CHAPTER – I
INTRODUCTION

1.1   Background of the Study

Capital market plays a vital role in the developing nation's economy. Due to the lack of capital for investment economic growth is low in Nepal. Capital market provides the required capital for the investment. The major function of the stock market is to provide steady and continuous market for the purchase and sale of securities at a competitive price by considering marketability and liquidity. The major concern of countries of the world has been to accelerate the economic growth and thereby increase the welfare on their people. Economic growth requires capital investment and would require fearing up of saving, creating, conducting and enabling investment atmosphere and developing efficient capital market to facilitate mobilization of both ownership and debt capital through appropriate instrument.

The growing importance of stock markets in the developing countries has opened up many avenues for research in the relationship between financial development and economic growth, with focus on development role of stock market. Development of capital market in Nepal is linked with the establishment of commercial banks and long term financing institution like NIDC, market capitalization started in 1994 B.S. with the enactment of the Company Act in 1992 B.S.

In term of concept, it is very new in Nepal. It was begun with the flotation of shares by Nepal Bank Limited (NBL) and Biratnagar Jute Mills Ltd. (BJM) in 1937 B.S. under Company Act1936 B.S. No significant attempts has been make in 4-5 year plan to reform the capital marketthe establish of Security Exchange Center (SEC) in 2038 B.S. was the first and most important attempts made by the government to develop the stock market. The Security Exchange Center (SEC) served to promote the primary as well as secondary market for government and corporate securities from Fiscal Year 2040/41 B.S. Although, the growth of the Stock Market in high relative to the growth of economy, the shares of corporate sector in the national economy is still very low due to the illegible size of the corporate sectors. The incorporation of Securities Board Nepal (SEBON) under the Securities Exchange Act 1983 conversion to the SEC into

Nepal Stock Exchange (NEPSE). The establishment of NIDC Capital Market Ltd. is also another major step to improve financial system in Nepal.

While no foreign investors are present, a recent policy announcement was made by the Securities Exchange Board to allow foreign institutional investors into the secondary market. Aside from brokerage functions, most of the other functions are being carried out by finance companies. Unlike, many other countries, these companies are also allowed to mobilize public deposits. Market trends, as a result of the interplay of the above three factors, the capital market performance in Nepal has witnessed a lot of changes. Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Act, 2006. The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

Nepal Stock Exchange Ltd. (NEPSE) is only one organized Securities Exchange in Nepal where transaction of secondary market carried out. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. NEPSE opened its trading floor on 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE. The history of securities market began with the flotation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange. Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 50

member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws.

At present up to Fiscal year 2074/75, there are 25 merchant banker (sales and issue manager), 50stock brakers,68 depositary participants (DP Members),65 C-ASBA members,9Mutual Fund 2 dealers,196 listed companies, 1 Stock Exchange Company(NEPSE),1CDSC and 2Credit Rating Company. If not, it can be done with in another three months by paying 25% penalty. NEPSE, the only Stock Exchange in Nepal, introduced fully automated screen based trading since 24th August, 2007. The NEPSE trading system is called NEPSE Automated Trading System (NATS) is a fully automated screen based trading system, which adopts the principle of an order driven market. Nepal Stock Exchange (NEPSE) has started fully automated online trading system with Bank Integration. The online trading system which came into operation from Kartik 20,2075.NEPSE facilitates trading in Shares (Equity Shares &Preference Shares), Debentures, Government Bonds and Mutual Funds. Trading on equities and mutual funds takes place on all days of week (except Saturdays and holidays declared by exchange in advance).

The stock exchange provides floor for trading the shares of listed companies creating the liquidity in shares markets. The liberal financial policy adopted by Nepalese Government after the restoration of democracy tried to reform the financial market of Nepal. That result open practice of buying and selling of securities in the open floor of NEPSE maintaining the suitable market price of the shares. In general, the prices are determined according to the demand and supply of the shares. This study attempts to examine the different determiners of the share price relating the MPS with major financial indicators.

1.2   Statement of the Problem

Nepalese stock market has no long-history. It has only more than two decade. The numbers of listed companies in the Nepal Stock Exchange are increasing every year. But most of the companies are confined to the bank and finance companies sectors. There is a tremendous growth in the financial institutions over the period of time.Investors are losing confidence on the share market mainly due to their experience of fraudulent and scandalous activities undertake by a handful of market

swindlers. There has been also major problems involving misuse of insider information and growing tendency of frauds in securities transaction. Moreover, credulous investors too are responsible for showing irresponsible behaviors due to freed for quick gains from share market. Investors becomes miserable emerged from tactless advice of brokers through market disorders, price manipulation and fraudulent activities taken together have resulted the present bearish market in the country. How these securities frauds and manipulation have occurred and to what extent they can be overcome would be highlighted to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in share price. Development and expansion of capital market is essential for rapid economic growth. This study **'Problem and Prospect of stock market growth in Nepal'** *is* the important study for the growing economy like Nepal,which includes fiscal years 1993/94 to 2017/18. Hence, this study is also suffered from the constraint problem. This study is mainly concerned with the following issues:

a)   What is the current situation of stock market in Nepal?

b)   What are the major problem occurred in the stock market growth?

c)   Is the trend followed by stock market satisfactory?

d)   What are the prospects of stock market in Nepal?

1.3   Objectives of the Study

The general objective of this study is to analyze the problems and prospects of Nepalese stock market. However, the specific objectives of this study can be enumerated as:

a)   To analyze the trend of Nepalese stock market.

b)   To explain the current situation of Nepalese Stock market.

c)   To explore the problem and prospects of Nepalese Stock market.

1.4   Significance of the Study

Stock market reflects the situation of economy. When stock market is booming the economy is good and market is declining the economy is in recession. It represents also the counties polices towards industries. Policy is formulated of regularized by rules and regulationbetween different Act and Guideline (rules and regulation). This

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study in needed to find our problems and prospects in the near future. What policies can be formulated, what regulatoryacts are needed and necessity of amendments regarding the rules and regulation to develop it and make the market perfect functioning.

The study on the problems and prospects of Stock Growth in Nepal is very helpful to all the parties related to stock market. The study helps to trace out the hurdles and prospects of stock growth to the interested investors in the market.

The study is helpful to the people who are curious to know about the price trend of the stock, volume of stock traded, listed of new companies in the secondary market (NEPSE) and the impact of signaling factors on NEPSE index etc. The study is also helpful to the issue managers, stock brokers, securities dealers and the market makers and law makers to make the share market more efficient.

1.5   Limitations of the Study

Each study is conducted under some constraints and limitations. Likewise, this study is also limited by some common constraints. This study is based on the fundamental analysis of the stock market growth. The research is made for the partial fulfillment of the requirements for the Master Degree of Arts in Economics (MA Economics). However, the specific limitations of the study are:

a)   The study covers only the problems and prospects of Stock growth and it does not other aspects of Security market.

b)   The accuracy of the primary data highly depends on the opinion of respondents.

c)   Reliability of the secondary data depends upon the accuracy of publication.

d)   The study covers data up to fiscal year 2017/18from FY1993/094.

1.6   Organization of the Study

The entire study has been organized into five main chapters as:

The first chapter deals with background of the study, a brief introduction of NEPSE and SEBON, focus of the study, statement of the problem, objective of the study, significance of the study and limitations of the study.

The second chapter deals with conceptual framework including the fundamental concept of securities market. It also includes the brief review of previous research work.

The third chapter deals with the research methodology which has been followed to achieve the purposes of the study. It consists of research design, the period covered, nature and sources of data, tools to be used, research variable etc.

The fourth chapter deals with presentation and analysis of data. It gives a clear picture of how the collected data has been presented on the study and how it has been analyzed.

And at last, the fifth chapter shows the summary of whole study, conclusion drawn and recommendations given. This ends the study paper. Besides these chapters, References and Appendix are included in this research paper.

CHAPTER – II
REVIEW OF LITERATURE

2.1   Introduction

This chapter focuses on literature review on the problems and prospects of stock market growth in Nepal. In this chapter, review of earlier studies in various organizational factors has been made. The chapter then examined the factors that contribute to stock market growth. The chapter also discussed how the problems and prospects of stock market growth are measured. The chapter, further, presents conceptual framework of the study. A literature review is a scholar paper, which includes the current knowledge including substantive findings, as well as theoretical and methodological contributions to a particular topic. The following are the key concepts under conceptual review:

2.1.1   Stock Exchange Role

Mishkin (1998) examined that the stock exchange is the most highly centralized and visible institution where already issued securities are bought and sold for investment and speculative purpose. It provides facilities of trading of listed financial securities. Securities exchanges do not directly buy or sell securities; rather they provide trading floors on which a continuous auction market. The study also concluded that individual or institutional investors who place orders to buy or sell the securities listed on an exchange may not be present when their orders are executed. The function of stock exchange is to provide equal opportunities for many buyers and sellers of securities as possible. From general economic point of view, the stock exchange constitute the core of capital market has put its finger on the pulse of the economy and gives the diagnoses to the public in the form of quotation (Pinches & Singlton,1998)

2.1.2   Participants in the Stock Exchange

There are mainly three participants involved in stock exchange. They are broker, dealer and market makers.

a)   Brokers

Brokers are the agents or middlemen, who facilitate the buying and selling of securities for investors. They take buy or sale orders from the investors in their own office and execute the transactions in the floor of the exchange. Besides the basic service of executing orders, brokers also provide services such as holding securities for safe keeping, providing information and advice relating to investment alternatives, extending margin loans and facilitating short sales.

b)   Dealers

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

c)   Market Makers:

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

2.1.3   Trading Procedure

Kolb and Rodriguez (1996) examined that NEPSE the only Stock Exchange in Nepal introduced fully automated screen based trading since 24th August, 2007.The NEPSE trading system is called `NEPSE Automated Trading System (NATS) is a fully automated screen based trading system, which adopts the principle of an order driven market. The best buy order is matched with the best sell order. An order may match partially with another order producing multiple trades. For order matching the best buy order is the one with the highest price and the best sell order is the one with the lowest price. This is because the system views all buy orders available from the point of view of the sellers and all sell orders from the point of view of the buyers in the market. So, of all buy orders available in the market at any point of time, a seller would obviously like to sell at the highest possible buy price that is offered. Hence, the best buy order is

the order with the highest price and the best sell order is the order with the lowest price.

a)   Order Collection and Maintenance of Clients Records

Sur (1998) investigated that order collection can be thought of as the starting point of a transaction in which a broker receives instructions from a client and notes those instructions either in writing or direct to a computer record. The main client records are kept regarding transactions, ledger entries of money and security transfers and balances, the name in which securities are registered and the location and from in which they are held, any lines or charges over the securities and details of any authority or power vested in the broker by the client relating to the client's assets.

b)   Order Routing

This is the first step of the transaction process outside the Broker's office. It is the process of transmitting a client's order to the correct place for execution. This might be to the broker's trading representative on the floor of a local or distant stock exchange, to an automatic small order execution system, or to an exchange market such as a computerized over the counter (OTC) market or privately negotiated upstairs market

c)   Quotation Display and Comparison

On reaching the trading place, a client's buy or sell orders are brought together with other orders to begin the price setting process, which is the corner stone of a securities market. They are displayed according to price priority and compared with each other to identify where a trade may be possible. At least the highest bid and offer price plus the last sell price are given, and on some computer systems, the highest five or ten bid and asks are quoted, sometimes together with their associated buy or sell quantities. Order display and comparison systems are provided by stock exchanges or similar market operators (Jacob and Petit,1984)

d)   Order Matching and Selection

Thygerson (1992) analyzed that matching is price bases the buy price must equal the sell price. One method is automatic selection by time priority, in which quotes at the same price are executed in order from the first one entered into the system to the last

one entered. A second method is that where the brokers exercise some discretion, so that from within a group quoting the same price rather than having to deal strictly in time priority. A third computer bases or manual call auctions which do not account for time priority. Finally, a quote driven market displays the bid and asks spreads of the market makers rather than bid and offers prices of investors.

e)   Order Execution

Hirt and Block (1983) studied that manual execution requires a decision and an action by both the buy and sell broker. Fully automatic execution on computer based systems removes the decision to consummate the trade from the control of the brokers and instead executes the trade automatically once order is matched.

2.1.4   Problems of Stock Growth

As in most nascent markets, Nepal also went through a volatile period in its early years. In the section above, three market factors were identified whose dynamics influence the market behavior. Given below is a discussion on some of the problems faced in each of these three areas, especially during the speculative market stage (Pinder1998).

a)   Lack of Tradable Market Instruments

Tradable market instruments in Nepal are limited to equity shares and mutual funds and some debentures. An alternate over the counter market existed for long-term government bonds. Since bond trading was done at par, investors held on to their bonds and this market was very stagnant. In the absence of alternative investment opportunities, the demand of shares built up heavily. This was particularly problematic in the initial speculative period, as it only fueled the price rise of already overvalued shares.

b)   Market Intermediaries and Investors

i)   An Oligopolistic Market Structure

In its early stages, the market had very few active members. There were 50 registered stock brokers. There were only 3 market makers. As a result of this oligopolistic

structure, prices could easily be manipulated with very small transactions. This easily led to transactions be made on a speculative basis rather than on an investment basis. Similarly, when the market makers realized that they could exert tremendous market power, rather than playing a stabilizing role by trading on the basis of company's underlying financial position, the market makers themselves made transactions on a speculative basis which pushed the prices up further.

ii)   Functional Overlaps Amongst Intermediaries

Because of low business volumes, financial intermediaries such as merchant banks and brokers become engaged in multiple functioning, which according to developed country standards would constitute severe conflicts of interest. As a result, market intermediaries can command substantial market power and easily manipulate the market. If not rectified over time, this may lead to a serious abuse of the system with its impending consequences and erosion of investor confidence.

