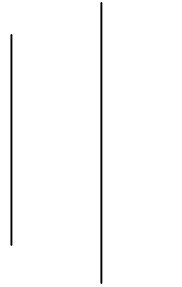


Prospect and Challenges of Stock Market Development in Nepal



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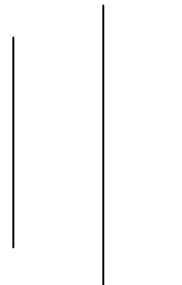
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Kathmandu, Nepal

In partial fulfillment of the requirements for the degree of Master in Business
Study (MBS)

Kathmandu

May, 2009

RECOMMENDATION

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

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Degree of

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DECLARATION

I hereby that the work reported in this thesis entitle **“Prospect and Challenges of Stock Market Development in Nepal”** submitted to Shanker Dev Campus, Putalisadak, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Master Degree in Business Study under the supervision of Dr. Kamal Das Manandhar, Assistant Dean and Mr. Dhruva Subedi, Shanker Dev Campus.

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This present study entitle **“Prospect and Challenges of Stock Market Development in Nepal”** is prepared for the partial fulfillment of the requirement of the degree of Master in Business Study (MBS)

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To accomplish this study, I have done the optimum effort from my level to offer precise information in the related topics and hope it will act as a reliable reference to upcoming students, respective institutions as well as seekers of related studies.

At last I would like to express hearty thanks toward all the members of my family who provided regular inspiration and continuous contributions for my success.

.....

Date: May, 2009

Sumitra Karmi

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Abbreviation

ADB	= Asian Development Bank
AON	= All or None
AGM	= Annual General Meeting
ATO	= At the Open
ATS	= Automated Trading System
BJM	= Biratnagar Jute Mill
CDS	= Central Depository of Securities
CFG	= Corporate and Financial Governance
CIF	= Citizen Investment Fund
Co. Ltd.	= Company Limited
EOD	= End of Day
et al	= and other
FOK	= Fill or Kill
FY	= Fiscal Year
GDP	= Gross Domestic Product
GTC	= Good Till Cancelled
HMG	= His Majesty Government
IOC	= Immediate or Cancel
IPO	= Initial Public Offering
MBS	= Master in Business Study
NBL	= Nepal Bank Limited
NEPSE	= Nepal Stock Exchange
NI	= NEPSE Index
No.	= Number
NSTC	= Nepal Security Training Center
NRB	= Nepal Rastra Bank
OTC	= Over the Counter
ROC	= Company Register Office
SEBO/N	= Security Board Nepal
SEC	= Security Exchange Center
S. No.	= Serial Number
WAN	= Wide Area Network

Chapter – I

Introduction

1.1 Background

The business world is entirely different from the one in the past. The changing life style has always been challenging to the business community and has given opportunities to produce thousands of goods and services to satisfy the changing needs of people. The societal needs have increased tremendously in quality as well as in quantity. Market for products and services have developed throughout the world and the competitions among the firms has altered the managers to foresee the future preference of the society.

Nepal is trying to develop its economy through economic liberalization. Capital market and its extensity play a great role to develop nation's economy. Nepal, the capital deficit economy requires the huge amount of investment money in production activities for the rapid economic development. The stock market can play the vital role by encouraging and canalizing the saving to provide the entrepreneurs for investment in profitable projects in the Nepalese capital market. In the context of Nepalese capital market it is in institutional arrangement with in which a number of institutional bodies like securities board, NEPSE office of registrar, shareholders association of Nepal and listed companies are in existence. In Nepalese capital Market there are twenty three brokers, eight issue managers and one organized stock exchange center are currently in operation (SEBO 2007/08). Only few privatized companies listed to NEPSE and most of the listed companies are inactive and rarely their share is traded on the floor.

Capital market plays a crucial role in mobilization of saving and changing financial resources for expanding productive capacity of the country as well. Here capital market is the place where securities are traded. Capital market can be classified into two ways viz. primary capital market and secondary capital market. The primary capital market is the market where the first time issued securities is traded. On the other hand, secondary capital market is market where securities are traded in second time (Kharel and Sharma; 2004:132).

The depth and breadth of capital market is very substantial and broad. Due to the efficient capital market, a vast network of intermediaries like capital market players, brokers and dealers meet together to conduct large size of transactions. Even today the sophistication has reached to do capital market transaction by internet connection. Various capital market participants exist in every nation's capital market. At present, many financial institutions have been developed to encourage the flow of funds in capital market in our country. Capital market can further be classified into two groups: securities market and non-securities market. Stock market is major component of securities market (Shrestha and Bhandari; 2005:139)

Stock market is a medium through which corporate sector issues shares in the market to finance productive projects. Similarly stock market provides the best investment opportunity to the investors. Thus, the efficient use requires a well functioning capital market to facilitate the process. The stock market also imparts liquidity to security holders. This offers an opportunity for investors to invest in the long-term ventures. Market also enables them to convert their securities into liquid cash before the maturity of the project.

Stock market is an institution where stocks, shares and other securities are bought and sold continuously. The major function of stock market is to provide ready and continuous market for purchase and sale of securities at a competitive price by

importing future market ability and liquidity. It is also a medium through which scattered savings and scarce resources transferred into productive areas that ultimately help to the economical development and industrialization of nation.

As a vital part of economical activities and development, stock markets mobilize savings as well as protect the interest of investors. It also helps transfer of funds from surplus savings to deficit savings through transaction of long term financial securities. An effective stock market offers opportunities for both surplus savings and deficits saving to optimally meet their requirements.

The concept of stock market in Nepal is very new. The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. At that time the participation of ownership structure of the corporate sector was restricted to Rana family. Consequently, the expansion of capital market to desired level had been restricted. No significant attempts had been made in four five year plan to reform to capital market. The 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 the other significant developments relating to capital markets. Security Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was only the capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. His majesty's government, under a programmed initiated to reform capital markets converted Securities Exchange Center into Nepal Exchange Center into Nepal Stock Exchange in 1993. Nepal Stock Exchange, in short NEPSE, is a non profit organization operating under securities exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transaction in its trading floor through members,

market intermediaries, such as brokers, market makers etc. NEPSE opened its trading floor on 13th January 1994. His Majesty's Government, Nepal Rastra Bank, Nepal Industrial Development corporation and members are the shareholders of the NEPSE. (Bhattarai 2006:39)

Initially the SEC limited its function for trading the government bonds and national savings certificates only. Then it acted as an issue manager for corporate securities and started to list and provides market for the corporate stocks from fiscal year 1984/85 under the Securities Exchange Act 1983. Thus the SEC served to promote the primary and secondary market for government and corporate securities from the fiscal year 1984/85. The incorporation of the Securities Board, Nepal (SEBO/N) under the portion of the Securities Exchange Act 1983, and conversion of the SEC into the Nepal Stock Exchange under the government policy, capital market reform had greatly contributed to the development of primary as well as secondary market for the corporate securities. The rise in stock price and the market liquidity for corporate securities were observed immediately after the incorporation of SEBON and NEPSE for one year only. This has positive and immediate impact on the primary market (Bhatta, 1997:1). However, after a year, again downward trend in the primary as well as secondary market was observed and this phenomenon had been continuing till the end of 2001. After a year, again downward trend in the stock market started and has been continuing till now. It was happened due to the internal and external problems faced by the country's capital market. Although the growth of stock market is high relative to the growth of the economy, the share of the corporate sectors in the national economy is still very low due to the negligible size of the corporate sectors. Stock market in Nepal is recent phenomenon of listing of shares in securities exchange center (SEC) and their daily reading in secondary market, Though the institutional brokerage system. Because of worldwide whim of privatization

economical changes have been brought in the country where economics are based on stock market development. According to this change, Nepalese stock market also got new reformation in 1992 government had decided that securities exchange center (SEC) should be converted into two distinct entities, one is Securities Board (SEBO) and the other is Nepal Stock Exchange Limited (NEPSE), both remains majority government owned. Brokers and market makers purchase a small percentage (less than 1%) of total shares. In Nepal NEPSE is only the official stock market to provide services of securities. Thus, the stock market in Nepal is burning issue and is in its infancy stage also.

1.2 Statement of the problems:

The stock market movement in Nepalese capital market is one of the important areas to be addressed. Information on stock market movement provides a reasonable basis on which different participants can base their decisions.

