the values of one or more other variables and to the measurement of the errors involved in the estimation process.

Regression analysis is used as a tool of determining the strength of relationship between two variables. Thus, it is a statistical device, with the help of which we can predict the value of one variable when the value of other variable is known the unknown variable, which we have to predict, is called dependent variable and the variable which value is known is called independent variablethe line of regression is

$Y = \beta_0 + \beta_i X_i + + i$

Where;

Y= Market capitalization (Dependent variable)

β_0 =Constant term of the model

β_i = Coefficient of slope of regression model

i =Error Term

X_i; = Turnover value (independent variable)

Table below show the findings of regression analysis between market capitalization and turnover value.

Table: 4.11 Regression Analysis - Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.950(a)	.903	.891	.09805

a. Predictors: (Constant), TV

Model summary indicate that the R square also knows as coefficient of determination which can helps the analyzing variance. The r square value is 0.903 which means 90.3% variation in market capitalization between turnover value. However, the remaining 9.7% is still unexplained in this research. In other additional variable that are analyzing by the market capitalization in securities market.

Adjusted R square is 0.891 which means 89.1% variation market capitalization between turnover value. This shows that moderate relationship between independent variable and dependent variable market capitalization among turnover value in securities market in Nepal.

Table: 4.12 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.715	1	.715	74.430	.000[a]
	Residual	.077	8	.010		
	Total	.792	9			

a. Predictors: (Constant), TV

b. Dependent Variable: MC

Based on ANOVA, the p-value is 0.00 which is less than alpha value 0.01. Therefore, the model is a good predictor of the relationship between the dependent and independent variables. As a result, the independent variables turnover value (TV) and market capitalization (MC) are significant in explaining the variance turnover value between market capitalizations.

Table: 4.13 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.036	.313		9.709	.000
TV	.613	.071	.950	8.627	.000

a. Dependent Variable: MC

Taking two dimensions of Market capitalization (MC) is constant and turnover value (TV) is independent variable (X_1). The model is constructed with equation as below:

$$= \ + \ _1 X_1 + ei.$$

Based on the coefficients, the regression equation for the Market capitalization can be written as:

$$= 3.036 + 0.613 \ X_1$$

The table 4.13 also shows that all independent variables such as turnover value is significant results since their respective p-values are less than level of significant ($p < 0.00$).This illustrates that 1 unit increase turnover value and market capitalization increase respectively. The beta of turnover value is 0.950 which is the most dominant the market capitalization in securities market. The correlation coefficient shows the there is significance between market capitalization and turnover value.

4.2 Primary Data Analysis

To analyze the opinions related to the securities market, the primary data have been collected by conducting the questionnaire. For this a questionnaire containing 10 questions has been prepared and 40 questionnaires has been distributed among them from SEBON staffs, NESPSE staffs, commercial banks, broker's firm and remaining from the management sector's teacher and students and all the 40 copies of the questionnaire were collected during the study period. The questionnaire is related to

find out the challenges faced by the Nepalese securities market and the points that provide the prospects of the market. Their responses have been analyzed as follows.

4.2.1 Analysis Development of Securities Market

Table 4.14

Response to the Development of Securities Market

SN	Variable	Response	Percentage
1	Yes	20	50
2	No	11	27
3	Do not know	9	23
Total		40	100

Source: Field survey 2018

Table 4.14 Shows that 50 percent respondents are satisfied development of securities market, as well as 23 percent of them said that they do not know about it and finally 27 percent have no answered, it means they are not satisfied with the development trend of Nepalese securities market. From the study it rebels that the development status of securities market is satisfactory levels.