C)   **Economic and Regulatory Environment**

i)   Insufficient Scraps

One of the most common problems in emerging markets is the scarcity of public companies. Typically, in developing countries, business enterprises are small in nature, closely held usually within a family and are highly reluctant to go public. This hesitation usually stems from the fear of making their financial statements public, thus no longer being hidden from tax authorities. This is, by far, one of the biggest reasons in deterring private businesses from going public. Similarly, dealing with shareholders - most of whom are not well educated is rather cumbersome to promoters. They also fear the loss of control to outsiders.

ii)   Competition with the Financial Sector

The growth of the capital market is intricately related to the state of financial markets such as the banking sector and government bond market. Usually, the banking sector plays a competitive role in the development of capital markets. In Nepal, while the banking sector was crucial in developing the capital market, the banking sector also plays a strong complementary role in fulfilling financial needs of businesses. Share

markets are resorted to only when it is mandated by a government directive or if the company leverage has reached very high levels.

iii)   Regulatory Confusion

In Nepal, a Universal Banking modality has been followed. Under this system, deposit taking institutions such as commercial banks and finance companies are also allowed to participate in the capital markets. Since these institutions are regulated by the Central Bank as well as the Securities Exchange Board, the presence of multiple regulators adds to the confusion. A striking example of this is the approval for operation of a mutual fund by the Central Bank even before the establishment of the Securities Exchange Board. In the absence of a coordinated effort whereby these institutions regulate by function rather than by institution, the enforcement capacity of these organizations is heavily undermined.

iv)   Enforcement

Perhaps the biggest problem that emerged in the capital markets in Nepal is the lack of teeth of the enforcement agencies. This can be attributed to several factors:

➢ Inadequate Legal System:

The Securities Exchange Act lacks clarity in terms of the regulatory purview of the Securities Board over the market intermediaries. It does not vest sufficient powers on the Board to issue and enforce the rules and guidelines. Rules and Regulations can only be issued with the approval of the Cabinet. More than four years after the Board's establishment, this has yet to be amended. Another example of this weak legal infrastructure has been the outdated Companies Act. This Act is yet to be amended to include the information reporting standards and accounting standards required for publicly traded companies and timely ownership transfers to ensure liquidity in such a market.

➢ Fear of Regulatory Overkill:

Market intermediaries are usually few in number and are engaged in multiple activities. At this infancy stage, regulators are constantly plagued with the dilemma of acting as a market promoter versus a market regulator. Regulators are worried of an

"overkill" which may have a ripple effect in terms of investor confidence. This often results in extended forbearance with detractors. In a non-competitive, nascent market, regulators are often unable to enforce rules strictly.

➢ Ownership:

A unique problem for proper enforcement in Nepal has been the ownership structure of institutions in Nepal. The Nepal Stock Exchange, instead of being owned by brokers, is still owned by the Central Bank, Government and a semi-government enterprise, the Nepal Industrial Development Corporation. Hence, the Stock Exchange has yet to emerge as a self-regulatory body.

2.1.5 Suggested Policy Responses

Some of the policy responses that need to be taken by the regulators as well as the government are as follows: (Serlif,2010)

a) Increase Supply of Tradable Securities

i) Increase variety of market instruments

In the initial speculative period, the demand for market instruments is heavy. In Nepal, fortunately, the liberal economic policies adopted enabled more tradable scraps to be issued and listed. However, there was no variety in the types of instruments available for trading. Government bond trading was virtually stagnant. Corporate bonds did not exist. The Government ought to allow for a more variety of market instruments. Introduction of bonds, especially government bonds, in the primary and secondary market would have been very timely.

ii) Provide Fiscal Incentives

Policymakers should also increase the supply of tradable companies on the Exchange. This is achievable only through fiscal incentives by the government. A two tier corporate tax structure should be set up in favor of public companies. Since debt financing allows for more tax deductibility, alternative incentives should also be considered so that companies do not necessarily favor debt financing over equity financing. These measures could be a tax exemption for newly listed companies, a

tax deduction of a certain percentage of costs of going public, or even a tax deduction of a certain percentage of profits distributed to public shareholders.

iii) Issue Mandatory Legal Requirements

Mandatory laws and regulations requiring public offering by companies is quite effective in increasing the supply of corporate scraps. For example, all commercial banks and finance companies are required to issue a minimum of 30% of their capital base. Similarly, privatized firms are mandated to make a public float of 25% of their capital base.

iv) Create Favorable Legal Environment

It is very important that corporate law, particularly, the Companies Act, is supportive of public issuance and does not have stiff requirements and procedures in going public, without sacrificing accounting and information disclosure requirements. Ultimately, the transaction cost of raising capital from the public has to be low enough in comparison to alternative financial mobilization vehicles. This is one area where Nepal has had considerable problems with the Companies Act, as exemplified by the fact that a minimum of 35 days is required by the Companies Act before a share transfer can take place.

B)   Maximize Competitive Forces in the Market

i)   Increase Number of Intermediaries

As in all nascent markets where the size of the market is very limited, there are naturally few players. However, it is important that no one institution can command significant market concentration making it easier to manipulate the markets. To this end, policymakers should try to create as much of a competitive atmosphere as possible. For this, policymakers need to license more intermediaries. Not only should the number of intermediaries be maximized, but even their type and activities they can undertake should be increased while keeping their roles separate.

ii)   Promote Individual and Institutional Investors

Similarly, while the presence of institutional investors is important, the timing of their entry into the market is critical. Since they build up a substantial demand in the market, their entry should be timed only after there is a good increasing trend of the tradable number of scraps. However, once the market has entered a stable and a more mature period, collective investment vehicles such as institutional investors (mutual funds, pension funds) should be introduced.

c)   Develop Stronger Regulatory Environment

Some of the issues pertaining to the development of a healthy regulatory environment are:

i)   Strengthen Oversight Agency

The Securities Exchange Board (SEB) is the oversight authority which should regulate all aspects of capital markets. Given the nature of the financial sector in Nepal, an institution may be under the regulatory purview of different agencies such as the Central Bank, Office of Company Registrar or SEB. Hence, regulation should be by function, i.e. through guidelines issued for that particular capital market function, instead of by parentage.

ii)   Timely Amendments in the Legal Framework

As far as possible, capital market related activities should be encompassed within a centralized Act. It is inevitable that some duplication or conflict may occur between different acts, and that the existing legal framework may be inadequate. But regulatory development is an evolutionary process requiring continuous modifications as circumstances dictate.

iii)   Develop Self Regulatory Structure

An important element in capital market regulation is the presence of self regulatory bodies such as a Stock Exchange which is owned by brokers and develops its own rules and standards. Similar self regulatory organizations like Merchant Bank's Association and the Institute of Chartered Accountants should be encouraged. This

level of regulation is conspicuously absent in Nepal. This is vital to develop the quality and integrity of the profession.

iv)   Increase Information Disclosure

In a limited market, it is probable that price manipulation takes place due to insider information which is extremely difficult to prove and take action upon. While this is a part of the regulatory function, the importance of adequate information dissemination cannot be overstated. Today, the annual publication of the Stock Exchange contains financial statements of listed companies only through 1994. Financial data is not readily available nor are uniform accounting standards applied. Hence, stock exchanges should try to disseminate as much timely public information as possible on corporate financial performance, which will stabilize any speculative trends in the market.

D)   Liberal Economic Policies and Economic Growth

A healthy macroeconomic environment supported by favorable economic policies leading to increased savings and investments is the prerequisite for a stable and healthy growth of capital markets. For example, in many emerging markets, privatization of state owned enterprises has played a crucial role in promoting capital markets. Privatized enterprises have constituted a significant portion of primary issues in Nepal. Ultimately, the status of capital markets is a reflection of the state of economic growth of the country.

2.1.6   Malpractices in Share Market

Various irregularities exist in Nepal's Share Market. Although these irregularities generate income to certain group, general investor suffers from this. To build clear and transparent share market, the individual and institution, who inspect share market, should always remain aware. The irregularities that exist in Nepal's Share Market are: (Bhattarai:2017)

a)   Pooling

In this irregularity, a certain group buys and sales share of certain company within themselves in order to rise up the price of share by displaying the maximum number

of shares transaction to the general public. And when the price reaches its zenith, the pooling members sells the shares and the share price, which rose up unnecessarily without any specific basis declines as a result the general investors, who buys that share with the hope of price rise, have to bear a great loss.

b)   Cornering or Warehousing

The individual or group involved in this irregularity buys all the shares of certain company. As a result, the share of such company is limited to a single person or group and invites scarcity of share of such company. The supply of such share becomes low and demand will be high. On the increased demand of share, the person or group involved in cornering or warehousing sells in small lot, takes the share price to the maximum height and sells the remaining shares in high price.

c)   Organized Runs

In organized runs, an active group flow an unnecessary rumor of certain company to influence share price. The main objective to flow such rumor is to fascinate the investor in the share and to sell the shares of the individual doing organized transactions. Both capital gain and prompt sale are achieved from this organized runs.

d)   Ramping

To attract investors by displaying fast transactions of the shares dramatically just before the last movement of share transactions in the market and to make profit from such runs is ramping. From this fast raising of share price, the general investor guess that the demand for that company's share is high and will increase further in future.

e)   Wash sale

Wash sale is not actually a sale of share. Actually, the person involved in it sales shares to his family and relatives and indicates that the share price of certain is in decreasing/increasing. In this, the person sells share to himself in low price and indicates the price fall in the market and finally buys the share in low price to reap profit. The person involved in this does such activity with the aid of broker.

f)   Matching

If a same broker gets both selling and buying order, then matching can occur. The broker may decrease the price if he is closer to buyer and may increase the price if he is closer to seller to match the order. However, this kind of activity has been prohibited from Ashad, 2062 B.S.

g)   Insider Training

The transaction done with the aid of confidential information of company is called Insider Trading. On the basis of unpublished information especially if the company's staff, director or executive takes advantages by buying/selling the share of same company, then it is called Insider Trading. For example, if the board of directors decides to distribute dividend but such decision has not been publicized and on the basis of this decision, the decision maker and other company staff, knowing the decision, collects the share of the company and sells after the price increment or takes the bonus share, then this kind of transaction is known as Insider Training.

2.1.7   Improvement and Prospects of Nepalese Stock Market

The amendment in the securities exchange act and the guidelines were some of the measure taken to improve in the legal and statutory Framework. Nowadays, different measures have been taken to improve the performance of stock market and all the improvement activities will be prospects of Nepalese Stock Market, which are given below:

a)   **Full Automation.**

Nepal Stock Exchange introduced fully automated screen based trading since 24th August, 2007. The NEPSE trading system is called NEPSE Automated Trading System (NATS) is a fully automated screen based trading system, which adopts the principle of an order driven market. NEPSE facilitates trading in Shares (Equity Shares & Preference Shares), Debentures, Government Bonds and Mutual Funds. The system has helped eliminate all possible human errors as seen in the open out-cry trading procedures. Several international practices have been incorporated to make the system internationally compatible and modifications have also been made to

customize the existing rules and regulations of the country.

b)   Online Trading

Recently, talks have surfaced that there is a high possibility of introduction of online trading system in NEPSE. A technological advancement of such a magnitude will surely induce a never-seen-before bull run in the market. Historical cases have shown that, technological advancements in the stock markets lowered the entry barrier to trading leading to a tremendous increase in the prices and indexes. The impact of new infrastructure was visible as NEPSE rose to a historical high with the introduction of CDS (Demat) system during fiscal year 2072/2073. With the online trading in operation, the market will see many new investors from inside and outside the Kathmandu Valley. Moreover, Nepali citizens working or living in foreign lands can also participate in the stock market rising up the transactions and turnovers.

c)   Market Halt System Introduced

NEPSE introduced a string of measure to stabilize the volatility of the stock market. Previously, NEPSE used to halt transactions of respective individual company by imposing the circuit breaker whenever share prices of the companies move up or down over 10 percent in a single day transaction.

As per new measure, it can also suspend the whole market trading, which is known as index based circuit breaker or market halt. The index-based circuit breaker system applies at 3 stages of the NEPSE index movement of 3%, 4% and 5%, These circuit breakers when triggered bring about a trading halt in all equity. In case of 3% movement either way, there would be a market halt for 15 minutes if the movement takes place during first hour of trading i.e. 12Noon. In case this movement takes after12Noon there will be no trading halt at this level and market shall continue trading.

In case of 4% movement either way, there would be a market halt for half an hour if the movement takes place before 14:00 hours. Similarly, this movement takes after 14:00 hours there will be no trading halt at this level and market shall continue trading. In case of 5% movement in either way, trading shall be halted for the remainder of the day.

d)   Trading Hours Extended

From 19 December 2007 NEPSE has increased the trading hours by one hour due to an increasing trading pressure after the automation of trading. Initially, NEPSE opened its trading activities for only two hours. Now the trading floor opens from 11. AM to 15.PM. NEPSE has expected that investors in general and small investors in particular will benefit from the increase in trading hours.

e)   Real Time Information Disseminated

NEPSE has started providing real time information (live trading activity) to investors from 28 November 2008. Due to this facility investor can check share prices online from anywhere live during the trading hours. Additionally, without any time gap investors can check trading activities like top-gainers, top-losers, imposition of trading halt and resumption on NEPSE's web page.

f)   Trading of Promoter's Shares

NEPSE began trading of promoters' shares on 31 March 2008, adopting a different price quoting mechanism for the first trading of promoter's shares of the listed companies. For the first trading, the price of the promoter's share of a company that has a positive net worth could not be less than five times of its net worth per share or half of the current market price of the ordinary share, whichever is low. Similarly, in the case of a company that has a negative net worth, the first trading price couldn't be below half of the current market price of the ordinary share. Earlier, one could have traded the promoters' shares on the basis of the   market price of the ordinary share. It is expected that trading of promoters' shares will make the capital market more vibrant and stabilizes the prices of ordinary shares.

g)   Publication of Newsletter, Monthly Market Statistics and Review

In its bid to make investors more aware of the secondary market NEPSE launched an English language newsletter, called 'NEPSE Newsletter', on 20 March 2008.Published once every two months, the newsletter will provide information on capital market activities. The newsletter will help reduce uncertainty and provide greater market efficiency   through the dissemination of relevant information to investors

and other concerned agencies and persons. NEPSE has also started publishing Monthly Market Statistics and Review from April 2008. It covers the secondary market related activities on a monthly basis.

h)   OTC Market Started

NEPSE started the over-the-counter (OTC) market from 4 June 2008 to give shareholders a chance to sell or buy the shares of companies that are de-listed and that are not listed on NEPSE for failing to meet the listing criteria. The shares of 40 companies can now be traded in the OTC market.

i)   NEPSE Converted to Profit Seeking Entity

The Annual General Meeting of Nepal Stock Exchange Limited was held on 29th of Paush, 2075 at 4:00 pm within the NEPSE premises under the chairmanship of Mr. Laxman Neupane, Chairman of NEPSE. At the AGM, the proposal to distribute 66.67% bonus shares to its shareholders has been approved. The AGM also resolved the proposal to increase company's total capital to Rs.50 crore which includes authorized capital, issued capital and paid up capital resulting to total 50 lakh units of share has decided to convert the organization into a profit seeking entity. The Company Registrar Office approved the decisions made at the AGM.

j)   Margin Trading Facility to Brokers

Talks have surfaced that the government is mulling over to facilitate brokerage firms to conduct margin trading. If the plan materializes, then the investors would be able to trade with more capital than they would without the facility. Thus, the Nepse still has a room to grow and the upcoming days signal a walk in the positive direction. However, investment in securities is subject to market risk and one must utilize his/her knowledge on the market potential and risks before jumping into investing funds.

k)   Increasing Awareness About Share Market Among General Public

Considering the recent developments and ease of trading with the Demat system, there has been a rise in number of the general public who are gradually becoming more aware about the stock market. The last years Bull Run has had an impact on the

public psyche that investing in stocks can bring favorable returns. People from all walks of life can be seen these days in the trading platforms around Kathmandu Valley, learning enthusiastically about the market movements and future prospects. Thus, there has been a rise in the level of awareness among general public which will lead to an increased level of investment moving the market towards growth. Disclaimer: Although the long term growth prospects in the NEPSE seem favorable to the investors. The short term scenario is quite different as market is showing volatile movements lately. Moreover, Investment in stock market is purely subjected to market risk and all the factors must be self-judged by the investors before buying stocks. Thus, one should consider this article as an aid in market analysis rather than a marketing call to invest in shares. We hope this article helps you to firm your investment decisions.

l)   CDS and Clearing Limited

CDS and Clearing Limited, a company established under the company act is a company promoted by Nepal Stock Exchange Limited (NEPSE) in 2010 to provide centralized depository, clearing and settlement services in Nepal. The company is inaugurated on 31st March 2011.