In Nepal the stock market is at an early stage of right. It is important that the government create the right policy environment to facilitate the creation of a critical mass of financial instruments, issuers and investors. In the near term there is an urgent need to develop the money and bond market and increase institutional investors' participation and support in the primary and secondary market. Else there is a need to develop full service securities forms with capacity to provide financial service to issues and investors as well as to develop new market and instrument. Therefore, government needs to create incentives for capital mobilization and remove impediments to private sectors development educate investment and provide basic stock market development in Nepal hasn't reaches its full potential for many reasons like political instability, legal inconsistence, low investors confidences, weak tax

system. Development of stock market and economic growth of this nation to be analyzed and this is a small attempt toward that end. Likewise, it is the need to check how stock market affects and is affected by different macro environmental factors. Conceived in this way, following are the issues on which this study has been centered:

1. What is the trend of stock market in Nepal?
2. How significant the presence of stock market is for national economy?
3. To what extent are Nepalese peoples aware about securities investment?
4. What is the size and liquidity position of stock market?
5. What are the challenges faced by stock market?

1.3 Importance of the study

Stock market recognizes the situation of countries economy. When stock market is booming the economy is good and market is declining the economy is bad. Stock market movement helps to know about the real capital market situation of the nation. It also represents the countries policies towards industries. Policy is formulated regularized by rules and regulation between different act and Niyamawali. This study is needed to find out issues and prospects in the near future. What policies can be formulated, what regulation acts are needed and necessity of amendments regarding the rules and regulation to be develop it and make the market perfect functioning. It is also needed to find out the views of potential investors and government and other financial institutions about the related organizations. Investors can asses how market fluctuations affect their investment and return. Similarly, government can take advantage of the study to form economic policy and to review its policy reforms. Like wise security broker, market maker, researcher, and other interested parties can take advantage of the study in one or another way.

1.4 Objectives of the study

The main objective of the study is to identify the existing conditions of Nepalese stock market, and challenges faced by the stock market and potentials for the development of the stock market. Furthermore, this research has been conducted to accomplish the objectives as follows:

- i. To examine the trend and growth of stock market in Nepal.
- ii. To examine the growth of listed companies in Nepal.
- iii. To measure relationship between the listed companies in NEPSE, composition of sector and their market capitalization.
- iv. To find out the existing challenges faced by Nepalese stock market.
- v. To provide suggestions on the basis of findings.

1.5 Limitation of the study:

Every study will not free from some obstacles. So, there are certain limitations of the study that are stated below:

- i. Only ten years data are used for the study purpose.
- ii. Time factors are not sufficient for detail study.
- iii. The study is limited only in the stock market of Nepal.
- iv. From the total populations only limited sample are taken for data analysis.
- v. The data collected from NEPSE, concerned organization and brokers, so the data may be either actual or estimated.
- vi. Only selected financial and statistical tools have been employed for analysis purpose. Unavailability of the data may limit the scope of the study.
- vii. Foreign information and rules affecting the share market is ignored.

1.6 Organization of the study

Chapter 1:	Introduction
Chapter 2:	Review of Literature
Chapter 3:	Research Methodology
Chapter 4:	Data Presentation and Analysis
Chapter 5:	Summary, Conclusion and Recommendation

Chapter 1: Introduction: The first chapter deals with the introduction. This includes Background, Statements of problems, objective of the study, limitations, and organization of the study.

Chapter 2: Review of Literature: The second chapter deals with the review of available literature. It contains the conceptual framework and past research literature on stock market. It includes review of books, reports, journals previous thesis.

Chapter 3: Research Methodology: The third chapter explains the research methodology used in the study, which includes research design, source of data, population and samples, methods of data analysis, etc.

Chapter 4: Data collection and presentation: The fourth chapter, which is the important chapter of the study, will include presentation and analysis of data collected from different sources. Based on the data analysis of stock market has been performed.

Chapter 5: Summary, Conclusion and Recommendation: The fifth chapter summarizes the main conclusion and suitable recommendations for further improvement.

Chapter - II

Literature Review

Introduction

This chapter is mainly concerned with the component exploration of the background to the work and comprehensive review of recent and relevant literature. The chapter deals with the review relating to the topic "Prospects and Challenges of Stock Market development in Nepal" in details. In this regard various books, journals and articles, other related studies are reviewed. Our stock market is on emerging state and unable to provide necessary information concerning to this study. So many indirect topics reviewed in the context of Nepalese stock market as well as international stock market.

2.1 Conceptual Review

2.1.1 Financial Market

The financial system is an important element of modern economy. The resources are exchanged through the financial system. It helps in the payment of goods, services and productive inputs. Similarly it makes to manage funds efficiently and use them. Financial system consists of financial institution, financial market and financial instruments. It denotes commercial banks, savings and loan association, insurance company, central banks etc. Financial market denotes the place or mechanism where financial instruments are traded.

Financial instrument denotes also paper evidence showing the exchange of instrument between concerned parties. The financial instruments between other than money included in the financial system are stock, bond etc. The financial system converts saving into investment. It makes the savings investment process convenient through financial intermediary. A financial market is defined as a place where fund supplier and fund borrowers are brought together with the help of financial intermediaries directly or indirectly. These intermediaries channel nation's savings into most productive uses. Financial market facilitates the transaction of financial assets like deposits, loan, bond securities, stocks, cheque, bills etc. It refers to all the activities of financial institution those transaction financial assets and liabilities.

Financial market is a mechanism by which savings in one sector of economy flows to another sector. Corporation's issues or sell common stocks and bonds certificate in order to obtain the amount they needed to purchase new productive assets. A market allows buyers and sellers to meet in order to conduct a mutually agreeable transaction. Financial market is simply one way net spender. Corporation obtains a new financing by purchasing fund from net savers. Corporation received fund by issuing bonds, common stocks, or borrowing from the commercial banks.

Lenders or suppliers of funds exchanges money for other financial assets that tend to provide a better future return. The net effect such a transaction is that they buy a claim

against some one's money holding at some future date. In fact they create loanable fund in the financial market (Hemming and Pigott; 1982:11). Financial market in functional perspective is a rational system of collecting savings and allocating them efficiently to the ultimate users for investment in productive assets or current consumption (Kidwell and Petterson; 1981:25). Financial market is the market in which financial instruments are traded. (S.K Cooper and others)

Financial market can be better understood with a full fledged knowledge on their various types and categories. The lines of demarcation are not clear cut in practice. Even for the purpose of simplification and made it understandable financial market is classified in the following order:

2.1.2 Capital Market:

Nepal is one of the least developed countries in the world. The paucity of the capital has been the main causes for underdevelopment. Nepal launched planned economic development more than four decades ago. Recently she had adopted the path of economic development through liberalization. However any strategy for development requires a steady supply of medium to long-term capital funds for productive investment. For the mobilization of investible resources, capital market is an important intermediary through which effective bridging of the deficits units and surplus units can be ensured. Capital market institutions are engaged in mobilization of savings from surplus units and deploy fund into the deficit unit for productive investment. "In this respect, capital market plays a crucial role in mobilizing a constant flow of savings and channelizing these financial resources for expanding productive capacity in the countries". (Kiu; 1989)

A place where long term lending and borrowing takes place is known as capital market is the market for long term borrowing and lending. The primary instruments of

the capital market are stock and bond (equity and debts). Therefore it includes both the new issue market and the old market. Capital market is concerned with long term finance; widely it consists of series of channels through which the saving of the community are made available for industrial and commercial enterprises and authorities. It is concerned with that private saving; individual as well as corporate that is turned into investment through new capital issue and also new public loan floated by government and semi-government bodies. In the capital market, demands for funds comes from agriculture, industry, trade and government while the supply of funds comes for individual or corporate savings, institutional investors and surplus of government.