4.2.2 Analysis Challenge Faced by Securities Market

Table 4.15

Number of Respondent on Challenges

SN	Challenges	Response	Percent
1	Small capital market	13	33
2	Lack of investor confidence	1	3
3	Lack of proper knowledge of investor	16	40
4	Lack of coordination between monitoring	4	10
5	Inappropriate rule and regulations.	3	7
6	Limited types of securities in practices	3	7
Total		40	100

Source: Field survey 2018

Table 4.15 indicated that the respondents have asked to know about the challenges of Nepalese securities market. There are 40 percent respondents said the main challenge is lack of proper knowledge of investor about the securities market, as well as 33

percent respondents said that small capital market in Nepal. Likewise 10 percent respondent said that lack of coordination between monitoring body of securities market and other 7 and 3 percent are inappropriate rules and regulations and limited types of securities in practices, and Lack of investor confidence respectively. The main challenges of securities markets are small size of capital market, lack of investor's knowledge about the securities market, poor monitoring capability of regulating bodies and limited types of securities in practices.

4.2.3 Desire for Investment on Securities

Table 4.16

Factors Motives to Make Investment

SN	Factors	No of respondent	Percent
1	Social status	3	7
2	Dividend	16	40
3	Friends and family	4	10
4	Securities broker	3	7
5	Marketability	14	37
Total		40	100

Source: Field survey 2018

To trace out the main crave for which the investors makes investment on securities market? The above table 4.16 delineates that the majority of the investors makes decision on the basis of dividend distribution pattern of the company. About 40 percent of the investors are craved to invest on securities market by the dividend. Similarly, 37 percent makes investment to gain Marketability, as well as 10 percent makes investment on the suggestions of friend and family, and 7 percent makes investment on the advice of stock broker and remaining 7 percent makes investment by analyzing the Social status. Thus, on the basis of the majority, it can be concluded that the investors are highly craved to invest by dividend and marketability is main influencing factors.

4.2.4 Analysis of Efficiency of Securities Market

Table 4.17

Efficiency of Securities Market

SN	Variable	No. of Respondents	Percent
1	Yes	17	43
2	No	23	57
3	Do not know	-	-
Total		40	100

Source: Field survey 2018

The above table 4.17 shows that the majority of the 43 percent respondents said that the Nepalese Security market is informational and strongly affirmed that Nepalese security market is operationally efficient. Again 57 percentof the respondents have said that the security market is not efficient in operation and does not provide effective information. However, it can be concluded that the stock market of Nepal is informational and operationally efficient in the present context and thus should be enhanced in the future.

4.2.5 Analysis of Awareness of Investors

Table 4.18

Awareness of Investors

SN	Variable	No. of Respondents	Percent
1	Yes	7	17
2	No	29	73
3	Do not know	4	10
Total		40	100

Source: Field survey 2018

Table 4.18 explained that the 73 percent investors are not aware, likewise, 17 percent are aware and remaining 10 percent unknown about the stock market. Thus this study shows that Nepalese investors are less aware to securities markets.

4.2.6 Analysis of Rules and Regulations of SEBON

Table 4.19

SEBON Rules and Regulations

SN	Variable	No. of Respondents	Percent
1	Yes	33	83
2	No	4	10
3	Do not know	3	7
Total		40	100

Source: Field survey 2018

The table shows that 83 percent respondents are favored of rules and regulations of SEBON causes rise or fall on security value of the company. However, 10 percent respondents are appearing no relationship between rules and regulations of SEBON and the value of security. And remaining 7 percent are unknown about it. Hence it can be concluded that the rules and regulations of SEBON directly affect the security price.

4.2.7 Analysis of Satisfaction on Securities Trading System

Table 4.20

Satisfaction on Securities Trading System

SN	Variable	No. of Respondents	Percent
1	Yes	32	80
2	No	6	15
3	Do not know	2	5
Total		40	100

Source: Field survey 2018

The above table has shown that 80 percent respondents are satisfied with the Existing Nepalese securities trading system, as well as 15 percent respondents are not agreed on securities trading system, and 5 percent do not known. Hence, it can be considered that the appropriate trading system is followed in NEPSE and there is good prospect of security market in future as well.

4.2.8 Analysis of Basis for Decision Making in Securities Market

Table 4.21

Basis for Decision Making in Securities Market

SN	Factors	No. of Respondents	Percent
1	NEPSE index	4	10
2	Closing price	4	10
3	Turnover	3	7
4	Company's goodwill	7	17
5	Company's profit	22	57
Total		40	100

Source: Field survey 2018

The above table shows that 57 percent respondents are affected by the company's profit in the decision making on stock market, such ways 17 percent made decision on the basis of company's goodwill and equally 10 percent replied that they made decision on the basis of NEPSE index and closing price, as well as 7 percent made decision on the basic of turnover. In Nepal Company's profits is main basis for investment.