The main objective of the company is to act as a central depository for various instruments (Equity, Bonds, and Warrants etc) specially to handle securities in dematerialized form. This organization is entrusted with the safekeeping, deposit, and withdrawal of securities certificates and transfer of ownership/rights of the said instruments. The depository functions will be performed by the company under the securities regulations of Securities Board of Nepal (SEBON).

CDS and Clearing Limited perform its functions through a network of Depository Participants (DP's) who interact with investors. Further the system has the clearing system for clearing members of NEPSE for settlement and for issuers and RTAs for Demat and shareholder's functions. The core functions carried out are: -

   a)   Enabling the deposit and withdrawal of securities through a process called the dematerialization and materialization to and from the depository.

   b)   Maintaining the investors holding in the electronic form.

   c)   Effecting settlement of securities traded on the stock exchange.

d) Carrying out settlement of 'off market trades'.

e) Providing secure and convenient electronic procedures for pledge of securities.

f) Advising periodically to the Share Registrar / Issuer about the beneficial owners of the securities.

g) Electronic credit of securities allotted in public issues, right or bonus issues or of Demat accounts, so that debit from the account is not permitted.

h) Power of Attorney, nomination during any other corporate actions.

i) Freezing facility for Demat accounts.

2.2 Theoretical Concept

The research is based upon the problem and prospects of the stock market and trend of stock market. So, the variables are described below.

Capital markets have remained on the periphery of national financial systems. Economic literature has identified several policy and institutional impediments to capital market growth in developing countries. These converge on high entry barriers in the securities industry, lack of competition, restricted foreign access to domestic equity markets, government control over operations of securities companies, weak regulatory frameworks, and inadequate supervisory mechanisms. Many governments moved towards reducing these impediments in the 1980s and 1990s, when they were under growing pressures to reform capital markets as part of broader financial liberalization programs, (Singh 2018). This shows the problem of capital market and prospects for future development.

The liberalization of capital markets has been accompanied by the privatization of state-owned enterprises (SOEs). In many developing and emerging market countries, privatization programs have been enacted to stimulate the development of equity markets as well as to increase government revenues and promote economic efficiency.

2.3   International Studies

Paul (2016) examined the development of world capital market appears to be reaching the state where they can make significantly greater contribution to world economic growth and trade. More importantly, the groundwork has been laid for the healthy development and future growth of international capital markets. Barring the intervention of war or other major disturbances, world capital market give promise of being able to play and increasingly important, through no predominant role in the movement of capital internationally.

J. Sticht (1998) explained the economic growth in a modern economy hinges on an efficient financial sector which pools domestic savings and mobilize foreign capital for productive investment. Without an effective set of financial institutions, productive project may unexploited. Inefficient financial institutions will have the effect of taxing productive investment and thus reducing the scope for increasing the stock of equipment needed to compete globally. Inefficiency can substantially cut growth from the levels that might have been possible given appropriate policies and market structures.

This studies focus on the link between growth and capital markets, in particular stock markets explores the latest research on this subjects and present empirical evidence indicating that stock markets are indeed important to economic development of paramount importance is their efficiency. This means that assets are traded at 'fair' prices: The seller does not sell too cheaply, and the buyer does not pay too much for the assets and information about the assets must be really available. Securities is a mechanism created to facilitate the exchange of financial securities or assets bybringing together buyers and sellers of securities (Sharpe, 1998). Thus, the market place for these financial securities is called securities market which is further subdivided into the primary and secondary market. The former market denotes the market for newly issued securities to the public whereas the latter market refers to the market for secondhand securities, traded previously in the primary market (Francis, 1991).

2.4   Nepalese Studies

Gurung (2006) found that Nepal Stock Exchange Ltd is only the main constituents of securities market in Nepal.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 markets providean effective way of procuring long-term funds by issuing shares and debentures or bonds for corporate enterprises and government and at the same time provide an investment opportunity for individuals and institutions (Adhikari 2017). Regmi (2018) examined that another channel through which stock markets may positively affect capital accumulation and economic growth is the improvement of risk diversification through international financially integrated markets. The study concluded that an increase in the degree of international integration of stock markets reduces the level of average investment risk through diversification and leads to a shift in the global portfolio from safe low-yield projects to riskier high-yields projects. Moreover, the Nepal Stock Exchange should improve the trading system in order to increase the ease with which investors can purchase and sell shares, thus guaranteeing liquidity on the stock market. Besides, stock market reformation policies may give a further support to the economy and may act as a key enabler and catalyst of economic growth.

Kharel (2017) revealed that the development of stock market primarily depends on program and their implementation. Moreover, lack of investor's confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM. The study also found that earning per share and dividend per share of banking sector & Earning per share, dividend per share of finance and insurance sector have positive impact in market capitalization (Shrestha, 2017). According to Dawadi (2018) the behavior of stock price of listed commercial bank in NEPSE the efficiency of stock market in pricing shares. The study concluded that the commercial banking sector is highly sensitive in the Nepalese stock market. Thapa (2015), investigated the qualitative as well as quantitative factors affecting the sock price in Nepalese commercial banks. The study found that the interest rate retention ratio, cost of equity, Market liquidity change in management do not significantly affect the share price in NEPSE. Shah (2017) examined the impact of cash dividend on market price per share.

The study concluded that the market inefficient has affected the market price of the share in all the firms.

Equity market has shown impressive recovery from the sharp fall in 1994 with the lag effect elongated till late 2019. After the subsequent three year of bearish trend in the market, few capital market indicators show a ray of hope during the fiscal year 2016/17. NEPSE index, market capitalization and trading volume have increased marginally during this year. This could be the correction in the continuous decrease in the market in the last two years as well as the decrease liquidity in Nepalese financial market. Gradually fall in the bank deposit interest rates. Investor's hope for political settlement in the future has also played an important role for the investors' confidence toward the market. The improvement in the equity market has been attributing to various factors including good prospect of corporate earnings and broader household participation in the stock market. Investors not only rely on the statement of the brokers, but they also have a concern over the financial information of the concerned company. Therefore, the shares of companies with better prospect of dividend, capital increment and growth have normally higher prices in the stock market. Recent rise in equity prices can also be attributed to the causing excess liquidity in the market. Investors without any credible investment opportunity have diverted their resources towards the stock market. At present, the stock market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertakings. Stock market in Nepal has been growing gradually both in terms of turnover as well as the capital investment. They grew to 1387million in 1993/094. Market capitalization of listed shares has been rising continuously, except with a few cases of volatility. It has reached Rs 143514 million in 2017/18. Though the annual turnover is much volatile, it has reached Rs. 12140 million in 2017/18 to the highest level of Rs. 20502 million in 2016/17.

2.5   Research Gap

The review for mentioned literatures makes it clear that problem and prospects of stock market growth in Nepal is the rare recent study in Nepal. More over previous researchers only focused to stock market development, relationship between stock market & economic growth. Market situation & investors behavior. Development & expansion of capital market is essential for rapid economic growth of country. Thus

primary stage of economic development & stabilization of Nepalese stock market can play a crucial role. The review of above literature also makes clear that development of Nepal stock market problem and prospects. Hence, Nepal stock market's problem and prospects in Nepalese capital market performance can be analyzed in terms of Nepse Index, Annual Turnover, no of share and company traded, no of company listed, paid up Capital, no of transaction & listed securities and opinion Survey. None of the above thesis encompasses the present technology like Trading through CDS and clearing limited, adopted by NEPSE in 2012. Also, the malpractices like pooling, washable, insider training have not been mentioned in previous thesis. To overcome such research gap, the study has been conducted including all the problems, malpractices existing in the stock market at present and to predict the prosperity of stock market on the basis of current trading system and new techniques adopted.

CHAPTER - III
RESEARCH METHODOLOGY

This chapter is dedicated to explain the methodology of this study. This chapter consists the definition of indicators, scope of the study, research design, nature and source of data, tools and techniques used to attain objectives of this study.

Research methodology describes the methods and process applied in the entire aspect of the study. In other words research methodology is a systematize way to solve the research problem. Research methodology refers to the various sequential steps (along with a rational, of each step) to be adopted by a researcher in studying a problem with certain object in view (Cothari, 1999). A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used. This chapter focuses and deals with the following aspects or methodology.

3.1 Research Design

This study is carried out in the contest of Nepal, for the period 1993/94 to 2017/18. Quantitative study have been employed for this study. Both primary and secondary data are used for this study. The 25-year data of factor affecting stock market are analyzed for secondary study. While, structured questionnaire was used to collect the data for quantitative study. The survey was made amongst brokers, prospect investor and potential investors. This study is carried out to get the empirical result of stock growth. To conduct the study, both analytic and descriptive research approach are adopted for the reality available historical data. Firstly, the variables under study were described using descriptive statistics (frequency, mean, standard deviation, percentage). All the data used in this study are primary and secondary in nature.

3.2 Population and Sample

The population of this study is 50 brokers' prospective investors and general investors from Kathmandu valley. The sample of 15 brokers, 15 prospective investors and 20 potential customers is taken. The sampling method used for this study is purposive sampling. Similarly, for secondary data, the data of 25 years (from 1993 to 2017) is taken to analyze the growth, prospects of the stock market and factor affecting stock market.

3.3 Nature and Sources of Data Collection

To fulfill the predetermined objectives that are set up for the study, both primary and secondary sources are included. The secondary data was obtained from the central office of Nepal Stock Exchange (NEPSE), Singhadarbar, Security Board Office, Jaulakhel, Lalitpur and economic survey published by Ministry of Finance. Annual report of SEBON and NEPSE are considered the main source of secondary data. Besides these, various bulleting available, websites, journals are also taken into consideration. The primary data are collected from field survey. Structured questionnaire is provided to the investors and brokers.

a. Primary Data

The primary data were collected from the field directly during survey period using questionnaire. The researcher conducted mainly questionnaire other; interview, discussion, and made direct observation to obtain required information.

b. Secondary Data

The secondary data were collected from the secondary sources. These secondary sources consist of two sources.

i) Internal Sources:
   a) Annual report of SEBON from the fiscal year 1993/94 to 2017/18.
   b) Prospectus of NEPSE and SEBON
   c) Website of NEPSE and SEBON
   d) Booklets etc.

ii) External Sources
   a) Books and publications
   b) Journal and articles.
   c) Local newspaper.
   d) Previous reports etc.

3.4 Organization of Data and Processing

Data collected from questionnaire are in row form. They are classified and tabulated in the required format. Simple arithmetic percentage tools and ranking are used for analyzing in primary data. Data collected from secondary sources are analyzed and presented in bar diagram, pie chart and percentage. Various financial and statistical tools have been used in this study. The analysis of data will be done according to pattern of data available. The relationship between different variables related to study topic would be drawn out using financial and statistical tools. The various calculated results obtained through financial and statistical tools are tabulated under different headings; they are compared with each other to interpret the result.

3.5 Tools and Techniques of Data Analysis

Statistical tools are used to implicit the comparative results are as follows:

a) Mean ($\bar{x}$)

Mean is the simplest and most commonly used statistical tool. Mean or average is the sum of all observation divided by the number of total observation. In this study, it measures the variability of stock prices. It can be express as:

$$\text{Mean } \bar{x} = \frac{x_1 + x_2 + x_3 + \dots + x_n}{N}$$

$$\bar{x} = \frac{\sum x}{N}$$

Where, $\bar{x}$ = Mean $or\ Average$

X = Sum of variables $X_1 + X_2 + X_3 + \dots X_n,$

N = Number of observation.

b) Standard Deviation (S.D.)

It is quantitative measure of total risk. It provides more information about the risk of the assets. The standard deviation is the square root of the variance of return around the mean. The following formula is applied to calculate the standard deviation, using historical returns:

$$\delta = \frac{\sqrt{(x - \bar{x})^2}}{N}$$

Where, $\bar{x}$ = Realized rate of return at a time

= *Expected required* rate of *return.*

N = Number of observation in sample

High standard deviation indicates the high risk and low standard deviation indicated the low risk.

c) Coefficient of Variation (C.V)

Coefficient of variation is a suitable measure for comparing variability to two series. It measures the risk per unit, which can be express as:

$$C.V = \frac{\delta}{\bar{x}}$$

Lowest C.V indicates the low variability in variable 'v a r i a b l e s are more consistent, more homogeneous, uniform or more stable and greater C.V indicates the higher variability in variables.

d) Correlation Coefficient (r)

It is a useful statistical tool for measuring the intensity of the magnitude of linear relationship between two variables. The most important method of measuring the correlation between the two variables is "Karl person's coefficient of correlation." If the values of the variables are directly proportional, then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation coefficient always remains within the limit of +1 to -1. The correlation coefficients (r) between two variables X and Y can be obtained by using following formula;

$$r = \frac{\sum x_1 x_2}{\sqrt{\sum x_1{}^2 \sum x_2{}^2}}$$

Where,

r = The Correlation Coefficient between two variables X and Y

The interpretation of calculated value of correlation coefficient by following way.

a)   If r = 0, then there is no correlation between variables.

b)   If r > 0, then there is positive correlation between variables.

c)   If r < 0, then there is negative correlation between variables.

d)   If r = +1, then there is perfect positive correlation.

e)   If r = -1, then there is perfect negative correlation.

e)   Graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

f)   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.

g)   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.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This section provides interpretation and analysis of secondary data. Thus this section IV exclusively devoted for the analysis of common stocks of different companies through price trends, signaling factors impact on NEPSE index with the help of NEPSE index provided by Nepal Stock Exchange Center, volume of stock traded, Rate of listing of New Companies in Secondary Market and maintenance of them in NEPSE is considered. For doing such presentation statistical tools such as regression analysis, bar diagram, pie chart, t-statistics are used.

4.1   Trend of Capital Market Indicators.

A capital market can be either a primary market or a secondary market. In primary market, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local or national) and business enterprises (companies). Governments issue only bonds, whereas companies often issue both equity and bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary market, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere. Hence to know the capital market growth we have to know about the trend of various indicators of stock market indicators. They are explained below.