The history of capital market is very new. The capital market was developed by the establishment of Security Exchange Center in 1976 (2033 B.S). The number of listed companies and their trading was very negligible until the government of Nepal had made economic reforms along with broad financial policy in process of economic liberalization. The privatization of public entities have been started various finance and insurance companies in the private sector are being established with local and foreign investment. Those companies have to issue some of their share of the general public (Vaidya; 2057:70)

2.1.3 Securities Market

A Securities market can be defined as a place for bringing together buyers and sellers of financial asset in order to facilitate trading. Securities markets are primary markets and secondary markets. Market indexes are the indicators of performance of the markets. For example, either the market is moving upward, downward or is stagnant. (Bhattarai; 2006:11)

Securities are traded in a market called securities markets. Security markets exist in order to bring together buyers and sellers of securities, mechanisms created to facilitate the exchange of financial assets. There are many ways in which securities markets can be distinguished: one way is primary and secondary markets. Here, the key distinction is whether or not the securities are being offered for sale by the issuer. Another way of distinguishing between security markets considers the life span of financial assets. Money markets typically involve financial assets that have life span of one year or less, whereas capital markets typically involve financial assets that have life span of greater than one year. (Sharpe, Alexander and Bailey; 2000P:9)

Although securities markets are concentrated in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities, such as equities, short and long term debt instruments, derivatives etc. are the products that are traded in the markets, institutions such as investment bankers and securities firms, securities issuing institutions such as government and corporate bodies and participants of the securities markets. Securities markets' major function is to provide line between savings and investment thereby facilitating the creation of new wealth (Baral; 1999: 8)

2.1.4 Primary Market

A primary market is the place where corporations and government issue new securities. All securities, whether in money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue-that is,

the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individuals, businesses, governments, or financial institutions, savers and investors, they become a part of the secondary market. The term 'Primary market' is used to denote the market for the original sale of securities by an issuer to the public. The issuer receives cash which may be invested in productive assets or retirement of debt. (Bhattarai; 2006:11)

Primary markets are media through which new financial assets are issued or generated. They are the media by which demanders and suppliers of today's funds and the creators and acceptors of financial claims meet. In these primary markets, financial assets are created and exchange, satisfying in the part of financial needs of both demanders and suppliers today's fund. At the present concept, it is the market for direct issuance of government securities. The primary market of the country is dominated by the government securities due to the existence of new issue market for individual security.

The growth of primary market is encouraging since many public limited companies including joint venture commercial banks have been successful to tap through floatation of securities to the general investing public (Shrestha; 1999:8). The primary market (new issue market) deals with those securities which have been made available to the public for the first time.

In the FY 2007/08 the Security Board of Nepal (SEBON) granted permission to 71 companies for mobilization of Rs.11.56 billion while 33 companies got approval to mobilize Rs. 2.75 billion in the preceding year. The number of capital mobilizing companies and amount of capital mobilization has risen by 132.25 percent and 320.36 percent respectively. So, the capital mobilization trend in the primary market is increasing. (Final Report: Security Board of Nepal).

2.1.5 Secondary Market

The secondary markets are the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides liquidity for financial assets making them more attractive so secondary market is the place where securities once sold are purchased to provide liquidity to the government securities and the secondary market is operated by Securities Exchange Center. The limited distributors of the securities, Nepal stock exchange, in order to promote the market, used to support the market even involving itself in buying and selling activities, if necessary. The Securities Exchange Center initiated the secondary market in the fiscal year 1975-1976 since the volume traded is generally increasing year by year. (Pradhan; 1997:5)

The secondary market is not keeping pace with the growth of the primary market. This is mainly due to lack of the needed effects on concerned authority to devise suitable package of measures to encourage the growth of brokers networks in the country's growing stock exchange (Vaidya; 1999:70). The secondary market provides 'liquidity' for financial assets making them more attractive. The trading of government securities in secondary market is very thin because of limited distributors of the securities.

Stock market interchangeably known as secondary market is the other capital market. It includes all transferable securities issued previously by the corporate bodies such securities are also traded on the stock exchange. Here stock exchange refers to the association, organization or body of individuals whether incorporate or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities. Indian securities contract (Regulation) Act 1956. But the stock market does not include securities of private companies as they are not capable of being dealt in on stock exchange and are not marketable securities due to

restriction on transferability. This means only the securities of listed companies are traded on the trading floor of the Stock Exchange. Section 8 of securities exchange Act 1983 has laid down the provision of compulsory listing of securities before trading on the stock exchange. Securities not listed in listed or declared void are not traded in this case. For trading purpose of the debentures or bonds of the companies, the maturity period of such instruments should not be less than two years and debentures having face value of Rs.1000 each can only be traded.

Stock market, hence, covers activities pertaining to the dealing in securities, whether good or bad, for the liquidity and marketability. Only the securities of existing companies are tradable on the stock exchange irrespective of issuers, corporate bodies or government. The trading process of existing securities is carried out with the help of market intermediaries or involving buyers and sellers themselves. The government has also initiated the drive of placing bonds of its own in the second market.

A huge numbers of securities of an existing financial manufacturing banking service and production entities are traded daily via Nepal Stock Exchange in Nepal. The securities market involved in both primary and secondary of securities till 1993. Later converted into Stock Exchange (NEPSE) according to securities Exchange Act 1983, is providing a wide spectrum of securities of organization so as to pave the way for the economic development in the country. Beside this, to safeguard the interest of shareholders the stock exchange is performing the roles. The board as designated by the act is performing the roles. The board incriminates the companies or concerned individuals who do not comply with the prevailing rules and regulations. The NEPSE has recently release a report of 21 companies in this connection (Tonic et al; 1997: 26}

The stock market dominantly deals in stock or equity shares. The secondary market enables investors to continuously rearrange their assets while others can use their

surplus funds to be acquiring them. The presence of an active secondary market is actually promotes the growth of the secondary market and capital formation because investors in the primary market are assured that a continuous. Market exists and should occasion arise they can liquidate their investment in the stock exchange. Formal trading rules and communication networks for trading in securities link the participants in the secondary market.

The Nepal stock exchange has been equipped with 23 brokers and eight issue manager but today only available as a market maker. Nevertheless, the growing numbers of corporate bodies and intensive volume of transaction of securities, primarily stocks have shown green signal to the capital market. We have only one stock exchange i.e. "Nepal Stock Exchange" laid down in the initiative of the government with consideration of the limited play ground of the capital market. But in India, there are 21 or more stock exchange established according to the securities contract (Regulation) Act 1956. Now, with the relaxation of laws of India, foreign institution, not individuals have also allowed to operate on stock exchange. In comparison to Indian Stock market, we have nothing countable achievements in the case of secondary market. However, what the Nepalese stock market did in almost two decades of its establishment is considered a watershed in the history of the securities market in Nepalese while having a glance over the stock records of the London Stock Exchange (1773), New York Exchange (1817) and Bombay Stock Exchange (1877).

The corporate bodies were required to list their shares and debenture in the SEC in order to qualify for the trading. However, the government bonds issued under the National Debt Act were exempted from such compulsory listing obligation. Securities Exchange Act 1983 made it obligatory to trade the securities through the recognized Exchange Center or through their licensed brokers. Therefore, the securities Exchange

Center open its floor for secondary trading of corporate shares in November 1984 before this; the SEC was restricted to the trading government bonds. At present 23 member brokers have been operating on the trading floor. The rate of brokerage on equity transaction varies from 1 to 1.5% depending upon the volume of trade and the rate of brokerage on debenture ranges from 0.15 percent to 0.75 percent. Higher the amount of transaction lower is the percentage of commission to the broker. However it takes a very long period of around two months to get the securities transferred and registered in the name of buyer though by law insists to do the transaction timely.

Securities Board, Nepal was established on May 26, 1993 under the provision of Securities Exchange Act, 1983 (first amendment). Since its establishment, SEBO has been concentrating its efforts on improving the legal and statutory frameworks which are the bases for the healthy development of the capital market. As a part of its continuous efforts to build a sound system, the Securities Exchange Act, 1983 was amended for the second time on Jan 30, 1997. This amendment paved the way for establishing SEBO by bringing market intermediaries directly under its' jurisdiction and also made it mandatory for the corporate bodies to report to SEBO annually as well as semi-annually regarding their performance. Although the second amendment in the act established a direct relationship of SEBO with the market intermediaries and the listed companies, supremacy in its jurisdictions yet to be established and clearly recognized. (Bhattarai; 2006:38)

The main objective SEBO is to provide essential policy direction for the systematic and regular exchange of securities and develop competitive stock exchange market by protecting and promoting the interest of the investors. Nepal Stock Exchange is the trading (operation) institution; where as Securities Board is the regulatory body. Before the Board came into existence, the Securities Exchange Center carried on both the functions. Along with the formation of Securities Exchange Board, His majesty's

government converted the Securities Exchange Center Ltd. into Nepal Stock Exchange Ltd. (NEPSE) in 1993 with a view to reform the capital market. It is a non-profit making organization operating under Securities Exchange Act 1983. Brokers and market makers operate on the trading floor as per the Securities Exchange Act rules and bylaws of NEPSE. Nepal Stock Exchange started to trading operation on 13 January 1994 through its licensed members.