4.2.9 Analysis of Influencer of Security Price

Table 4.22

Influencer of Security Price

SN	Factors	No. of Respondents	Percent
1	Dividend	16	40
2	Rumor	5	13
3	Financial condition	8	20
4	Management	11	27
Total		40	100

Source: Field survey 2018

The table 4.22 depicts that the majority of the respondents, 40 percent have stated that Dividend is the most influencing factor of security price. Similarly, 13, 20 and 27 percent of the respondents affirmed that rumor, financial situation of the company and management of the company respectively are the influencing factors

of the security price. Hence, it can be concluded that dividend distribution pattern of the company is the major motive behind investing on the share of certain company and which raises or falls the security price.

4.2.10 Analysis of Responsible for Appropriate Trading System

To know who is most responsible for the appropriate trading system in the security market, the respondents are asked to opine their views. The opinions obtained from them are depicted in the following table.

Table 4.23

Responsible for Appropriate Trading System

SN	Factors	No. of Respondents	Percent
1	Investors	8	20
2	Brokers	7	17
3	NEPSE	9	23
4	SEBON	16	40
Total		40	100

Source: Field survey 2018

The table 4.23 shows that the 40 percent respondents have strongly stated that SEBON should be responsible for appropriate trading system in the security market. However, 23 percent have said that NEPSE should be responsible and 20 percent has blamed that Investors should be responsible for appropriate trading system in the security market, remaining 17 percent respondents said that most responsible is Brokers. It can be concluded that SEBON is the major regulating body in effective trading system. However, the responsibility of other bodies cannot be neglected completely. So, for appropriate system each participant should contribute equally.

4.3 Major Findings of the Study

Major findings have been drawn from the analysis of primary and secondary data

1. The total number of listed company in the fiscal year 2007/08 was only 135 and fiscal year 2016/17 the total number of company was 229, which is the highest number ever listed in the last 10.

2. The NEPSE index was highest in the year 2016/17 with 1388.63 and it was the lowest in the year 2007/08 with 683.95 points. At certain point of time

there can be seen many fluctuation in the NEPSE index as it can be seen highly in the fiscal year 2007/08 and 2008/09 as in these period of time there had been a boom in the security market.

3. Number of transaction in NEPSE is highly volatile. In the fiscal year 2007/08 there is a growth rate of 23.76 percent of transaction but number of transected securities is increasing in each year. But in fiscal year 2012/13, 2013/14 and 2015/16 is negative. After increasing 2016/17.

4. The market capitalization of corporate securities is highly fluctuating over the years. The market value of securities was Rs.186301.3million in the fiscal year 2007/08 and increased to Rs. 1057166 million in the fiscal year 2014/15 , where in the fiscal year 2010/11, 2011/12 and 2015/16 there was negative growth in market capitalization by -26.53, -14.17 and -6.41 percent respectively. And in the last fiscal year there is positive change by 14.72, 38.63, 105.48 and 91.04 in the fiscal year 2012/13, 2013/14, 2014/15 and 2016/17 respectively.

5. The paid up value of listed securities has been increasing steadily though not in the same rate every year. By the end of the fiscal year 2016/17, the paid up value of listed securities increased by Rs. 321820 million as compared to the last fiscal year which amount to Rs210590 million and the percent change is 45.15%. The highest increase of paid up value was in the year 2016/17 by 52.82 percent.

6. The coefficient of market turnover value is 0.613. It is coefficient is positive and significance except. Hence there is positive relationship between market capitalization and turnover value.

7. Nepalese securities market is dominant by financial sector's instruments, which covers almost 85.34 percentages of total securities issued similarly production and manufacturing, trade, hydropower and other sector has lowest contribution.