4.1.1   NEPSE Index

Market indexes are used to determine the relationship between historical price movements and economic variables and to determine the systematic risk for individual securities and portfolios. The index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of stocks that is increasing or decreasing in the market. Because the prices of stocks go up and down in a particular period compared to the previous period as disclosed by index. The highest index suggests the increase in market price of the stocks and

implies the better performance of companies and vice-versa. Thus the NEPSE index shows the behavior of stock prices in the capital market.

The computation formula for price index is as follows:

$$\text{Index} = \frac{Today's\ total\ market\ value}{Base\ day\ total\ market\ value} \times 100$$

$$= \frac{\sum P_1 \times Q_1}{\sum P_0 \times Q_0} \times 100$$

Where,

P_0= NEPSE Price Index

P_1= Today's Stock Price

Q_1= Listed Shares (i.e. no. of Shares Outstanding)

Q_0= Base Listed Shares.

Table 4.1 NEPSE Index

Fiscal year	NEPSE INDEX	Fiscal year	NEPSE INDEX	Fiscal year	NEPSE INDEX
1993/94	226.03	2002/03	204.86	2010/11	362.85
1994/95	195.5	2003/04	222.04	2011/12	389.74
1995/96	185.6	2004/05	286.7	2012/13	518.33
1996/97	176.31	2005/06	386.83	2013/14	1036.11
1997/98	163.35	2006/07	683.95	2014/15	961.23
1998/99	216.92	2007/08	963.4	2015/16	1718.15
1999/2000	360.7	2008/09	749.1	2016/17	1582.67
2000/01	348.43	2009/10	477.73	2017/18	1212.36
2001/02	227.54				

(Source: Trading Reports, NEPSE)

Due to a whopping increment in the share prices of banks, financial institutions, hydropower companies and development banks, the NEPSE index increased notably over the year. The restoration of peace, an improvement in listed companies, financial performance and, most importantly, the central bank's latest direction and regulation for banks and financial institutions contributed to a remarkable increment in share prices and subsequently falling the Nepse Index in last two years.

The stock market opened with the NEPSE index of 226.03points at the starting of the F.Y 1993/94, and ended with 1212.36 points in the F.Y 2017/18. The NEPSE index increased highest (1718.15) in the fiscal year 2015/16 and the lowest index was 163.35 points in the fiscal year 1997/98

Figure 4.1: NEPSE Index
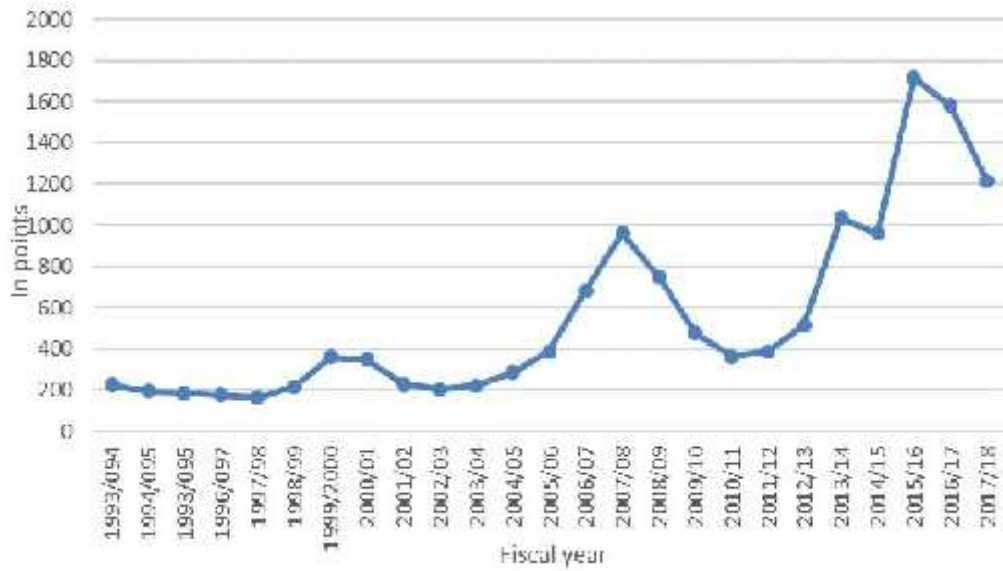
4.1.2 Market Capitalization

This indicates the total market value of the listed companies during the research period. The total market capitalization of listed companies in the twenty-five-year period is presented in the Table 4.2.

Table 4.2 Market Capitalization

Fiscal year	Market cap (in million)	Fiscal year	Market cap (in million)	Fiscal year	Market cap (in million)
1993/94	1387.2	2002/03	3524.04	2010/11	32348.43
1994/95	1296.3	2003/04	4142.5	2011/12	36826.21
1995/96	1229.5	2004/05	6136.59	2012/13	51449.21
1996/97	1269.8	2005/06	9676.37	2013/14	105716.58
1997/98	1428.9	2006/07	18630.13	2014/15	98940.04
1998/99	2350.8	2007/08	36624.76	2015/16	189013
1999/2000	4312.33	2008/09	51293.91	2016/17	185682
2000/01	4634.94	2009/10	37687.14	2017/18	143514
2001/02	3470.4				

(Source: Trading Reports, NEPSE)

The table 2 shows that the market capitalization of the listed companies followed fluctuating trend. The market capitalization ranged from Rs 1387.20 million in the fiscal year 1993/94 to Rs 143514 million in the fiscal year 2017/18 The market capitalization increased highest (185682) in the fiscal year 2016/17 and decrease highest (1229.5) in the fiscal year 1995/96. The market capitalization in the recent last five years are increasing trend due to increase in paid up capital of bank and final.

Figure 4.2: Market Capitalization
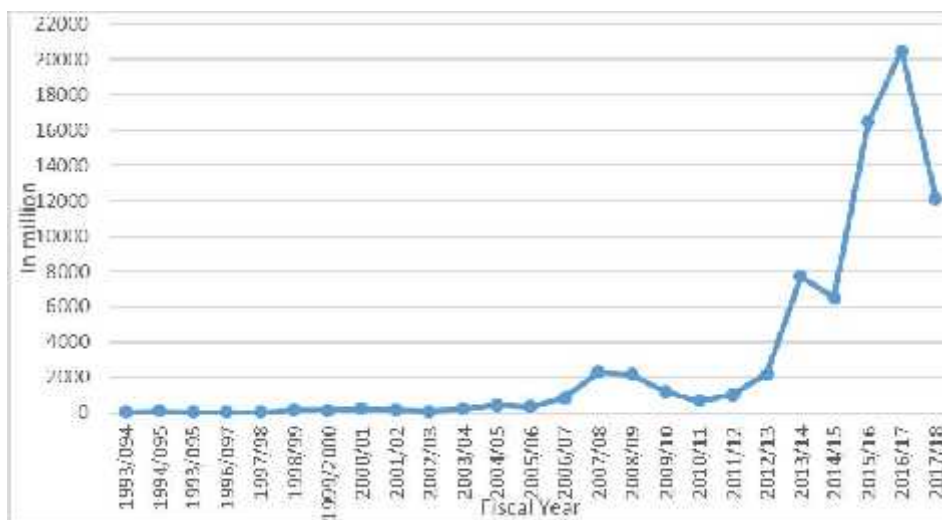
4.1.3 Annual Turnover

The annual turnover in the twenty-five fiscal year period is presented in the Table

Table 4.3 Annual Turnover

Fiscal year	Annual turnover In million	Fiscal year	Annual turnover In million	Fiscal year	Annual turnover In million
1993/94	44.16	2002/03	57.6	2010/11	666.53
1994/95	105.43	2003/04	214.43	2011/12	1027.28
1995/96	21.56	2004/05	450.77	2012/13	2204.89
1996/97	41.62	2005/06	345.14	2013/14	7729.86
1997/98	20.26	2006/07	836.01	2014/15	6533.16
1998/99	150	2007/08	2282.08	2015/16	16465.17
1999/2000	115.7	2008/09	2168.11	2016/17	20502.14
2000/01	234	2009/10	1185.11	2017/18	12140.13
2001/02	154.06				

(Source: Annual Reports, NEPSE)

The table 3, shows that the average turnover of shares ranged from 44.16million in the fiscal year 1993/94 to 12140.13 in the fiscal year 2017/18. The annual turnover in FY2016/17 is20502.14. The region behind increase heavily turnover is the NRB directive for the increment of paid up capital and public awareness for the capital market.

Figure 4.3: Annual Turnover
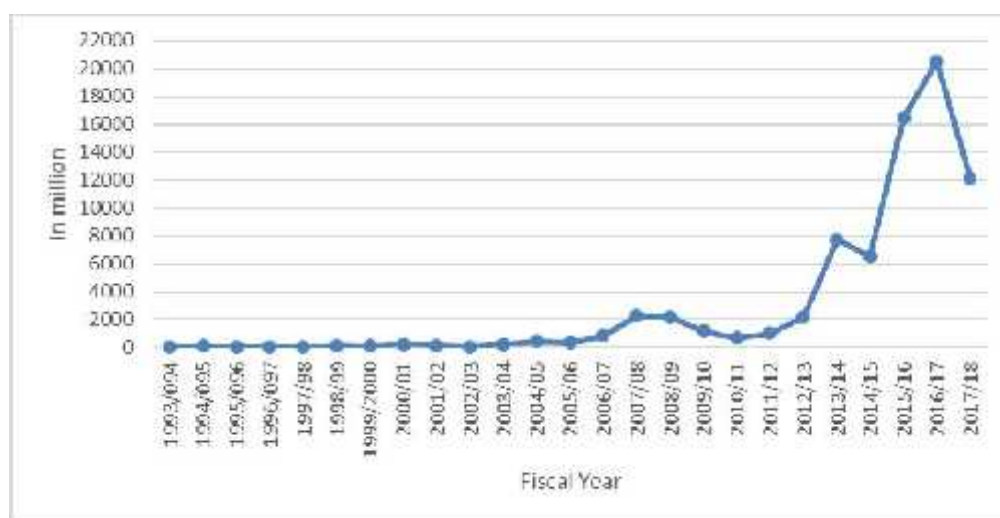
4.1.4 Paid up Capital

To find out the increase/decrease in the total paid up capital of listed companies, the paid up capital in twenty-five fiscal year period is taken. Twenty-five year's paid up capital also clarifies the trend that the NEPSE paid up capital is following. The paid up capital of listed companies is presented in the Table 4.4.

Table 4.4 Paid up Capital

Fiscal Year	Paid up capital In million	Fiscal Year	Paid up capital In million	Fiscal Year	Paid up capital In million
1993/94	218.22	2002/03	1189.8	2010/11	10023.8
1994/95	296.18	2003/04	1201.6	2011/12	11061.09
1995/96	335.85	2004/05	1677.18	2012/13	13906.24
1996/97	447.65	2005/06	1995.8	2013/14	14753
1997/98	495.98	2006/07	2174.6	2014/15	21058.86
1998/99	648.74	2007/08	2946.5	2015/16	20401.96
1999/2000	734.74	2008/09	6114	2016/17	28959.1
2000/01	793.9	2009/10	7935.6	2017/18	35290.14
2001/02	868.02				

Source: Annual Reports, NEPSE

The table 4 showed that the total paid up capital of companies listed in NEPSE is in increasing order. The paid up capital increased from Rs 218.22million in the fiscal year 1993/94 to Rs35290.14millions in the fiscal year 2017/18. The table shows that

along with the increase in the number of company's listings in NEPSE, the paid-up capital of the listed companies has increased.

Figure 4.4: Paid up Capital
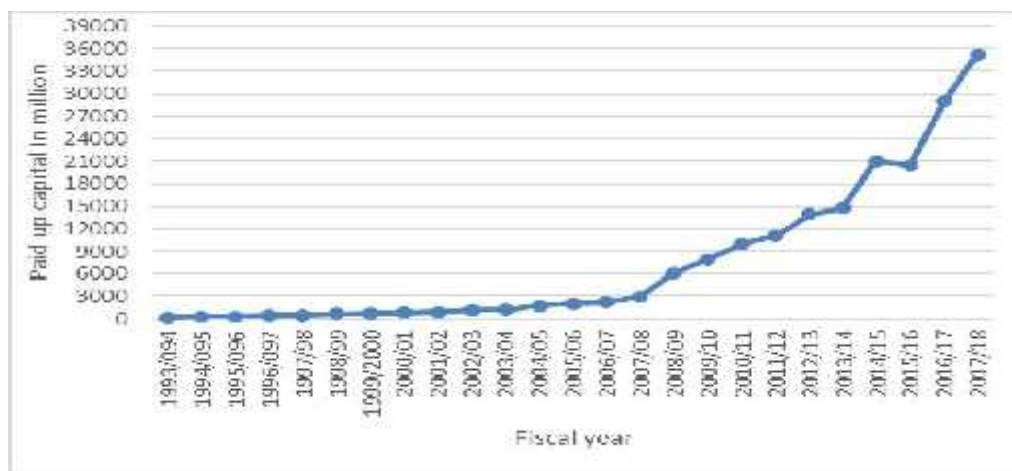
4.1.5 Number of Listed Company

To transact shares in the secondary market, the company should be listed on the NEPSE. The number of transaction of listed companies indicates the increasing/decreasing trend of the transactions. The number of companies 'transactions of listed company in the NEPSE during the twenty-five-year period is depicted in the Table 5.

Table 4.5 Number of Listed Company

Fiscal year	No. of Listed Companies	Fiscal years	No. of Listed Companies	Fiscal years	No. of Listed Companies
1993/94	66	2002/03	108	2010/11	207
1994/95	79	2003/04	114	2011/12	216
1995/96	89	2004/05	125	2012/13	228
1996/97	95	2005/06	135	2013/14	232
1997/98	101	2006/07	135	2014/15	232
1998/99	107	2007/08	142	2015/16	229
1999/2000	110	2008/09	159	2016/17	208
2000/01	115	2009/10	176	2017/18	96
2001/02	96				

Source: Annual Reports, NEPSE

The table No.5 shows that the listed companies in the twenty-five-year period. In the fiscal Year 1993/94 the no of listed company is only 66 and 96 companies in the fiscal year 2017/18. The highest no. of listed company is 232 in fiscal year 2013/14 &2014/15. The main region behind to increase listed company is to the open license policy of NRB to open Bank and financial institutions.