The Nepalese stock market continued to expand in the FY 2007/08 too. With the restoration of peace and a subsequent boost in investors' confidence, major indicators of the share market grew tremendously. Almost all the major indicators of the secondary market like amount of shares traded, number of listed shares, the number of transactions, annual turnover, total market capitalization of listed shares, market capitalization and GDP ratio, turnover to market capitalization and the GDP ratios all increased in the review period. (NEPSE Annual Trading Report 2007/08)

Secondary markets are markets for existing assets, which are currently traded between Investors. It is this market that creates the price and allows for liquidity. If secondary markets did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all (Geoffrey, 1983: 25).

Secondary (Indirect) securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers secondary market comprises the stock exchange, the over-the-counter market (Rimal; 1994).

Over-the-counter (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchanges. A sophisticated telecommunication network lists active traders in this market. The prices at which securities are traded “over-the-counter” are determined by competitive bids and negotiation. The OTC,

in addition to create a resale market for outstanding securities, is a primary market in which new public issues are sold (Gitman; 1988: 30). The over-the-counter market is broader in scope than stock exchanges. It will be recalled that stock exchanges limit their activities to trading in securities already issued. In contrast, the over-the-counter market handles both securities already issued and new securities being sold to the public whereas the stock exchanges are auction markets, the over-the-counter market is primarily a negotiated markets that is, buyer and seller may haggle over prices before the transaction is completed. Dealers in the over-the-counter market buy securities with the hope of being able to resell them at a higher price. This process resembles any merchandising activity in which the trader buys goods in the hope of reselling them at a higher price (Bradley; 1963: 310).

Securities with the following characteristics tend to be traded in the over-the-counter market: securities of companies with a small capitalization; securities of companies which are owned by a few holders; securities of governments and their subdivisions; and securities which are purchased in large blocks (such as government securities) by banks, life insurance companies, and other large investors (Bradley; 1963: 311).

Stock Brokers

Broker acts as a middleman who matches buying and selling order, thereby securing both buyers and sellers. A broker does not take title to the securities involved in the transaction. A commission is charged by the broker for his assistance in consummating the transaction (Bradley; 1963: 304). A stockbroker, as a member of stock exchange and sub-broker as any person who acts on behalf of stock broker as an agent or otherwise assisting the investors in buying, selling on dealing in securities through such brokers (Bhatta; 1997: 23).

A stockbroker is expected to maintain high standards of integrity, promptitude, and fairness in the conduct of his business. He is expected to exercise due to skill,

diligence, and comply with statutory requirements and not to indulge in manipulations and practices.

Commission Broker

Almost all members act as commission brokers. The commission broker executes on the floor of the exchange buying and selling orders placed by his constituents to whom he renders contracts containing a charge for commission at rates not exceeding the official scale of brokerage.

Floor Broker

The floor brokers, not large in number, are officially attached to other member. The floor broker executes order for any members and receives as his compensation a share of the brokerage charge by the commission broker to his constituents. Floor brokers may be described as brokers. They are simply members of the exchange not brokers for a member firm. At peak activity periods, they will accept orders from other broker, execute them, and receive part of the commission in return. Floor brokers are useful in that they present backlogs of orders, and they allow many firms to operate with fewer exchange memberships than would be needed without their services.

Security Dealer

A dealer buys securities at one price and expects to sell them at a higher price (Bradley; 1963: 304). 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. Obviously, when an OTC broker receives an order for a security in which a market is not maintained, they may act as both broker and dealer in executing the trade. However, this does not eliminate the obligation to obtain the best price for the customer (Raju; 2000: 66).

Market Makers

Market makers, also known as specialists, facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealer 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 makers (Joshi; 2001: 28). The market maker is any company or corporate body which deals in securities at the Stock Exchange in its own name or under its name on the basis of a pledge to provide liquidity to the securities issued by HMG, as well as to the securities listed at the Stock Exchange by concluding necessary contracts with the concerned corporate bodies or to the securities of at least three corporate bodies, and not to let to occur improper instability in the prices of such securities, shall be granted membership of securities market maker.

2.1:6 Stock Exchange (Stock Market)

Stock market is known as secondary market in other, side of market segment under capital market, It include all transferable securities issued previously by corporate bodies, such securities are also traded in the stock Exchange Stock Market does not include securities of private company as they are not capable of being dealt in on stock exchange and are not marketable securities due to the restriction of transferability. In order to take the benefit from stock market the corporate bodies should have listed the security in the stock exchange.

The stock market is one of the most important sources of capital. It allows businesses to go public or raise additional capital for expansion. On the other hand, the liquidity that an exchange provides allow investors to sell securities quickly and easily. This makes investing in stocks more attractive than investing in other less liquid financial instruments. The historical trends have shown that the prices of shares and other assets are an important part of the dynamics of economic activities, and can influence, or be an indicator of, social mood. Rising share prices, for instance, tend to be

associated with increased business investments and vice versa. The stock exchange also acts as a clearinghouse for each transaction, that is, it collects and delivers shares, and guarantee payment to the seller of a security. The stock exchange's role of a clearinghouse eliminates the risk of a counterparty defaulting on a transaction. The smooth functioning of all these activities facilitates economic growth in that it lowers costs and enterprise risks, promotes the production of goods and services, and opening up of jobs. (NEPSE: Newsletter)

Stock market covers activities pertaining to the dealing in securities whether good or bad for liquidity and marketability. Only the securities of existing companies are tradable on the stock exchange irrespective of issuers, corporate bodies or government (Vaidya; 2000:72)

In contrast to the bond market, the stock market is basically a secondary market. The aggregate amount of new common stock issued by co-operations every year is small compared to the trading on the organized exchanges -Nepal Stock Exchange, New York Stock Exchange, the America Stock Exchange, the regional exchange and the over the counter market. Nut in Nepal OTC market is not available recently now.

The establishment of the securities Exchange Center (SEC) in 1976 was the first attempt made by the government for the institutional development of the stock marker in Nepal although the floatation of shares by Nepal Bank Limited (NBL) and Biratnagar Jute mills Ltd. (BJM) was begins in 1937 under the company Act 1936.

Only from 1984, the floor was opened for secondary trading of shares to provide the liquidity for the already issue shares. It availed the liquidity to the shares of 16 stocks with paid up capital of Rs.307.32 million, market capitalization of Rs.318.68 million and 9852 shareholders till 1985/86. This is the evidence that the stock market had the upward trend but the pace of development was very low till FY 1985/86.

After FY 1985/86, the stock market development gained momentum in all aspects till FY 1992/93. The stock market witnessed a remarkable growth in FY 1993 and FY 1992/93, which, then turned toward direction. From then, stock market is succeeded to draw attention of the investors and the entrepreneurs toward productive venture through its dual role, management of public issue and the trading of listed stocks. It requires a huge amount of resources for long term for the execution of large projects. (Advani; 1993:14). The stock market is the only institution to mobilize substantial portion of public and the public share volume in other markets. This suggests that individual investors recognize the opportunities in these other markets and peruse them.

2:1:6:1 Other Development of Stock Market

With the view to further reform the market and institutions, NEPSE has taken the following measures.

2:1:6:1:1 Trading System Automated

The Automated Trading System (ATS), an internationally compatible trading system was inaugurated by the Finance Minister Dr. Ram Sharan Mahat on 24 August 2007. In order to adopt the ATS, NEPSE made an agreement with the British Company Comdaq Limited in November 2006 under the Asian Development Bank (ADB) loan assistance project--Corporate and Financial Governance (CFG)-at the cost of 300 thousand US dollars. 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. The following features are therefore found in the existing automated trading system:

1. Client Management

Client Management enables a broker to create a client. Without creating a client the broker will not be allowed to place any order. The broker has to insert various details of the client, including a *client code*, which is a unique code for that particular client. After receiving an order, the broker has to place the order for that client on the First in First Out (FIFO) basis of the order registered by the client's in the broker's office.