8. From the analysis of growth of Nepalese stock market, it can be concluded that growth of market capitalization and growth in number of market capitalization and growth in number of institutional investor are satisfactory and not satisfactory. However, majority of the respondents are not satisfied with the growth in number of listed companies. On the other hand, respondents are not certain whether growth amount of IPO and growth in

volume of security traded is satisfactory or not. Respondents are agreeing the institution investor condition growth, level of industrialization, NEPSE and SEBON provide information and expansion of broker in outside valley. Standard deviation Number of issue manager and brokers is highest about 1.26 and growth of market capitalization is lowest having 0.69. Which implies market capitalization shows the lowest deviation than other variables.

9. The investors are facing several problems and difficulties during their transaction period .The majority of the respondents are agreed with the asked statements. So it was concluded that problem of stock market are insufficiency of legal rules and regulations, unavailability of information, factor of marketability and liquidity, influenced by small number of large investors, in sufficiency of number of issue managers, rumor based market, insufficient knowledge of investors etc. However, the respondents are realized the need of new stock exchange and lack of professionalism agree or disagree. Standard deviation Government has taken the policy of dynamic, transparent, credible and investor friendly stock market is highest about 1.16 and market provides satisfactory return is lowest having 0.68, which implies Stock market provides satisfactory return shows the lowest deviation than other variables.

10. By analyzing the prospects of Nepalese stock market, it can be concluded that increase in number of listed companies and turnover of listed companies, return from the stock market, increase in amount of IPO and increase in trend of larger companies listed are main factor for the prospects of Nepalese stock market.

11. However, the majority of respondents cannot say general provisions are becoming easy or not, program launched by SEBON is successful or not etc. Most investors are not satisfied with the policy of dynamic, transparent credible and investor friendly stock market taken by government. Standard deviation government has taken the policy of dynamic, transparent, credible and investor friendly stock market is highest about 1.16 and stock market provides satisfactory return is lowest having 0.68, which implies Stock market provides satisfactory return shows the lowest deviation than other variables.

The research has made an interview with the staff of SEBON, NEPSE, broker and bank. Based on this interview following analysis has been made:

1. By analysis the questionnaires, majorities of respondents are satisfied with the development of the securities market.

2. Lack of proper knowledge of investor about the stock market are big problem and most of the respondents answer was the prospects of Nepalese stock market is increasing no. of listed large companies in NEPSE.

3. The major motivator factor for investor to make investment in securities market was income given by their securities and most of the respondents are said financial situation of the company is the main influencing factor the price of the securities.

4. The major respondents have stated that the securities market of the country is efficient. the investors said that they invest share to gain dividend and also dividend is the most influencing factor that fluctuates security price as well as the investors analyzes NEPSE index before making investment in the secondary market.

5. The 13% respondents have stated that the investors are not fully aware of the practices of securities trading system. Likewise, 80% of the respondents said that the investors are satisfied with the existing security trading system. Also, 83% of the respondents are of the opinion that the rules and regulations of SEBON affect the value of security.

6. lack of investor's confidence is the major problem of trading system. Also, the growing interest of the educated people in the security market is the major prospects of Security market in Nepal.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This research study is conducted to analyze the issues and challenges of Nepalese capital market. The study period of ten years begins from the fiscal year 2007/08 to 2016/17. During the study secondary and primary data were used to analysis the growth status of NEPSE. There are a lot of impediments and obstacles to be solved in order to enhance an effective statutory and regulatory framework. This is why the Nepalese securities market is in early stage of development.

For mobilization of invest able resources from one sector to another, securities market plays very important role bridging of the deficit units and surplus units. Securities market is a place where stocks and other securities are, bought and sold continuously. Securities market is the medium, through which scattered saving and scarce resources are transferred into productive areas that ultimately help to the economic development and industrialization of Nation.

While the role of securities markets is more meaningful in developed economies, there is evidence of the growing importance of securities markets in emerging market and developing countries. In many emerging market and developing countries, securities markets are beginning to gain a place as a source of financing for the corporate sector, although in most markets this is initially restricted to the larger corporate players. Along with private and public pension funds, collective investment schemes have become important players in many developing and emerging market countries and their demand for suitable investments is driving development.