Figure4.5: Number of Listed Securities
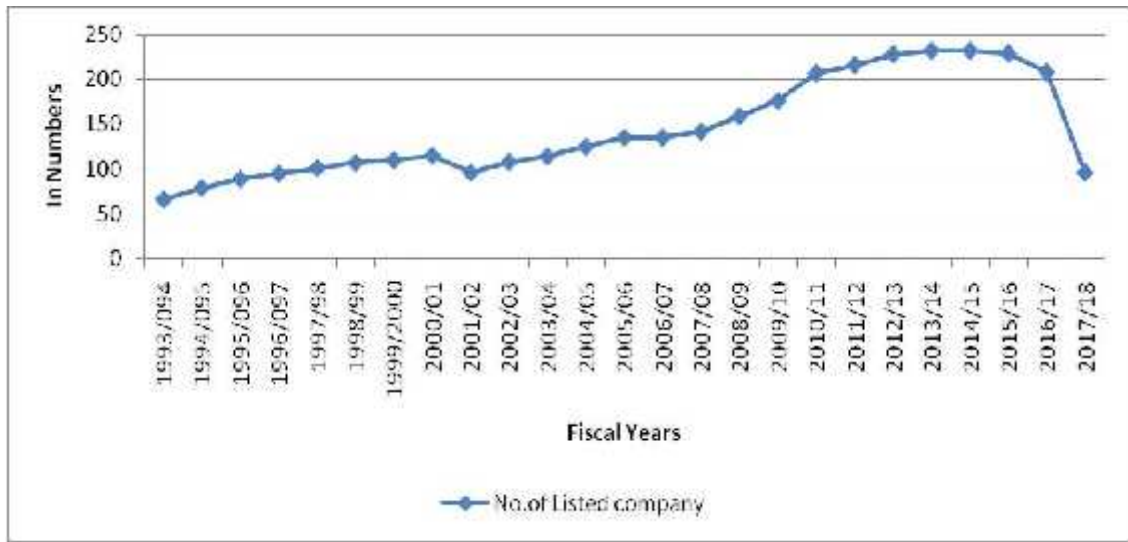
4.1.6 Number of Transaction

To transact shares in the secondary market, the company should be listed on the NEPSE. The number of transaction of listed companies indicates the increasing/decreasing trend of the transactions. The number of company's transactions of listed company in the NEPSE during the twenty-five-year period is depicted in the Table 4.6.

Table 4.6 Number of Transactions

Fiscal Year	No. of Transaction	Fiscal Year	No. of Transaction	Fiscal Year	No. of Transaction
1993/94	9357	2002/03	69163	2010/11	302364
1994/95	21472	2003/04	85533	2011/12	293489
1995/96	17943	2004/05	106246	2012/13	292366
1996/97	12428	2005/06	97374	2013/14	566389
1997/98	15483	2006/07	120510	2014/15	477278
1998/99	15814	2007/08	150800	2015/16	838987
1999/2000	29136	2008/09	209091	2016/17	1570000
2000/01	46095	2009/10	213733	2017/18	1311000
2001/02	42028				

Source: Annual Reports, NEPSE

The table 6 shows that the number of transaction of listed companies in the twenty-five-year period. The table depicts that the number of transaction of securities in NEPSE in the fiscal year 1993/94 is 9357 and in fiscal year 2017/18 is only 1311000million. Finally, the transaction has followed fluctuating trend.

Figure 4.6: Number of transaction
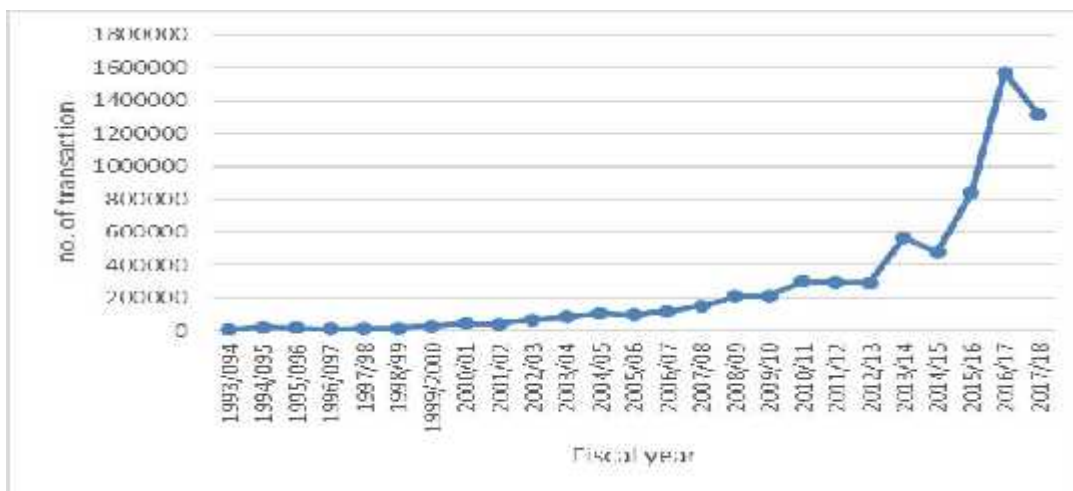
4.1.7 Transaction Days

To increase the turnover of the NEPSE and the stock growth, the number of operating days in NEPSE is crucial. The total market days operated in the NEPSE is presented in the Table 4.7.

Table 4.7 Transaction Days

Fiscal year	Transaction days	Fiscal year	Transaction days	Fiscal year	Transaction days
1993/94	121	2002/03	238	2010/11	231
1994/95	242	2003/04	243	2011/12	232
1995/96	240	2004/05	236	2012/13	232
1996/97	239	2005/06	228	2013/14	230
1997/98	237	2006/07	232	2014/15	216
1998/99	232	2007/08	235	2015/16	233
1999/2000	240	2008/09	234	2016/17	230
2000/01	231	2009/10	225	2017/18	233
2001/02	246				

Source: Annual Reports, NEPSE

The table 7 showed that the market days of the NEPSE office varied during the period and followed fluctuating trade. Within these twenty-five-year period NEPSE transacted maximum 246 days in the fiscal year 2001/02and minimum121 days in the fiscal year 1993/94. Since, the hurdles in the market days adversely of fact the

turnover of NEPSE, the number of holidays and other facts like Nepal bandha and other disturbing factor should be minimized by the government for the smooth operation of NEPSE and eventually increase the turnover.

Figure 4.7: Transaction Days
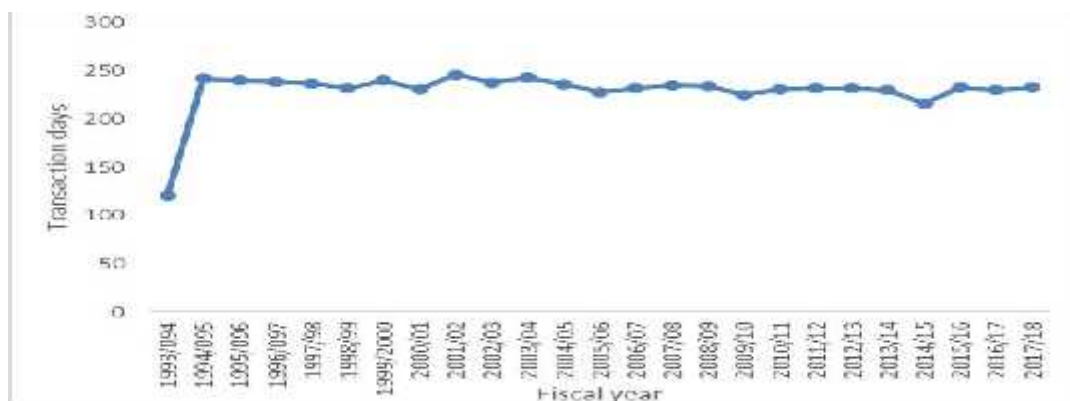
4.1.8 Average Daily Turnover

This average daily turnover of securities indicates for the investment are increasing and for the further improvement of capital market. Hence the average daily turnover of shares in the twenty-five-year period is presented in the Table 8.

Table 4.8 Average Daily Turnover

Fiscal year	Average daily turnover In million	Fiscal year	Average daily turnover In million	Fiscal year	Average daily turnover In million
1993/94	0.36	2002/03	0.24	2010/11	2.89
1994/95	0.44	2003/04	0.88	2011/12	4.43
1995/96	0.09	2004/05	1.91	2012/13	9.5
1996/97	0.17	2005/06	1.51	2013/14	33.61
1997/98	0.09	2006/07	3.6	2014/15	30.25
1998/99	0.65	2007/08	9.71	2015/16	70.67
1999/2000	0.48	2008/09	9.27	2016/17	89.14
2000/01	1.01	2009/10	5.27	2017/18	52.1
2001/02	0.63				

Source: Annual Reports, NEPSE

The table no. 8, shows that the average number of shares per day of NEPSE ranged from 0.36million in the fiscal year 1993/94 to 52.10 in the fiscal year 2017/18. The 43

same table shows that the average daily shares transacted followed increasing trend from fiscal year. 2010/11 to2016/17 was increasing trend. And then decrease in fiscal year 2017/18. Similarly, NEPSE transacted 55.17 shares per day with in these five year periods in average.

Figure 4.8: Average Daily Turnover
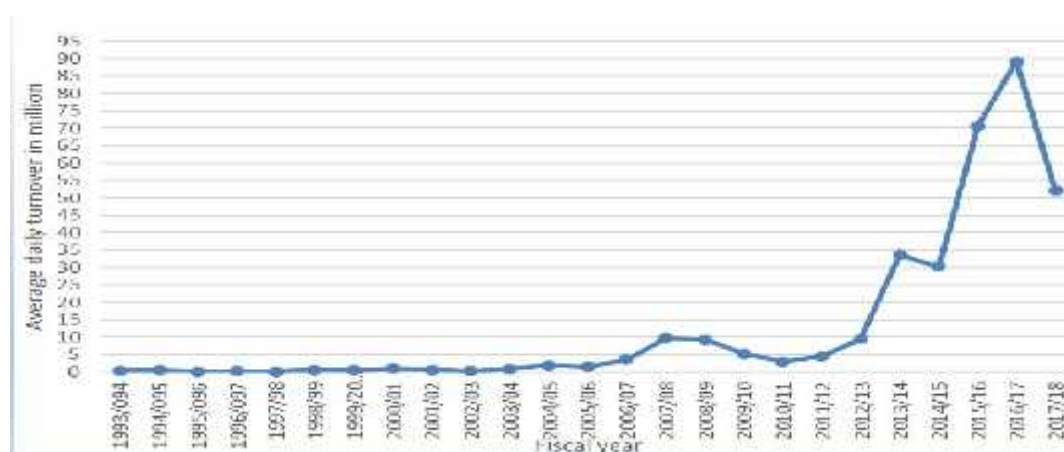
4.1.9 Number of Total Listed Securities

Higher the number of listed securities indicates higher probability of share trading and the fast growth of stock market. The number of listed securities in NEPSE is presented in the Table 4.9.

Table 4.9 Number of Total Listed Securities

| Fiscal year	No of listed securities	Fiscal year	No of listed securities	Fiscal year	No of listed securities
1993/94	N/A	2002/03	16	2010/11	103.37
1994/95	N/A	2003/04	16.11	2011/12	114.01
1995/96	N/A	2004/05	19.47	2012/13	130.21
1996/97	N/A	2005/06	22.65	2013/14	161.5
1997/98	N/A	2006/07	24.35	2014/15	255.31
1998/99	10.56	2007/08	32.11	2015/16	210.54
1999/2000	11.41	2008/09	63.79	2016/17	296.59
2000/01	12.12	2009/10	82.17	2017/18	359.87
2001/02	12.27				

Source: Annual Reports, NEPSE

The table 9shows that the No of companies listed in each fiscal year has decreased. In fiscal year 2013/14 has only 230 companies were listed in NEPSE similarly in fiscal year,2014/15.2015/16.2016/17&2017/18 are, 232,229,208&196 companies. The main reason behind decreasing the listed company is merger and acquisition of bank and financial institutions.

At the end of the Fiscal year2017/18 there was 27companies listed under the commercial bank group. Similarly, there were 34 companies in the Development bank group, 17 companies in the insurance group, 37 companies in the microfinance group, 27 companies in the finance group 18companies in the manufacturing and processing group, 4 companies in the hotel and trading group, 4 in other group and 19 in the hydropower group.

During the year 2017/18, a total amounting Rs 11.51 million, rights shares amounting Rs 25.70 million, 150.07 million units of government and corporate bonds amounting Rs 150.07million, 42.14 million units of Bonus share amounting Rs 4214.15 million were listed for trading.

Figure 4.9 : Number of Total Listed Securities
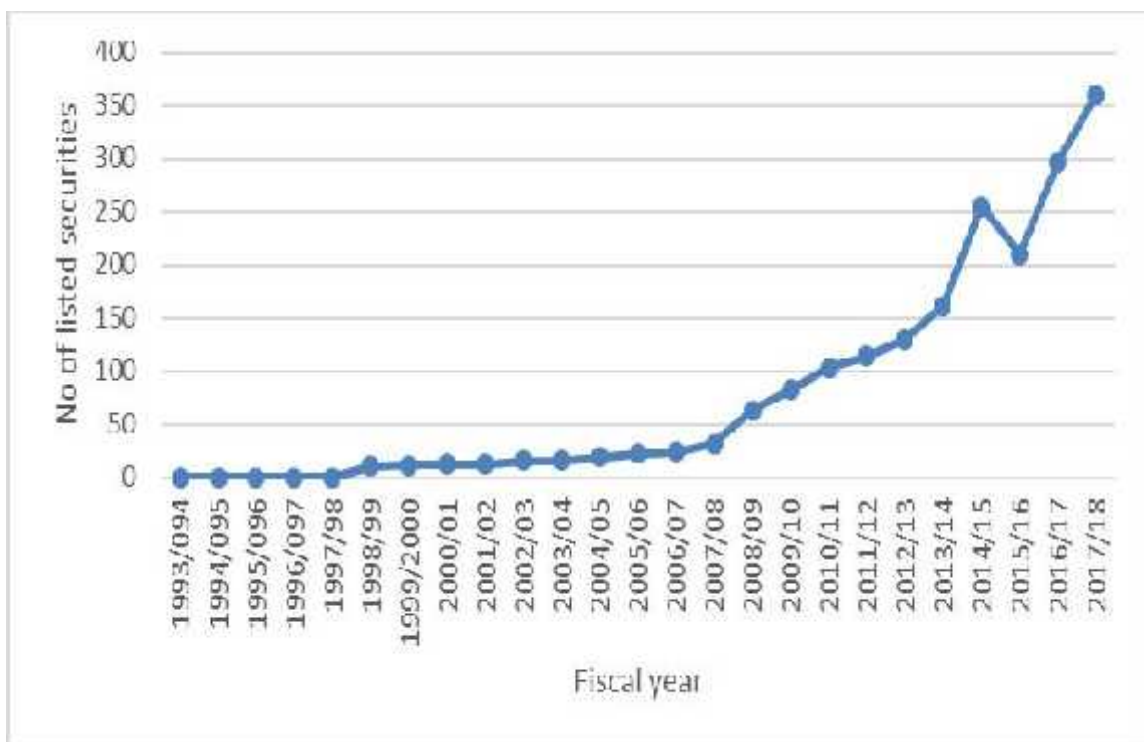
4.1.10 Correlation Between Paid up Capital and Traded Amount.