2. Order: It is an expression of interest to either buy or sell a specified quantity of stock either at a specified price or at the current market price. An order is given by a client to a licensed broker. There is an *order entry form* in the system through which a broker places a purchase or sell order. Generally, four types of order can be placed in the system:

Regular: An order which is completed on the exchange and that confirms the order of lot size or greater than that.

Odd-Lot: An order which is completed on the exchange and that confirms the order less than lot size.

Manual: An order which is placed by brokers and is reported individually by the buying and selling brokers.

Block: An order which is placed by brokers and confirms to the minimum block trade quantity specified by the exchange and is reported individually by the buying and selling brokers.

3. Price

It is the price, which the buyer quotes in his/her buy or sell order. The investors as usual can quote either *fixed price*, *price in range* or *market price*. If broker find the price within range they enter the details to execute the transactions. In the present system the *order entry form* on computer has been developed to indicate a price either in *limit* or *market*. If the price is given in fixed, brokers insert the fixed price and if it is given in range they insert the best price for their clients. Brokers must always

attempt to execute transactions to protect their clients' interest. If investors are sellers, brokers must attempt to execute transactions at higher prices and if investors are buyers, brokers must attempt to buy at low prices. It is the negotiation process through which they execute the transactions. If the price is market, then brokers will execute orders at the market price, that is, they buy or sell the shares at market price. (NEPSE Annual Trading Report 2007/08)

4. Execute At

This represents the phases of trading when to execute the order. There are three phases during which the broker can place the order to execute the transactions. Such phases are:

At the Open (ATO)

ATO indicates the order should be executed when the market opens. In order to execute the transactions at ATO the member brokers have to place the orders to execute it at ATO. All the ATO orders will be accumulated in the system till the ATO execution time and only then the ATO orders will be executed at the best price at the opening of transactions. ATO gives the price, quantity and time priority for the execution. At present NEPSE has fixed 11:30 A.M. to 11:55 A.M. as time to place ATO orders. The engine calculates the best price and matches the order at 12:00 noon, that is, when the market opens. In this case, a price can be quoted within the range of 5 percent of the previous close price. Once the ATO phase is over a price can be quoted within the range of 2 percent of LTP. ATO determines the opening price for the stock. If there are no matchable ATO orders for a stock the open price of the stock will be equal to the previous close price.

Continuous Trading

This is the phase that indicates orders should be executed while the market is in progress.

At the Close

This is the last phase that indicates orders should be executed when the market closes. The system has provided facility to generate the ATC price of a stock either by taking the average of the price of last n transactions or the average of the price of the last n minutes. Currently NEPSE adopts the average of last n transactions where n equals to 1 i.e. the LTP of the stock at close is the ATC price or closing price.

5. Retain Until

Customers can give orders to retain until the specified period as below unless it is executed.

End of Day (EOD)

This indicates the placed orders if not executed will be retained until the end of today.

Good till cancelled (GTC)

This indicates the order if not executed should be retained until it is cancelled. The system has provided facility for exchange to set the time period in days till which the pending orders can be retained in GTC. NEPSE has adopted an order-driven market system. So each and every order entered should be backed by a written order in which the client must specify the validity period of the order but if she/he does not mention the time period the order will be valid for 15 days. In this case GTC will be 15 days.

(NEPSE Annual Trading Report 2007/08)

6. Conditions

This specifies the conditions under which the order could be executed. The conditions are as below.

None: This indicates there are no conditions for execution of orders.

Immediate or Cancel (IOC): This condition indicates that the orders should be executed in full or part immediately if not executed immediately the unexecuted order will not be sent to *Public order book* but cancelled immediately by the system.

Fill or Kill (FOK): This condition indicates the order must get executed entirely or cancelled immediately. The unexecuted order is not sent to public order book but killed (cancelled) by the immediately. NEPSE has modified the system allowing entering the quantity of a stock to be traded either at the multiple of lot size or greater than that.

All or none (AON): This condition indicates the order must get executed entirely and if not executed the order is sent to public order book. In this condition too, NEPSE has modified the system allowing entering the quantity of a stock to be traded either at the multiple of lot size or greater than that.

7. Market Depth

It is the provision, which the stock exchange has made to facilitate the bid and offers. Under this provision the member broker before inserting the bid and offers for certain quantities at certain price for the particular company can view the bid and offer placed by other brokers. This not only facilitates for the negotiation but also contributes for the execution of transactions at market price.

8. Settlement

After automation NEPSE has continued T+3 for settlement but there is a little bit change in process. The trading is done at "T" and at T+1, the buying brokers have to submit bankouchers for settlement with covering letter. At T+2, the selling brokers must submit share certificate with covering letter. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank. Once the settlement is done the buying brokers with the consultation of the clients must decide and present the purchased shares if they want to record it as blank transfer. This must be completed within T+5.

9. Blank Transfer

Under this mechanism an opportunities to derive the market benefit is provided. But presently, the buying brokers must complete the BT process within T+5. The transactions that are executed can be recorded in different ways and NEPSE has considered all possible retention. NEPSE Annual Trading Report 2008/08.

2:1:6:1:2 Trading through WAN started

After the introduction of the ATS and with the initiative and guidance of NEPSE, member brokers of NEPSE have started online trading through Wide Area Network (WAN) from their own office from 13 October 2007. Because of this facility, stock brokers can now sell or buy shares from their office. The brokers who have the necessary infrastructure prescribed by NEPSE will get access to WAN. To get access a broker must have a price board, separate rooms along with separate computers for clients' order entry, settlement and must provide up to date information to the clients. In the first phase, NEPSE granted permission to Malla and Mall Stock Broking Limited, Nepal Stock House, Nepal Investment and Securities Trading Private Limited, Shreekrishna Securities Limited and Premiere Securities Company Limited for trading through WAN. From the end of the FY 2007/08 all the 23 brokers transact from their office via WAN.

2:1:6:1:3 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. Now on NEPSE can halt the trading floor for 15 minutes if the index

moves up or down by three percent during the first half an hour. After resumption of trading if the index moves up or down by four percent, NEPSE can suspend trading for another half an hour. After the resumption if again the index changes by five percent, NEPSE can suspend trading for rest of the day. The new measure also require brokers to clearly list orders of buying and selling shares and place those orders for transaction on priority basis. This provision has been enforced to address the rising concerns of small investors.

2:1:6:1:4 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 12.00 noon to 15.00. NEPSE has expected that investors in general and small investors in particular will benefit from the increase in trading hours. (NEPSE Annual Trading Report 2007/08)

2:1:6:1:5 Real time information disseminated

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

2:1:6:1:6 Trading of Promoters' shares

NEPSE began trading of promoters' shares on 31 March 2008, adopting a different price quoting mechanism for the first trading of promoters' shares of the listed companies. For the first trading, the price of the promoters' 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.

2:1:6:1:7 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 43 companies can now be traded in the OTC market. But as per the request of Nepal Rastra Bank NEPSE has decided to restrict the shares trading of Nepal Bank Limited in the OTC, since shares trading of Nepal Bank Limited will have a negative impact on the ongoing Financial Sector Reform Project. In the OTC Market one does not have to go to brokers to trade shares; one can come to NEPSE and trade, paying a commission of two percent for transactions of up to Rs 25,000, 1.5 per cent for transactions of above Rs 25,000 but under Rs 5,00,000, and one per cent for transactions of over Rs 5,00,000. However, no transaction has been made until the end of the fiscal year. (NEPSE Annual Trading Report 2007/08)

The 26th annual general meeting (AGM) of NEPSE held on 23 May 2008 has decided to convert the organization into a profit seeking entity. The Company Registrar Office approved the decisions made at the AGM. The approval allowed NEPSE to turn itself into a profit seeking company, change its board of directors and increase its capital. Accordingly, NEPSE's authorized capital increased to Rs 160 million from Rs 50

million. Likewise, the paid-up capital was raised to Rs 50 million from the present Rs 34.9 million. Similarly, the structure of NEPSE's board was made more professional and representation having conflict of interest has been removed from the board. And there are no representatives from stock brokers and the Securities Board of Nepal on the board. The AGM also passed the decision to name the company as "Nepal Stock Exchange Limited" both in Nepali and English. (Final Annual Report 2007/08)

2.2 Review of past Research work:

Now a day the role of the capital market has been increasing as to mobilize the savings of the nation and channels them into productive activities. But the major problem in the process of development is to increase the level of savings and channelized those savings into investments. It leads to the economic growth. Capital market is playing a crucial intermediary element in the process of growth. In this way the important of capital market arises as to proper allocation of savings to various economic.