During the study period secondary data and primary data were analyzed in with the help of different tabular and graphic presentations along with their weighted average and percentage analysis. The different respondents filled as for as possible what they know about that for given questionnaires.

For the purpose of primary data collection questionnaire were distributed to 50 peoples. They were taken by convenient sampling method among SEBON and NEPSE staff, bankers and brokers around the Kathmandu valley. Various questions

related to development and challenges of Nepalese securities market was asked during the study.

5.2 Conclusions

Most of the capital market indicators like market capitalization and NEPSE Index seem to be increased up to FY 2008/09&2009/10, and then decreased during the fiscal year 2010/11 to 2012/13 and after increase in 2013/14 to 2016/17. The number of listed companies has almost been in increasing trend although the growth trend has decreased. This indicates that the NEPSE might have incorporated most of the institutions and thus there is slow growth in listing. Observing the company traded to listed ratios, it can be assumed that NEPSE should monitor the obstacles in the market that are preventing the listed companies to remain untraded.

The economic prosperous of the country, the uplift in annual turnover of securities market is quite necessary. Although, the listed companies in NEPSE has been highly dominated by finance companies, the contribution of financialinstitutions in generating turnover is highest, and the market capitalization of other institutions,which comprises hydropower, promoter share, mutual fund, preference share and other is strongest.

People are interested to invest in primary market rather than secondary market. They also choose equity share. They give the list prior to debenture and preference share.

The major challenge of the capital market is political instability. Public seek the environment of political, while they are investing. They also seek the progressive tax system and effective rules and regulations for the regulating capital market.

Even though the whole IPO process in very long, Nepalese investors are interested to invest in this sector.

5.3 Recommendations

After analyzing the securities market, the following recommendations have been provided for the enhancement of the securities market;

) NEPSE should regularly update the information furnished by the listed companies and analyzed timely. If any company is found working against NEPSE rules, the company should be immediately taken into action. The NEPSE should have high speed settlement and clearance system,

investor-friendly environment, well-equipped office, computerized system and efficient staff. NEPSE should also focus towards the possibility of substitution of present trading mechanism by electronic trading system.

) Absence of access to reliable advice and suggestion to investors on stock and market opportunities has increased risk on investment in stock market. There is a need to increase the confidence of public investors by making the stock market more efficient and competitive with inducting new brokers in the market.

) Emphasis should be given to enhance the institutional capacity of security board of Nepal by upgrading physical facilities autonomy in financial matters, strengthening legal aspects, provision if adequate numbers of capable and technical human resources and improvement in internal governance system to enable the board to act as a competent regulator body for regulating the stock market.

) Nepalese investors are not aware of their investment scheme. Therefore, they should be made aware of the investment scheme on the basis of proper analysis of risk and return. Investors should always be aware of their strength and weakness and risk-taking capabilities so that superior forecasting and sound understanding of stocks may give winning edge to them. Nepalese investors lack proper knowledge of stock markets. They should, therefore, need to read daily newspapers and journals and annual reports of NESPE and SEBON.

) In the backdrop of the development of concept of international securitization and transaction in south Asia, a autonomous and competitive central depository system of stock is needed to make recently introduced electronic transaction system reliable, faster governance. Lack of access to knowledge and information related to stock market operation among small investors, and low capacity of regulator to monitor and supervise stock market operation are other shortcomings left in this area. These shortcomings related to capital market operation needs to be addressed in order develop stock market as one of the important capital mobilization tools.

) There is less supervision to merchant bankers, security act 2006 mandate to submit the annual report to SEBON. But limited merchant bankers submit

their annual report. Hence it strongly recommended that supervision must be done and punished them who do not submit AGM (Annual General Meeting).

) Though Nepal government, SEBON and other regulatory entities have been making continuous efforts, other sector companies (especially real sector companies) are not entering in Securities Market. Securities market should enhance sustainable confidence of investor in securities market.