Correlation co-efficient is the best measures to evaluate and examine the relationship between two variables. It shows the positive relation, negative relation and no relation between two variables. For this research purpose, the five year related data were gathered and tabulated. The following table summarizes the correlation co–efficient of paid up capital with traded amount.

Table 4.10 Paid up Capital and Traded Amount

Fiscal year	Paid up Capital In million	Annual Turnover In million	Fiscal years	Paid up Capital In million	Annual Turnover In million	Fiscal years	Paid up Capital In million	Annual Turnover In million
1993/94	218.22	44.16	2002/03	1189.8	57.6	2010/11	10023.8	666.53
1994/95	296.18	105.43	2003/04	1201.6	214.43	2011/12	11061.09	1027.28
1995/96	335.85	21.56	2004/05	1677.18	450.77	2012/13	13906.24	2204.89
1996/97	447.65	41.62	2005/06	1995.8	345.14	2013/14	14753	7729.86
1997/98	495.98	20.26	2006/07	2174.6	836.01	2014/15	21058.86	6533.16
1998/99	648.74	150	2007/08	2946.5	2282.08	2015/16	20401.96	16465.17
1999/2000	734.74	115.7	2008/09	6114	2168.11	2016/17	28959.1	20502.14
2000/01	793.9	234	2009/10	7935.6	1185.11	2017/18	35290.14	12140.13
2001/02	868.02	154.06						

Coefficient of correlation between (r) = 0.00901

The table 10 describes the relationship between paid up capital and traded amount during the period of study. The coefficient of correlation (r) of company is 0.00901. This figure shows the positive relationship between paid up capital and traded amount of the company. It means paid up capital and traded amount in capital market move along in the same direction. Thus paid up capital and traded amount have significant relationship with each other

4.2   Primary Data Analysis

As the study was based on primary data, information was collected through developing a scheduled questionnaire and distributed to Share Brokers, Professional Investors and Potential Investors. A set of questionnaire related to the objectives of the study has been prepared for 60 each. Some questionnaires were sent through fax service, some through direct visit to the respondent. Among the questionnaire

distributed, only 44 were answered, i.e. the respondent rate is 73.33% of the total targeted respondents. Similarly, some additional information was also collected through interview and personal meeting with the respondents.

The number of respondents who showed interest in responding the questionnaire is presented in the following table 4.11

Table 4.11 List of Questionnaire Collected

Group	Respondents	Sample Size	Percentage
A	Brokers	9	20
B	Professional Investors	15	34
C	Potential investors	20	46
	Total	44	100

Source: Opinion Survey 2018

4.2.1 Satisfaction on Growth Trend

To investigate the level of satisfaction on the present trend of growth in the stock market, the respondents were asked whether they are satisfied with the growth trend. The responses achieved from them are presented in the following table.

Table 4.12 Satisfaction on Growth Trend

| satisfaction	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Yes	5	10	9	24	55
No	4	5	8	17	39
Don't Know	-	-	3	3	6
Total	9	15	20	44	100

Source: Opinion Survey 2018

The above table showed that out of 9 Brokers, 5 Brokers are satisfied with the existing growth in stock market, however 4 is not satisfied with the growth trend. Similarly, 10 Professional Investors are satisfied and 5 are not satisfied and 8 Potential Investors are satisfied, 8 are not satisfied and 3 remained neutral on the growing trend of stock market. In overall, 55% of the respondents are satisfied,39% are not satisfied and 6%

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remained neutral. As the majority of the respondents, 24 out of 44, are satisfied with the growing trend of stock market, it can be considered that the stock growth is growing on the right path and there is good prospect of stock market in future as well.

Figure 4.12: Satisfaction on Growth Trend
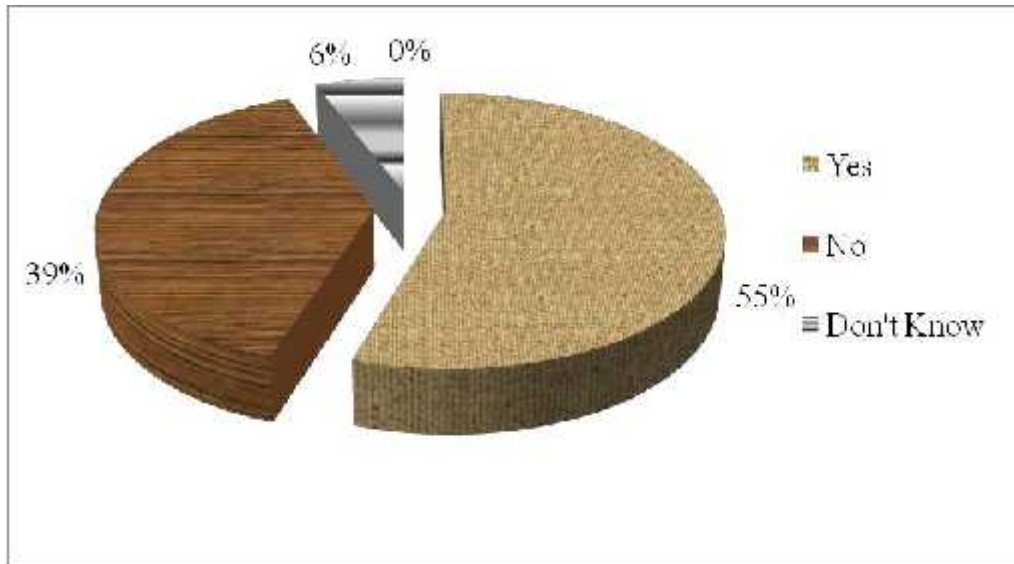
4.3 Problem and Prospects of Stock Market

4.3.1 Problems of Stock Market Growth

Many factors are hindering the stock market growth in Nepal. To detect which factor barricades most in the stock growth of Nepal, the respondents were asked to express their view. The responses obtained from them are presented in the following table 4.13

Table 4.13 Problems of Stock Market Growth

Problems	Overall Rank		
	Basis		
	Broker	Professional	Potential Investor
Total Numbers	**9**	**15**	**20**
Small Capital Market	3	2	2
Lack of Investor's Confidence	2	1	1
Lack of Proper Knowledge	3	6	4
Lack of Coordination	6	5	4
Inappropriate Rules and Regulation	3	4	2
Restriction on Foreign Investors	3	6	4

Source: Opinion Survey 2018

The above tables showed that lack of investor's confidence is the major problem that is barricading the stock growth in Nepal. The respondents ranked 1 for lack of investor's confidence,2for small capital market, 3 for Inappropriate rules and regulations, 4 for restriction of foreign investors, 5 for lack of proper knowledge on investor and 6 for coordination among monitoring bodes of stock market. Looking individually as well, the majority of each group, 4 out of 9 brokers, 7 out of 15 professional investors and 10 out of 20 potential investors, ranked 1 for lack of confidence in investors, which indicated that the lack of investor's confidence is the major hindrance in stock growth of Nepal. Besides this, small capital market is also the next problem of stock growth. The survey was conducted in 2018 December, so the details of primary survey regarding problem of stock market is attached in annex.

4.3.2 Prospects of Stock Market

NEPSE has adopted various techniques for the enhancement of stock growth in Nepal. So to examine which method is appropriate for the amelioration of stock growth, the respondents were asked to express their opinions. The responses obtained from them are presented in the following table 4.16.

Table 4.14 Prospects of Stock Market

Prospects	Rank
CDS & clearing limited	1
Automated Trading System	3
Recruitment of new Employee	8
Trading through WAN	7
Market halt Introduced	10
Extended Trading Hours	6
Real Time Information	11
Promoter's shares Traded	9
OTC Market Started	5
Profit Seeking NEPSE	4
Monthly Publication	12
Increasing Interest	2

Source: Opinion survey 2018

The above table showed that the established CDS and Clearing limited by NEPSE is the most important prospects of stock growth in Nepal. The respondents ranked 1 for established CDS and Clearing limited ,2 for increasing interest of investors, 3 for launching automated trading system, 4 for the conversion of NEPSE into profit oriented, 5 for the starting of OTC market, 6 for extending trading hours 7 for trading through WAN system, 8 for recruitment of new employee,9 for trading of Promoter's share, 10 for the introduction of Market Halt system, 11 for the dissemination of real time and 12 for monthly market review publication. In overall, the majority of the respondents, 14 out of 44, opined that the established and introduce CDS and Clearing limited towards stock market is the most important factor for raising the prospect of stock market in Nepal

4.3.3   Influencing Factor of Stock Price

The investors are attracted in the stock of companies by analyzing various factors. Such factor creates rise or fall in the stock price. To examine which factor most influence the investor on buying shares of certain company and influences the stock price of the listed company, the respondents were asked on this regard. The opinions obtained from them are presented in the following table.

Table 4.15 Influencing Factor of Stock Price

Factor	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Dividend	5	10	9	24	55
Rumor	-	-	3	3	7
Financial Condition	4	2	5	11	25
Management	-	3	3	6	13
Total	9	15	20	44	100

Source: Opinion Survey 2018

The above table showed that the majority of the respondents, 24 out of 44 (55%), stated that dividend is the most influencing factor of stock price. Similarly, 7%, 25% and 13% of the respondents affirmed that rumor, financial situation of the company and management of the company respectively are the influencing factors of the stock price. Gazing in each category, the majority of each category; 5 out of 9 brokers, 10 out of 15 professional investors and 9 out of 20 investors, stated that dividend is the main factor that moves the stock price. Hence, it can be concluded that dividend distribution pattern of the company is the major motive behind investing on the share of a company and which affects the stock price.

Figure 4.15: **Influencing Factor of Stock Price**
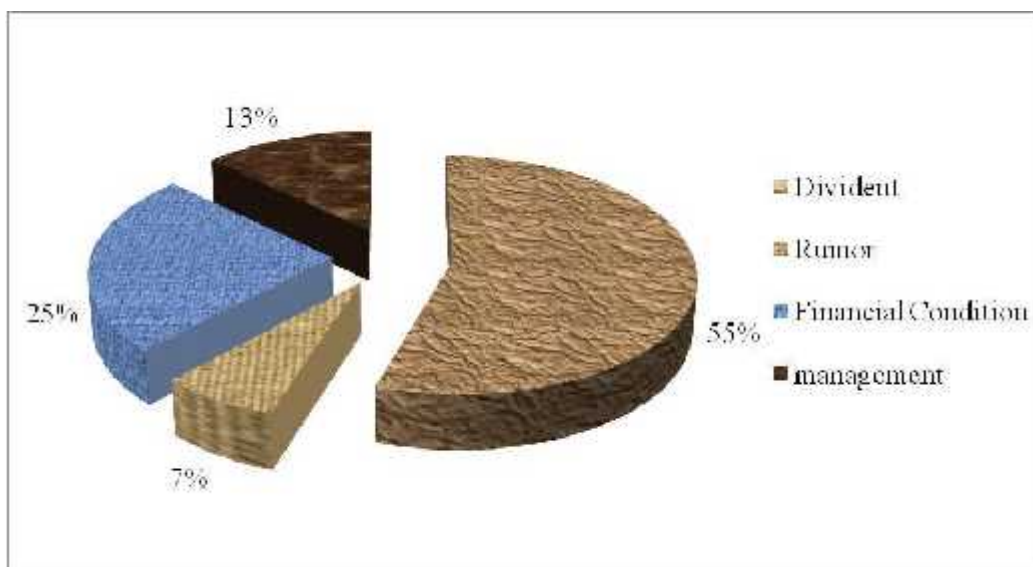

4.3.4 Motives on Investment

Each investor has different motive in investing on the stock of the company. Trace out the main motive on the basis of which the investors make investment on stock, the professional investors are asked about their motive of investment. As the question is related with the professional investors only, the other respondents were ignored on this question. The responses obtained from the professional investors are depicted in the following table.

Table 4.16 Motives on Investment

Motives	Professional Investors	
	Responses	Percentage
social status	1	7
Dividend	10	66
Friend and Family	1	7
Stock Broker	1	7
Marketability	2	13
Total	15	100

Source: Opinion Survey 2018

The above table showed that the majority of the professional investors makes decision on the basis of dividend distribution pattern of the company. About 66% of the professional investors are motivated to invest on stock by the dividend. Similarly, 1 out of 15 (7%) makes investment to gain social status, 1 out of 15(7%) makes investment on the suggestions of friend and family, 1 out of 15 (7%)makes investment on the advice of stock broker and 2 out of 15 (13%) makes investment by analyzing the ease marketability of the stock. Thus, on the basis of the majority, it can be concluded that the investors are highly motivated to invest by dividend structure of the company and eventually to generate income.
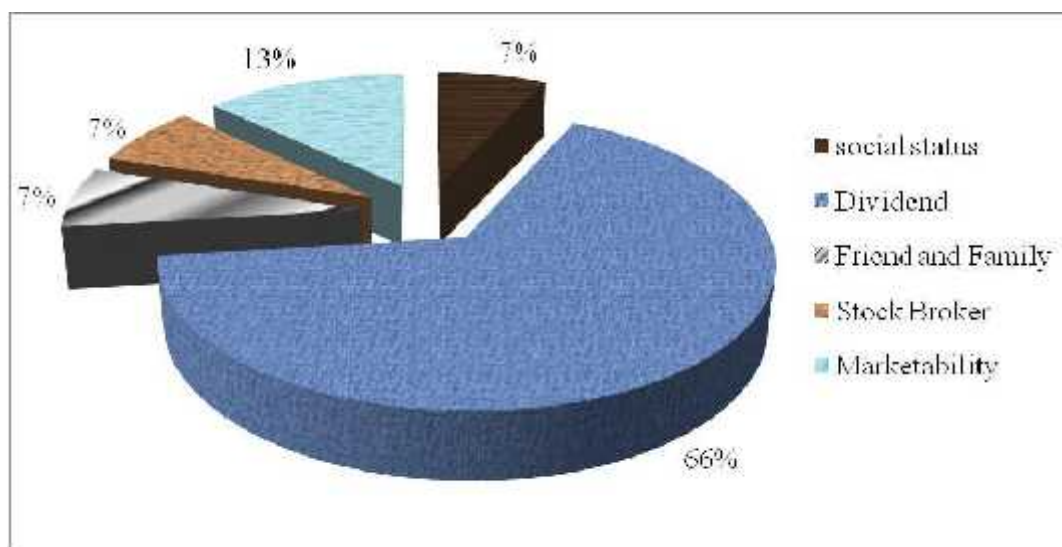
4.3.5 Effects of Rules and Regulations of SEBON

To determine whether the rules and regulations of SEBON affect the stock value, the respondents were asked on this matter. The answers achieved from them have been presented in the following table.