Poudel Bibek (2006) found in his study" Role of Nepal Stock Exchange in Security market" that the investors in the stock market take the investment decision on the basis of market price of shares. Investment process and its others factors like NEPSE: index, price trend and investments facilitators are not doing their work in systematic way. It was found the rumours are the most predominate factor to determine the market price of share. The efficiency of stock market's different parties, brokers, market makers, security exchange limited were not found efficient by analyzing interviewer's expression as they were not getting required support from these parties.

He recommended that investors should be provided with investment guidelines from news and media. 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. Current manual method of securities trading should be substituted by computer-based technology, which enhances the pace of trading activities. Foreign investors (individual as well as institutional investors) should encourage and promote to invest in the Nepal stock market. The listed companies' 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. The price fluctuation trend is not predictable by general investors, so technician facilities should be provided by Nepal Stock Exchange Ltd. So the general investors should also get benefit from the Nepal Security Exchange Center Ltd.

Shrestha Deepa (2004) found in her study "Growth and prospect of Stock Market in Nepal" that the development of stock market primarily depends on the government policies and programs and their proper implementation. In Nepal, the overall policy environment has not been conducive to the development of stock market. There is lack of investor's confidence in the stock market since many listed companies do not trade on a regular basis or hold AGM and provide disclosure information to investors on timely basis. Lack of necessary provision in the laws and regulation for the privatization and automation of Stock Exchange as well as for establishment of central depository of securities (CDS)

She recommended that NEPSE needs to initiate to also develop different programmes for private investors such as investors meeting and seminars in different subject's matter like "Trading rules and regulation". There should be an institution provide by the companies and to process them to make them understandable by

general investors. Lack of information with regard to trading procedure in NEPSE is also a cause for volume of trading. Government need to implement rules and regulation properly and to monitors for m time to time. Organization effort should be continued for the expansion of stock market. The problems of missing or inconsistent information make analysis difficult in order to eliminate these kinds of problems. A series of consistency check and imputation procedure should be developed.

Oli Chandika (2006) found in her study "Stock behavior in Nepal" that Nepalese Stock market is highly dominated by the largest companies in terms of turnover as the concentration ratio is very high. Numbers of listed companies have been found to have greater impact upon NEPSE index than value of stock traded and number of stock traded. However NEPSE index is also positively influenced by number of stock traded and value of stock traded. NEPSE index carries the political information but fails to carry the cultural information. Scrutiny of difference of NEPSE due to industrial sectors reveals that NEPSE Index due to industrial sector are significantly differ each other. This further confirms the conclusion that Nepalese stock market is highly concentrated to one or group of the industrial sector. It is the banking sector at which the market is highly concentrated.

She recommended that the country should initiate the policies to reduce cost of mobilization of savings and to facilitate the investments as there is positive impact of total savings on NEPSE index. Investors should be provided with wider variety of security to meet their risk return preferences so that, unlike in present situation majority of the nation's population participate actively in buying and selling of security that causes the stock market to be developed and nation's economy, in turn, will be spur. Government should encourage the other sectors to get entered into organized stock exchange to correct the over concentration of stock market which causes the stock trading to be difficult.

Khanal Rishi (2003) found in his study "Growth, Problems and Prospects of Stock Market in Nepal", that the aspect of liquidity in stock market is not functioning well in Nepalese stock market. There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sectors. Although it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive. The stock market has a good prospect for the resources mobilization to finance the productive enterprises in the Nepalese economy. Almost all firms in this sector have sustained loss. Investor's confidence in Nepalese stock market is relatively low because of stock market volatility, low return in investment, inadequate information, lack of financial markets instrument & investors, etc. Transparency and openness of transaction, quality professional services, adequate corporate financial disclosures and improved legal, regulatory and supervising framework are the urgent needs of Nepalese stock market.

He recommended that the role of market player in the stock market should be made effective by promoting capital market in the country. The government should allow foreign investors to invest in Nepalese capital market. There is need to provide the opportunity for a large number of investors to participate directly or through mutual saving schemes, which ultimately enhance the breadth and depth of the stock market

Niroula Monoj (2006) found in his study "Analysis of Stock market Trend and it's performance", that regulation of stock market is very weak. He conclude that the very small size of the stock market has the implication of low liquidity shares and high volatility of the stocks prices implies that there is high risk associated with the investment in the share of stocks listed in the stock exchange which may discourage the investment in the financial assets. The very low rate overturn in the manufacturing sector has discouraged the investors to commit their resources in this sector which, in

turn may check the growth of the banking & finance & insurance sectors in subsequent periods.

He recommended that the demand and supply side of share must be increased. The financial statement of listed companies must be published timely. Government should make policy to float share and distribute share to there employees while privatizing public companies. He also recommended that the proportion of public issue share should be 30 to 50 percent so that interest of the company will always be in the hands of public and HMG should not appoint member to institution like Nepal Stock Exchange.

Raya Rajendra (2007) has conducted thesis entitled “Behaviour of Stock Market in Nepal”. He conclude that the dynamism of the stock market has been greatly reduced by the domination of the long-term shareholders, who prefer holding the shares with the hope of increasing their wealth. This can be justified by small number of shares that are traded on the stock market. Even though this reduces the dynamism of the stock market the investors have very few rather no alternative to holding shares. There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sectors. Although, it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has a good prospect for the resource mobilization to finance the productive enterprises in the Nepalese economy. In the context of primary share issue, there should be strict time frame for allotment of share, refund of money, distribution of share certificate and history of shares. There should be strict punishment if the prospectus is misleading and investors are affected by misleading prospectus.

His recommendations are that the Securities Board in co-ordination with the Ministry of Finance and NEPSE should develop research, public awareness and investor education programmes. Tax system should be reformed. It should encourage and

stimulate capital formation. Manipulative practices like wash sales and churning should be strictly controlled. Investment in corporate sector should be encouraged. The listed firms whose shares are not traded should provide the financial status publicly in order to make the investors aware about their exact financial condition. The government should make appropriate policies and programs for the enhancement of the entrepreneurship development in the Nepalese economy. Large and ineffective government corporations should be privatized in order to develop the Nepalese stock market through the wide spread distribution of shares to public investors. The government should allow foreign investors to invest in Nepalese Capital Market. The procedure for offering public issue should be simplified and rationalized. The information and financial statements of the companies should be disseminated properly and timely.

Thapa Neel Bikram (2008) had performed his research on Determinants of Stock Price in Nepalese Commercial Bank” He summarized that factors affecting the market price of share in NEPSE are identified. Such internal factors affecting the share price are earnings, book value dividend payment, growth rate and risk associated with company. Similarly, there are other factors affecting the market price of share. Such environmental factors affecting the share price are government instability, information and rumors & whims. NEPSE is in primitive stage and it has not significant effect of interest rate, retention ratio, cost of equity, market liquidity and change in management. He conclude that earnings book value, dividend payment, growth rate, and risk associated with the company information disclosed, political stability are the major factors affecting the share price in NEPSE.

He recommended that Nepalese Stock market (NEPSE, SEBO) should take some effective initiatives to control random fluctuation of MPS and establish the system of regular monitoring and evaluation of stock market. There is necessity of separate body to analyze strengths and weakness of public companies which should disclose

right information and suggests to public investors about investment risk. This will help the investors to take proper investment decision at the right time to avoid or minimize the level of risk. The NEPSE and SEBO should be able to protect the investor's interest effectively. There is need of credit rating agencies and investment banks to analyze the company. The companies should provide updated reports to the investors periodically in informing actual financial position of the company.

Shrestha Rashmi (2008) had studied on "Price formation & Stock Price Movement in NEPSE". She conclude that dividend growth rate and the firm's size have positive relationship with MPS, whereas firm's earning, instability and leverage have negative relation ship with MPS. But the result is not same for all the companies in different sectors. The majority of the stock in the NEPSE are over priced in the market. NEPSE price movement have downward trend. There is no relationship between stock price & excess of stock's demand over its supply.

He recommended that Companies must be aware about the market price of their stocks. Excessive overpricing or under pricing is not good for them in the long-term. Brokers and NEPSE should try to decrease occurrence time of the trading halt to zero run the market smoothly. Price formation is not based on true information and the market has been influenced by rumors supply of securities is also not sufficient which also has played catalytic role in improper price formation. Security prices should fully reflect all publicly available in formation. So, transparency and professionalism are required on all concerned stakeholder's part. Price formation should be made competitive so that stock price does not depend on the interest of few involved parties. Investor's awareness and education programs should be aggressively launched, securities business services should be made more competitive.