) Transferring of ownership is tedious and time consuming and it needs investors to be present in Kathmandu valley. Lack of decentralization of Securities Market information enhancing and training programs and centralization of secondary market service in Kathmandu valley are the causes due to which it is not being possible to mobilize capital in secondary market from outside Kathmandu valley. So securities market should extend all around the country and in international level.

Continuous study and research of Securities Market, investor education, and enhancement of awareness and establishment of academy for the institutional financial education services should do for the sustainable and reliable capital mobilization.

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Appendix-I

Trend Analysis of NEPSE Index

Year(x)	Nepse index (y)	x-middle year	X^2	xy
2007/08	683.95	-4.5	20.25	-3077.775
2008/09	963.4	-3.5	12.25	-3371.9
2009/10	749.1	-2.5	6.25	-1872.75
2010/11	477.37	-1.5	2.25	-716.055
2011/12	362.85	-0.5	0.25	-181.425
2012/13	389.74	0.5	0.25	194.87
2013/14	518.33	1.5	2.25	777.495
2014/15	1036.11	2.5	6.25	2575.275
2015/16	961.23	3.5	12.25	3364.305
2016/17	1388.63	4.5	20.25	6248.835
Total n=10	Y =7524.71	X=0	X^2=82.5	XY=3940.87

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

$a = \dfrac{Y}{N} =$ $a = \dfrac{7 \quad .7}{1}$ $=$ 752.471

$b = \dfrac{XY}{X2} =$ $b = \dfrac{3 \quad .8}{8 \quad .5}$ $=$ 752.79

Y = 752.47+47.79X

Appendix-II

Correlation and Regression Analysis of Market Capitalization and Turnover Value

Year	Market capitalization (Rs. In million)	Turnover value (Rs. In million)
2007/08	96813.7	8360
2008/09	186301.3	22821
2009/10	366247.5	21681
2010/11	512939.1	11581
2011/12	376871.4	6665
2012/13	323484.3	10272.8
2013/14	371115.7	22048.9
2014/15	514492.1	77298.6
2015/16	1057166	65331.6
2016/17	989404	163950

QUESTIONNAIRE

Dear Respondent,

First of all I would like to introduce myself as a student of Central Department of Management, T.U requires the students to write a thesis for which I am conducting a survey on *"Nepalese Capital Market: Issues and Challenges".* I would highly appreciate your kind cooperation regarding the matter.

Thank you

Madhusudhan Gautam

Name (optional):

Position:

Institution:

Address:

Phone no:

Please tick [   ] the following questions:

Q. N.1 Are you satisfied with development of Nepalese securities market?

[   ] yes   [   ] No   [   ] Do not know

Q. N. 2 what are the problems of securities market in Nepal?

[   ] small capital market

[   ] lack of investor confidence

[   ] lack of proper knowledge of investor

[   ] lack of coordination between monitoring body of securities market

[   ] inappropriate rules and regulation

[   ] limited types of securities in practices

Q. No. 3 what factors motive you to makes investment securities market?

[   ] social status   [   ] friends and family

[   ] dividend   [   ] stock broker

[   ] marketability   [   ] others

Q. N 4. Do you think that Nepalese security market is operationally efficient?

[   ] Yes   [   ] No   [   ] Don't Know

Q. N.5 Do you think investors in the Nepalese securities market are aware?

[   ] yes   [   ] NO   [   ] Do not know

Q. N. 6 Does SEBON rules and regulation affects the value securities?

[   ] yes   [   ] NO   [   ] Do not know

Q.N 7Are you satisfied with the securities trading system of Nepalese stock?

[   ] yes   [   ] NO   [   ] Do not know

Q.N.8 On what basis does the investor make decision to invest in share in the secondary market?

[   ] NEPSE Index

[   ] Closing Price

[   ] Turnover

[   ] Company's Goodwill

[   ] Company's Profit

[   ] Dividend Payout Ratio

Q.N.9 In your opinion which of the following is the main influencer of security price?

[   ] Dividend

[   ] Rumor

[   ] Financial Situation of the Company

[   ] Management of the Company

Q.N 10 who is most responsible for appropriated trading system in security market?

[   ] Investors   [   ] Brokers

[   ] NEPSE   [   ] SEBON