Table 4.17 Effects of Rules and Regulations of SEBON

Opinion	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Yes	7	8	7	22	50
No	1	3	7	11	25
Don't Know	1	4	6	11	25
Total	9	15	20	44	100

Source: Opinion Survey 2018

The table showed that the majority of the respondents, 22 out of 44, stated that the rules and regulations of SEBON causes rise or fall on stock value of the company. However, 25% respondents (11 out of 44) affirmed that there is no relationship between rules and regulations of SEBON and the value of stock. Likewise, 25%respondents (11 out of 44) remained neutral on this matter. Looking each category, the majority of brokers, 7 out of 9, and professional investors, 8 out of 15, opined that the rules and regulations affect the stock value. However, the majority of potential investors, 7 out of 20, stated that stock value is not affected by such rules and regulations. Rather mixed opinion has been obtained in this matter. Hence, gazing the overall majority, 50% respondents and the experience of respondents engaged in share transactions, it can be concluded that the rules and regulations of SEBON directly affect the stock price

Figure 4.17: Effects of Rules and Regulations of SEBON
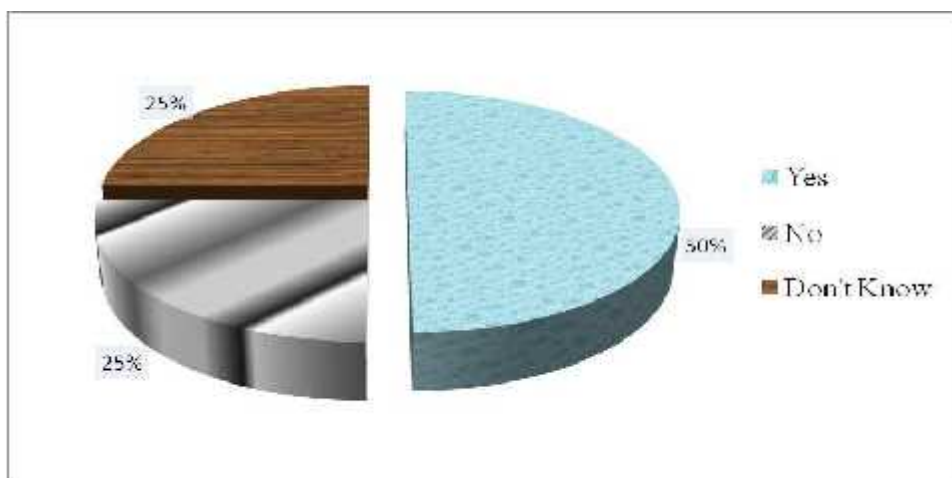
4.3.6 Awareness of Investors

Full Awareness of investors about the stock market is most crucial for the growth of stock. Hence, to examine whether investors are fully aware about the Nepalese Stock Market, the respondents were asked to express their view on this regard. The different opinions obtained from the respondents are presented in the following table.

Table 4.18Awareness of Investors

Opinion	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Yes	3	7	8	18	41
No	5	6	7	18	41
Don't Know	1	2	5	8	18
Total	9	15	20	44	100

Source: Opinion Survey 2018

The above table showed that the majority of the respondents, 18 out of 44, opined that the investors are fully aware about the Nepalese stock market and are not fully aware about the Nepalese stock market However, the majority of the brokers, 5 out of 9, affirmed that the investors are not fully aware about the stock market. In contrast, the majority of the professional investors, 7out of 15, and the majority of the potential investors, 8 out of 20, strongly stated that the investors are fully aware about the stock

market. Hence, mixed opinion is obtained on the equal percentage of investor are full awareness or not fully awareness. Eventually, considering the overall majority (50%), half of the respondents, it can be concluded that the investors are not fully aware about Nepalese Stock market and thus SEBON should conduct different programs and seminars to fully aware investors and eventually increase turnover.

Figure 4.18: Awareness of Investors
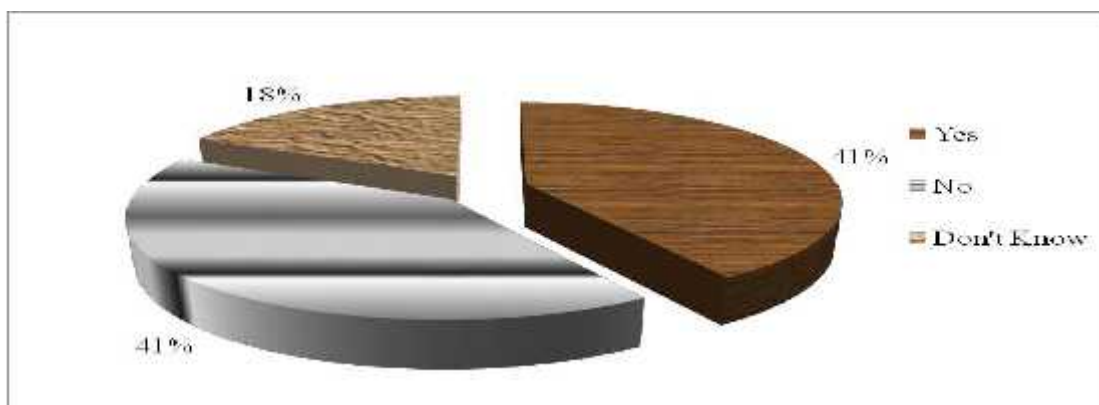
4.3.7 Basis to Invest in Secondary Market

To know the basis of investment in the Secondary Market, both investors, professional and potential were asked on this matter. To draw the exact basis, the brokers have been excluded from this question. The different opinions obtained from the investors are presented in the following table.

Table 4.19 Basis to Invest in Secondary Market

Basis	Responses			%
	Prof. Investors	Pot. Investors	Total	
NEPSE Index	3	5	8	23
Closing Price	-	1	1	3
Turnover	1	1	2	6
Company's Goodwill	2	2	4	11
Company's Profit	4	4	8	23
Dividend Payout Ratio	5	7	12	34
Total	15	20	35	100

Source: Opinion Survey 2018

The above table showed that 12 investors invest on secondary market by gazing the dividend payout ratio of the company, similarly 8 investors invest by overlooking the trend of NEPSE index. Equally 8 investors invest by analyzing the considering the company's profit, 4 investors on the basis of company's goodwill and 1 on the basis of closing price. Since, the majority of the investors (34%) invest on the basis of Dividend Payout Ratio; it can be considered that Dividend Payout Ratio is the major indicator for share investment in secondary market.

Figure 4.19 Bases to Invest in Secondary Market
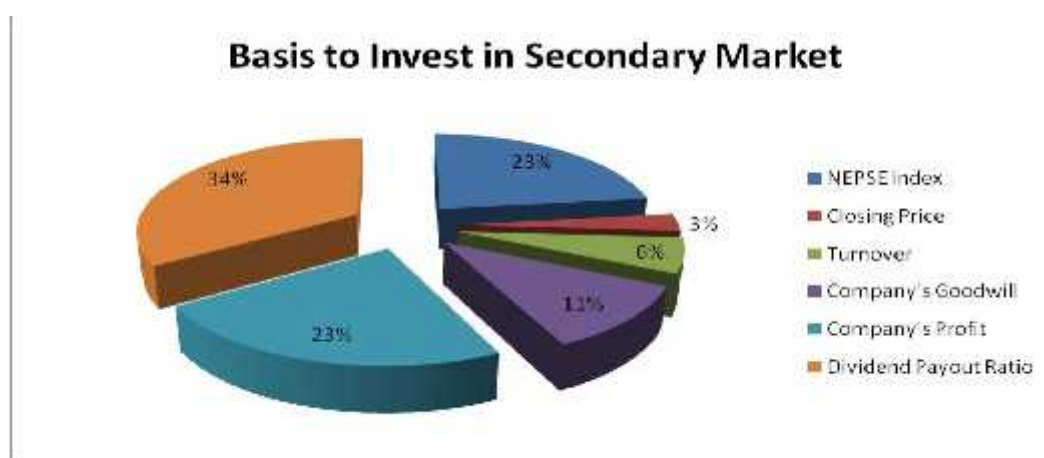
4.3.8 Efficiency of Stock Market

To detect whether the stock market provides up to date information and it is operating efficiently, the respondents were requested to express their feelings. The different opinions obtained from them are presented in the following table.

Table 4.20 Efficiency of Stock Market

Efficiency	Responses				
	Brokers	Prof. Investors	Pot. Investors	Total	%
Yes	5	8	10	23	52
No	3	5	8	16	36
Don't know	1	2	2	5	12
Total	9	15	20	44	100

Source: Opinion Survey 2018

The above table shows that the majority of the respondents, 23 out of 44, said that the Nepalese stock market is information and operationally efficient. Lock on each category, the majority of each group; 5 out of 9 brokers, 8 out of 15 professional investors, 10 out of 20 potential investors, strongly affirmed that Nepalese stock market is efficient. Only 36% of the respondents said that the stock market is not efficient in operation and does not provide effective information. However, 12% respondents remained neutral on this query. Considering the majority, 52% respondents, 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.

Figure 4.20: **Efficiency of Stock Market**
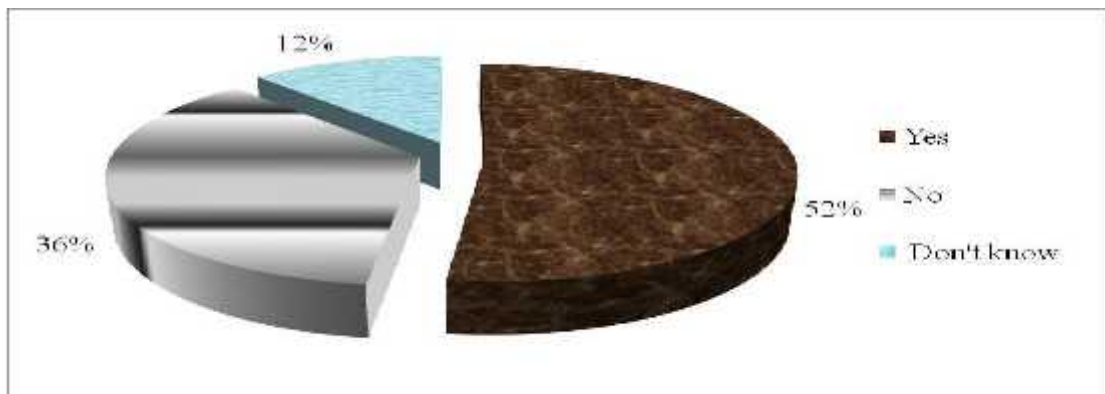
4.3.9   Responsible for Appropriate Trading System

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

**Table 4.21 Responsible for Appropriate Trading System**

Responsible	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Investors	1	0	1	2	5
Brokers	1	1	1	3	7
NEPSE	3	5	8	16	36
SEBON	4	9	10	23	52
Total	9	15	20	44	100

Source: Opinion Survey 2018

The above table showed that the majority of the respondents, 23 out of 44, (52%) strongly stated that SEBON should be responsible for appropriate trading system in the stock market. However, 16 out of 44 (36%) said that NEPSE should be responsible and 1 professional investor system in the stock market. Also looking each category, the majority in each group, 4 out of 9 brokers, 9 out of 15 professional investors and 10 out of 20 potential investors, pointed out SEBON to be responsible for appropriate trading practices in the stock market. Hence, looking the overall majority (52%) 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.

Figure 4.21: **Responsible for Appropriate Trading System**
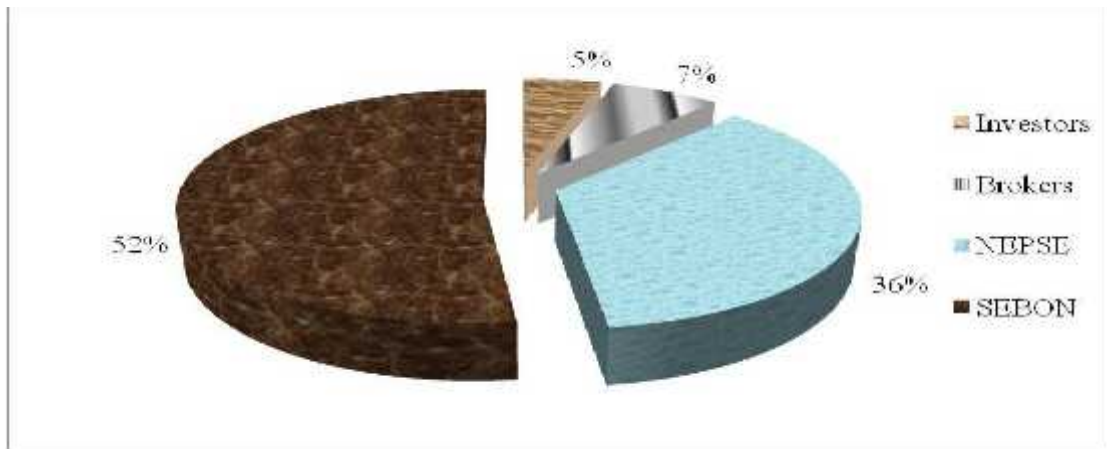
CHAPTER –V

MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1   Major Findings

On the basis of both the primary and secondary data analysis, the following major findings have been reached.

5.1.1   Trend and Current Situation of Nepalese Stock Market

The trend and current situation of the Nepalese stock market is analyzed by using secondary data of 25 years. Thus the summary of findings is summarized below:

a)   The NEPSE index followed fluctuating trend. The NEPSE index starter 226.00 in the fiscal year 1993/94 and ended with Rs. 1212.36 in the fiscal year 2017/18. It increased by 78.74% in the fiscal year 2015/16. (Table4.1) which was the highest increment so far.

b)   Result shows that the market capitalization of the listed companies follows fluctuating trends. The market capitalization ranged from Rs 1387.20 million in the fiscal year 1993/94 to Rs 143514 million in the fiscal year 2017/18 being highest increment (185682) in the fiscal year 2016/17. One of the reasons for the huge increment in market capitalization is because of increment in paid up capitals of BFIS along with the increasing investors. Although the bear market has affected the market capitalization of 2017/18.

c)   The average turnover of the share market is continuously increasing from 44.16 million in the fiscal year 1993/94 to 12140.13 in the fiscal year 2017/18. Highest turnover was realized in the fiscal year 2016/17.

d)   The paid up capital of the capital market is increasing in almost every fiscal year. Since the inception of capital market the paid up capital increased from 218.22 million to35290.14 million in 2017/18. This is the only indicator not affected by bear market so far.

e)   Secondary data analysis of the capital market shows the fluctuating trend in the listed companies. Capital market started with 66 listed companies in 1993/94 and reached 96 companies in the fiscal year 2017/18. However, the companies reached to peak i.e. 232 in 2014/15.