2.3 Research Gap

Today's world is marked by rapid changes and new developments, as such researchers conducted a few years back may not be adequate to explain current phenomena. The continuous endeavor needs to be taken and new researcher conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism.

Though many affiliate researchers have been done in this area but there have been very few exclusive researchers on this subject. The tremendous developments between (2002-2005) calls for new researches to be conducted. To bring the forth the developments and to bridge the gap between past research and the present situation, I set out to conduct the researching this intriguing topic. I have been through many literature reviews and given my best to fulfill this work.

Also I had a burning desire to understand the reasons behind the slow pace development in the area of stock exchange, in spit of being established since 1994. I want to unveil the reasons behind common people's ignorance and lack of participation in this field and their tendency to pursue the traditional system of investment. In my research effort had been made to understand the prospects and challenges of stock market development in Nepal and I hope this research will be fruitful future researchers for reference.

Chapter – III

Research Methodology

3.1 Introduction

This chapter presents research objective stated in the earlier chapter. This chapter contains introduction, research design, nature and sources of information, population and sample, data gathering procedure and finally tools used for analysis and interpretation. This chapter deals with the research methodology, which are used in the period of research. It is a way to systematically so that we can solve the Research problem. It is the main body of the study conducted. Since the study covers the stocks market as a whole, which belongs to the study area sectors of the economy, constitutes the area. The current study is carried out to diagnose and identify the Prospects and Challenge of Stock market development in Nepal. There are numerous problems of stock market, which are needed to be corrected for increasing contribution of stock market to economic development in Nepal Thus, it is a blueprint for the collection, measurement and analysis of data and it provides where, how by what means concerning this research study. So, It is the carefully study of available facts so that one can understand and draw conclusion from them on the basis of established principle and sound logic (Cottle et al;1988, 29). This study is mostly based the analysis of secondary data with the help of different statistical tools like percentage, tabulation and diagrammatic presentation etc. The empirical results have been extracted in this study by using annual data of listed companies from 1998/99 to 2007/08.

3.2 Research Design

Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to the research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigators will do from writing hypothesis and their operation implications to the final analysis of data.

This study is conducted with the view of gaining source what clear outlook about the major of challenges of stock market Development in Nepal. This study seems to entailing investigation by the use of financial and statistical models to explain the whole phenomenon of the challenges of Stock Market Development in Nepal and have predetermined aims of measurement, analysis and evaluation of all the relevant details and information collected in an efficient manner as possible from Nepal Stock Exchange SEBO and other sources.

It includes nature of data specification of the method of the propose study and details plan for carrying out the study with various empirical data for the analysis of problems etc. To accomplish the aforesaid objectives data are collected from different source and are tabulated, presented and analyzed using different tools.

3.3 Sources of data

In order to satisfy our objectives we need a relevant data which must be studied interpreted and analyzed for the meaningful thesis work. For, this the research uses primary as well as secondary sources of data. The secondary sources of data are obtained from the official's records of Nepal Stock Exchange, SEBO, NRB and

company registrar, various books, Journals, magazines and publications. Apart from this the most sophisticated source for the secondary information is internet websites. Similarly, primary sources of data are based on interviews and questionnaires and questionnaires. The libraries, office and other connected departments have been consulted for additional information.

3.4 Data Technique

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

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

3.5 Population and sample

This research study is based on the data which have been collected from various sources, but mainly from the annual reports of securities exchange board, Nepal covering a period of 1997/98 to 2006/07. NEPSE index and other stock market variables of over 10 years periods are the variable of the study. The number of observation however differs as the nature and objectives of analysis differ. The population for this study comprised of all listed companies whose shares were traded in the Nepal stock Exchange (NEPSE) and securities Board of Nepal (SEBON). Therefore, all the companies listed in Stock Exchange are taken as sample.

3.6 Tools for analysis of data

To draw the conclusion by analyzing the collected data simple statistical tool like multiple bar diagram, percentage, standard deviation etc. are used and tabulation are made to implicit the comparative results.

The following statistical tools have used in the study:

Mean:

Expected return is simply arithmetic mean of the past year return. This is an average return on common stock.

$$E(R_m) = \frac{\sum R_m}{n}$$

Where,

$E(R_m)$ = Expected rate of return on the market.

n = Number of years that the return is taken

Σ = Sign of Summation

Standard Deviation:

Standard deviation is a statistical measure and is widely used to measure risk for holding single assets. The standard deviation represents a large dispersion of return and is a high risk and vise versa.

$$\dagger_m = \frac{\sum (R_m - \bar{E}R_m)^2}{n - 1}$$

Where,

\dagger_m = Standard Deviation of market during the time period n

Coefficient of Valuation (CV):

The percentage measure of coefficient of standard deviation is called coefficient of variance (C.V). It is used for comparing the homogeneity, uniformity and variability of two or more distributions.

$$\text{Coefficient of Variance (C.V)} = \frac{\dagger}{\overline{ER}_m}$$

Chapter - IV

Data Presentation and Analysis

This part of the chapter will reveal the development of Nepalese stock market in term of market turnover, Paid up capital, market capitalization, no of transaction, no. of listed companies, no. of share traded, no. of trading companies, no of listed securities, issued approved, NEPSE index, and market day per year, etc. with different years.

4.1 Presentation and Analysis of Secondary Data

4.1.1 Paid up value of Listed Securities of Different Years

The growth of economy can be regarded as the growth of GDP. And the growth of stock market depends of the growth rates of paid up capital, market capitalization & turnover. The following table presents the paid up value in Nepalese Stock market in various years:

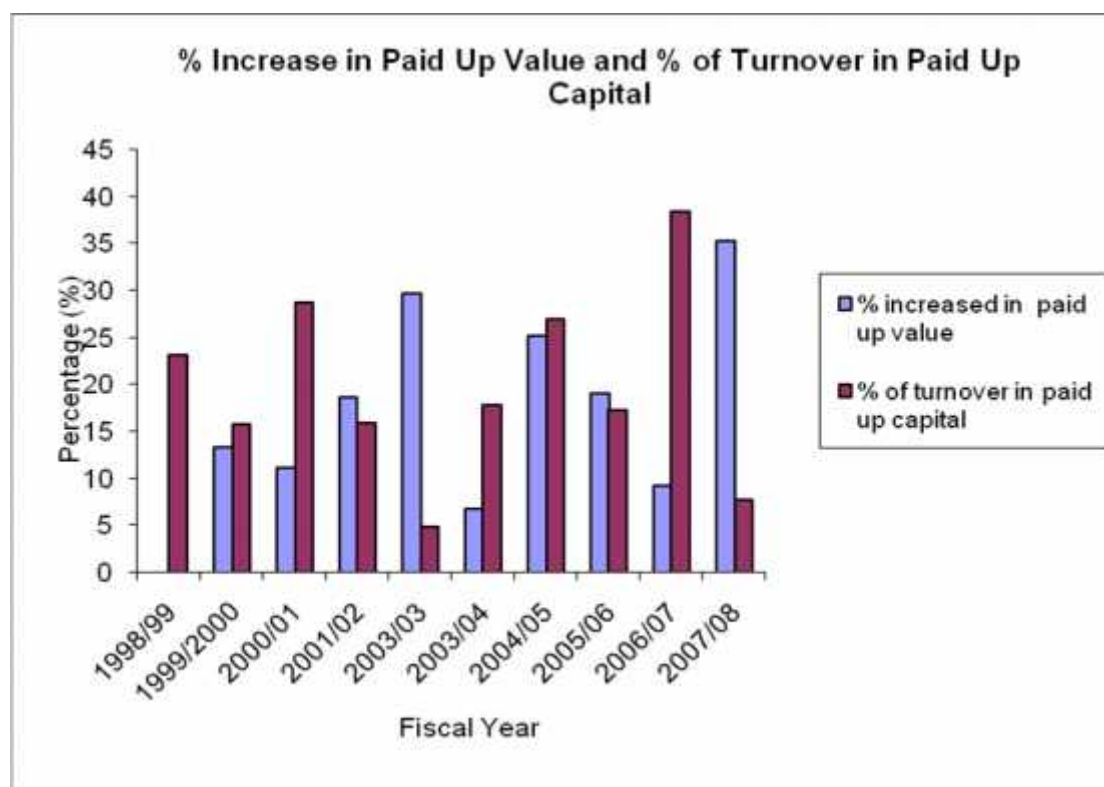
Table-1

Paid-up value of Listed Securities for different years

Fiscal Year	Paid Up Value (Rs in Million)	% increased in Paid Up Value	% of Turnover in Paid Up Capital
1998/99	6487.40	-	23.12
1999/00	7347.40	13.26	15.75
2000/01	8165.20	11.13	28.71
2001/02	9685.04	18.61	15.91
2002/03	12560.07	29.69	4.84
2003/04	13404.90	6.73	17.85
2004/05	16771.80	25.12	26.88
2005/06	19958.00	18.98	17.29
2006/07	21798.80	9.22	38.35
2007/08	29465.00	35.17	7.75