The reason behind this fall is because of merger and acquisition of BFIS.

f)   The number of transaction has shown the increasing trend except the year 2014/15 and 2017/18. Both the data shows the bear market of capital market. Although the transaction increased to1311000 in year 2017/18.

g)   Study showed that the market days of the NEPSE office varied during the period. However, the trading days are stable these days because of stable government and minimizations of holidays, bandhas and strikes.

h)   The table 9 shows that the No of companies listed in each fiscal year has decreased. In fiscal year 2013/14 has only 230 companies were listed in NEPSE similarly in fiscal year, 2014/15. 2015/16. 2016/17 & 2017/18 are, 232, 229, 208 & 196 companies. The main reason behind decreasing the listed company is merger and acquisition of bank and financial institutions.

i)   Study shows the average daily shares transacted followed increasing trend from fiscal year. 2010/11 to2016/17 increasing trend and then decrease in fiscal year 2017/18. Similarly, NEPSE shows 55.17 shares on an average per day with in these five year periods of time

j)   The correlation between amount traded and paid up capital is positive. Thus this shows positive relation between number of amount traded and paid up capital (r=0.009).

5.1.2   Problem and Prospects of Stock Market

The problem and prospects of Nepalese stock market is analyzed by the primary survey through interviews and structured questionnaires. Thus, the analyzed data are summarized below:

a)   55% of the respondents said that the investors are satisfied with the existing growth trend of stock. Similarly, lack of investor's confidence is the major problem of stock market hindering the growth. Also, established CDS and clearing limited by Nepse is the major prospects of stock growth in Nepal.

b)   55% of the professional said that they invest share to gain dividend and

also dividend is the most influencing factor that in fluctuates share price.

c)   50% of the respondents are of the opinion that the rules and regulations of SEBON affect the value of stock. Likewise, 41% of the respondents said that the investors are not fully aware about the stock market and equally 41% of the respondents said that the investors are fully aware about the stock market.

d)   34% of the investors look at dividend payout ratio before making investment in the secondary market and 52% of the respondents started that SEBON should be responsible for appropriate trading system in stock market.

5.2   Conclusion

Stock market in recent years has become an integral part of economic development. It can play a vital role in encouraging and channeling the saving to provide the entrepreneurs for investment in profitable projects in the economy. Examples from the developed countries have proved that the stock market is the cause and economic development is the effect. Stock market serves as a direct link between the suppliers and the users of capital fund. Thus, stock market has both theoretical and practical perspectives. This study mainly aims to examine the situation of stock market in Nepal. The specific objectives of the study are to examine the growth of Nepalese stock market, to identify the problems and challenges. This study is based on both secondary and primary data analyses.

The required secondary data are collected from the annual report of SEBON and its web site, the trading report of NEPSE and its web site, Nepal Rastra Bank etc. For the further support of this study, survey of questionnaire from various respondents and indirect interview of officers of related authority and investors have been taken. Both historical and descriptive research design are carry out in this study. The growth of Nepalese stock market is examined on the basis number of listed companies, annual turnover, market capitalization and paid –up value, number of listed securities, number of transactions of 25-year period of time. The primary data includes various questions to the investors.

From the above research it can be concluded that the Nepalese stock market is in developing stage. After the subsequent three year of bearish trend in the market, few capital market indicators show a ray of hope and few capital indicators are not satisfied during the fiscal year 2015/16. NEPSE index, market capitalization, no of company traded & listed and trading volume have increased marginally during this year which indicates the interest of investors in diversified sectors. Likewise, the increasing trend of paid of value of listed company, no of share traded, no of transaction, no of listed securities shows positive attitude for stock growth. Likewise, Percentage change indicates that the pace of annual turnover growth did not follow the same growth during entire period so NEPSE should out new policy and techniques to effectively jerk out the annual turnover and commercial companies occupying larger position of turnover and no of shares traded.

On the basis of primary data, it can be concluded that the lack of investors' confidence is the major problem of stock growth. Besides this, small capital market and inappropriate rules and regulations have also barricaded the stock growth. Similarly, established CDS and clearing Limited recently, the increasing interest of educated people, lunching Automated trading system, conversion of NEPSE into profit-oriented organization, starting of OTC market and adoption of sophisticated technique are the main prospects of stock growth.

However, the malpractices like pooling, wash sale, organized runs and cornering or warehousing, insider training are creating uncertainty in stock price and breaking the confidence of general investors. Similarly, dividend is the most influencing factor and motives of investors for stock investment. The analysis also concluded that SEBON is responsible for appropriate trading system in stock market and for the smooth operation of the secondary market. Many investors are not fully aware about the trading system in secondary market as well as Besides dividend payout ratio, NEPSE Index and company's profit is the major basis for share investment.

5.3 Recommendations

a) NEPSE index plays major role for creating investment prosperity. So for removing stock market difficulties transaction facilities should be managed in effective way by formulating investor's protection act.

b) NEPSE can expand its services to the regional levels rather than just concentrating solely in the valley. They should also replace the old and outdated system with on-line trading system following international standards and immediately implantation of Central Depository System.

c) The price fluctuation trend is not predictable by general investors so technician facilities should be realized by Nepal Exchange Centre Ltd Stock Exchange Ltd., So that general investors should also get benefit from the Security Board of Nepal.

d) Approval process should be streamlined to make it easy and hassle free. If possible, one window policy should be adopted in providing approval.

e) Awareness should be increased amongst the general public about the capital market, regarding nature of risk and return, through promotional campaigns, seminars, publications and programs in FM/TV etc.

f) The listed company's data their performance appraisal, their conduction of work, their productivity, their commitment to NEPSE should be updated and analyzed in time and again. If any company is found in doing works against, NEPSE should immediately take action on it.

g) Signaling factors should be analyzed so that future movements of price can be predicted from the side of analyst and from the side of investors.

h) The stock market lacks the existence of sophisticated investors, it is recommended to regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors in investing its shares.

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Appendix 1

Prospects of Stock Market

Prospects	Basis	Rank												Total	Wt.	Mean	Overall
		1	2	3	4	5	6	7	8	9	10	11	12				
CDS & clearing limited	Total	14	5	9	7	4	3	-	-	-	1	-	1	44	139	3.16	3
	Broker	2	-	4	1	-	-	-	-	-	1	-	1	9	40	4.44	4
	Pro.Investor	5	3	2	2	1	2	-	-	-	-	-	-	15	42	2.8	2
	Pot.Investor	7	2	3	4	3	1	-	-	-	-	-	-	20	57	2.85	2
Automated Trading System	Total	5	4	6	8	10	5	5	1	-	-	-	-	44	146	4.23	4
	Broker	3	3	2	-	-	-	1	-	-	-	-	-	9	22	2.44	2
	Pro.Investor	2	1	-	5	3	2	2	-	-	-	-	-	15	65	4.33	4
	Pot.Investor	-	-	4	3	7	3	2	1	-	-	-	-	20	99	4.95	4
Recruitment of new Employee	Total	1	-	-	4	7	15	5	5	1	1	3	-	44	278	6.32	6
	Broker	1	-	-	2	1	-	-	1	1	1	3	-	9	65	7.22	7
	Pro.Investor	-	-	-	1	3	6	2	3	-	-	-	-	15	93	6.2	6
	Pot.Investor	-	-	-	1	3	9	3	2	-	-	-	-	20	128	6.4	6
Trading through WAN	Total	2	3	-	3	7	5	9	6	4	4	2	-	44	285	6.48	6
	Broker	2	3	-	1	-	-	1	-	-	-	2	-	9	27	3	3
	Pro.Investor	-	-	-	-	3	3	5	1	-	-	-	-	15	103	6.86	6
	Pot.Investor	-	-	-	2	4	2	3	5	4	4	-	-	20	141	7.05	7
Market halt Introduced	Total	-	-	1	1	4	2	3	6	9	9	8	-	44	376	8.55	8
	Broker	-	-	1	1	-	1	-	1	-	-	-	-	9	66	7.33	7
	Pro.Investor	-	-	-	-	2	-	1	5	6	6	-	-	15	126	8.4	8
	Pot.Investor	-	-	-	-	2	1	2	-	3	3	8	-	20	184	9.2	9
Extended Trading Hours	Total	4	2	10	9	3	4	5	3	1	1	2	-	44	213	4.84	5
	Broker	-	-	1	-	-	1	3	3	1	1	-	-	9	64	7.11	7
	Pro.Investor	1	-	4	4	3	-	-	-	1	-	2	-	15	75	5	5
	Pot.Investor	3	2	5	5	-	3	2	-	-	-	-	-	20	74	3.7	3
Real Time Information	Total	-	1	1	1	1	3	5	2	9	14	7	-	44	381	8.66	9
	Broker	-	1	1	1	1	2	2	-	1	-	-	-	9	49	5.44	5
	Pro.Investor	-	-	-	-	-	-	-	1	3	7	4	-	15	149	9.93	10
	Pot.Investor	-	-	-	-	-	1	3	1	5	7	3	-	20	183	9.15	9
Promoter's shares Traded	Total	-	1	-	1	2	6	9	14	7	1	1	2	44	335	7.61	8
	Broker	-	1	-	1	1	1	-	2	-	-	1	2	9	68	7.55	8
	Pro.Investor	-	0	-	-	-	4	3	5	3	-	-	-	15	112	7.46	7
	Pot.Investor	-	0	-	-	1	1	6	7	4	1	-	-	20	155	7.75	8

														Total	Sum	Mean	Rank
OTC Market Started	Total	6	4	8	10	6	2	2	1	-	3	2	-	44	194	4.41	4
	Broker	-	0	-	-	3	-	-	1	-	3	2	-	9	75	8.33	8
	Pro.Investor	3	2	6	2	-	-	2	-	-	-	-	-	15	50	3.33	3
	Pot.Investor	3	2	2	8	3	2	-	-	-	-	-	-	20	72	3.6	3
Profit Seeking NEPSE	Total	9	11	9	3	2	1	1	1	2	-	1	2	44	154	3.5	3
	Broker	-	1	-	-	1	1	1	1	2	-	1	1	9	69	7.67	7
	Pro.Investor	4	5	3	2	1	-	-	-	-	-	-	-	15	36	2.4	2
	Pot.Investor	5	6	6	1	1	-	-	-	-	-	-	1	20	56	2.8	2
Monthly Publication	Total	-	-	-	-	1	2	1	4	4	11	9	12	44	445	10.1	10
	Broker	-	-	-	-	1	2	1	-	-	3	1	1	9	77	8.55	9
	Pro.Investor	-	-	-	-	-	-	-	-	-	4	2	9	15	170	11.3	11
	Pot.Investor	-	-	-	-	-	-	-	4	4	4	6	2	20	198	9.99	10
Increasing Interest	Total	13	15	4	5	1	2	-	-	-	-	2	2	44	138	3.14	3
	Broker	1	-	-	2	1	1	-	-	-	-	2	2	9	66	7.33	7
	Pro.Investor	5	7	2	1	-	-	-	-	-	-	-	-	15	29	1.93	1
	Pot.Investor	7	8	2	2	-	1	-	-	-	-	-	-	20	43	2.15	2

<div align="center">**Questionnaire**</div>

PROBLEM AND PROSPECTS OF STOCK MARKET GROWTH IN NEPAL

Dear Sir/Madam

I am carrying out a study titled **"Problems and Prospects of Stock Market Growth in Nepal".** I would highly appreciate if you kindly furnish your information that will certainly be a basic source of data to meet the objectives of this research work. This study is a part of my academic degree- Master of Arts in Economics Central Department of Economics. I assure that the information provided will remain highly confidential and will only be used for the research purpose.

I would like to express sincere thanks for your kind co- operation.

Kindly Indicate

Information about respondent

Name:

Organization:

Designation:

Academic Qualification:

Stamp & signature:

In the field of stock marked

1. Are you satisfied on the present trend of growth in the stock market of Nepal?
    a) Yes
    b) No
    c) Don't know

2. In your opinion, which one of the following is the most Influencing factor of stock price?
    a) Dividend
    b) Rumor
    c) Financial condition
    d) Management

3. Do you agree that the effects of Rules and Regulation of SEBON bring any changes in stock market?
    a) Yes
    b) No
    c) Don't know

4. Are investors aware about investment in stock market in Nepal?
    a) Yes
    b) No
    c) Don't know

5. Who do you think is most responsible for the appropriate trading system in the stock market?
    a) Investors
    b) Broker
    c) NEPSE
    d) SEBON

6. Is Nepal's share market efficient?

   a) Yes

   b) No

   c) Don't know

7. How would you rank the following problems of stock growth in Nepal?

   a) Lack of investor's confidence

   b) Small capital market

   c) Lack of proper knowledge

   d) Inappropriate Rules and Regulation

   e) Lack of coordination

   f) Restriction on Foreign investors

   Order of Ranking the Problems (*Most Serious to Least Serious One)*

   a) ....(Most Serious)

   b) ………………………………………………

   c) ………………………………………………

   d) ………………………………………………

   e) ………………………………………………...

   f) ....(Least Serious)

8. In your opinion, how would you rank the following prospects of stock market (from most necessary to least necessary)?

   a)   Automated trading system

   b)   Trading through WAN

   c)   Recruitment of New Employee

   d)   Market halt introduced

   e)   Extended trading hours

   f)   Real time information

   g)   Promoter's share traded

   h)   OTC market started

   i)   Profit seeking NEPSE

   j)   Monthly publication

   k)   Increasing interest

   l)   CDS and clearing limited

Order of Ranking the Prospects (*Most necessary to Least necessary*)

a)   …………………………………. (most necessary)

b)   …………………………………..

c)   …………………………………..

d)   …………………………………..

e)   …………………………………

f)   ……… ……………………….………

g)   …………………………..………

h)   …………………..………………

i)   …………………………..…………

j)   …………………………..…………

k)   ………………………………….

l)   ……………………….…………… (least necessary

9. How would you rank the following Mal practices in stock market in Nepal? (From *Most Serious to Least Serious One*)

1.   Pooling

2.   Cornering on warehousing

3.   Organized runs

4.   Ramping

5.   Wash sale

6.   Insider trading

Insider trading Order of Ranking the Problems (*Most Serious to Least Serious One*)

a)   ....

b)   ……………………………………

c)   …………………….……………..

d)   ……………………………………

e)   ……………………………………

f)   ....

Only for investor 75

10. Which factor mostly motive in investing on the stock of the company?

   a)   Social status

   b)   Dividend

   c)   Fiend and family

   d)   Stock Broker

   e)   Marketability

11. Which factor mostly motive to invest in secondary market NEPSE index Closing price

   a)   Turnover

   b)   Company's Good will

   c)   Company's profit

   d)   Dividend payout ratio

Thanks for your support and co-ordination