Source: Annual Report, SEBO 2007/08

The following figure shows the above information:



Paid up value of Listed securities has been increasing steadily. But in the end of fiscal year 2003/04, the increased in percentage of paid up value is only 6.73%, which is less than 29.69% in the fiscal year 2002/03. The highest increase in percentage of paid up value is 35.17% in the fiscal year 2007/08 and the lowest increase percentage in paid up value is 6.73 in 2003/04

The percentage of turnover in paid up capital in the fiscal year 2006/07 is 38.35%, which is the highest percentage of turnover in Paid up capital. In the fiscal year 2002/03, the percentage of turnover in paid up capital is only 4.84% which is the lowest percentage of turnover in paid up capital.

4.1.2 Market Capitalization in NEPSE

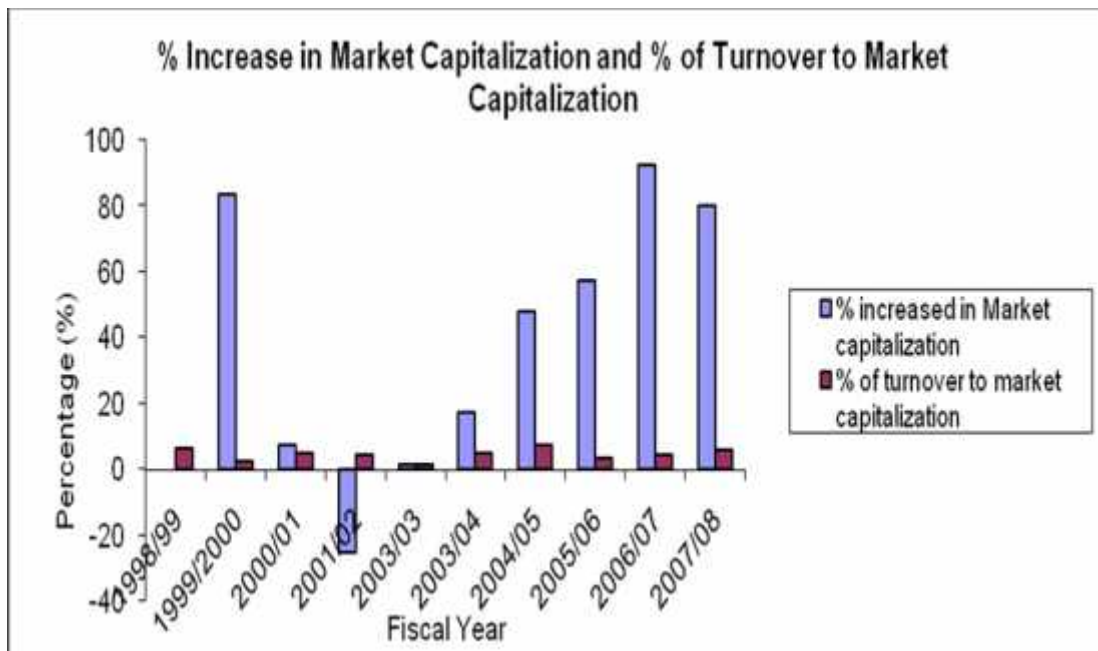
The following table presents the situation of market capitalization in NEPSE:

Table-2
Market Capitalization in NEPSE

Fiscal Year	Market Capitalization (Rs. in Million)	% increased in Market capitalization	% of turnover to market capitalization
1998/99	23508.00	-	6.38
1999/00	43123.30	83.44	2.68
2000/01	46349.40	7.48	5.06
2001/02	34703.87	-25.13	4.44
2002/03	35240.40	1.55	1.63
2003/04	41424.77	17.55	5.18
2004/05	61365.89	48.14	7.35
2005/06	96763.70	57.68	3.57
2006/07	186301.30	92.53	4.49
2007/08	36624.75	80.34	6.23

Source: Annual Report, SEBO 2007/08 and Trading Report, NEPSE 2006/07

We can show above information in the following figure.



The market capitalization of listed securities in the fiscal year 2006/07 is Rs. 186301.3. It is increased by 92.53% as compared to the fiscal year 2005/06 which was Rs.96763.7. In the fiscal year 2001/04, the market capitalization was decreased by -25.13. After this year the market capitalization is increasing respectively. The highest increase in market capitalization rate is in the fiscal year 2006/07 which is 92.53% and lowest in 2001/02 which is -25.13%. But the highest percentage of turnover to market capitalization is in 2004/05 by 7.35%. The percentage of turnover to market capitalization rate in fiscal year 2002/03 is only 1.63% which is the lowest percent during 1998/99 to 2007/08.

4.1.3 Growth trend of Stock Market Indicator

Trading of shares of listed stocks is the most important factor attribute of the stock market because it provides liquidity to the already issued stocks. Thus, trading of shares reflects the stock market liquidity as the higher the amount of trading of stocks relative to the stocks market size; the greater is the stock market liquidity. The position of number of listed companies, number of traded company and number of

share, traded are some important indicators of the stock market growth. The situation of such variables are presented in **Table-3**

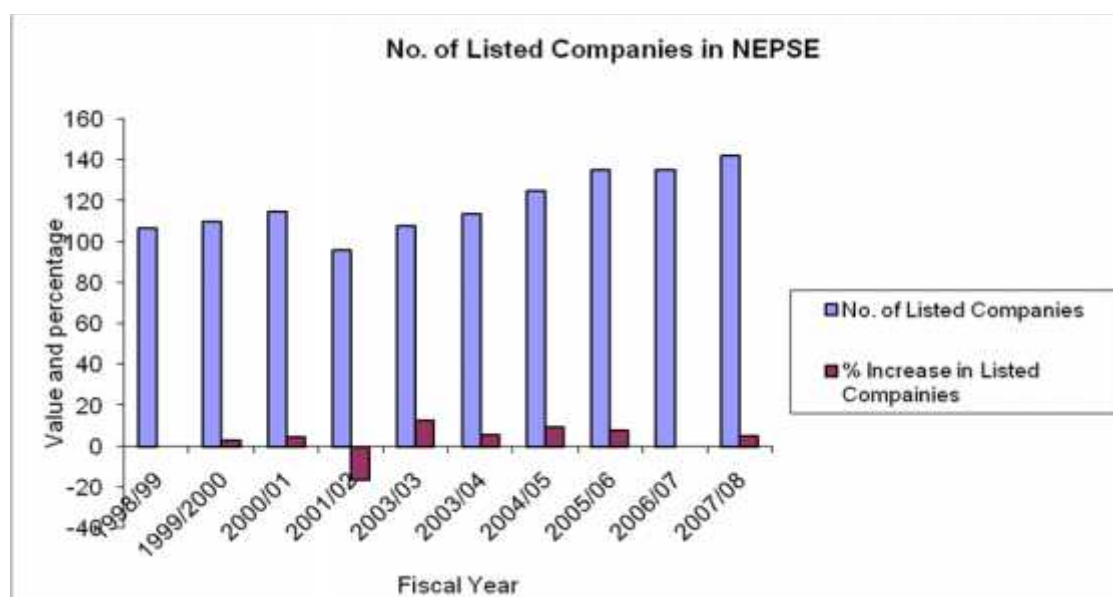
Table-3

Fiscal Year	No. of Listed Companies	% Increase in Listed Companies	No. of Traded Companies	% of Growth	No. of share traded(000)	% increase in No. of Share Traded
1998/99	107	-	69	-	4857.00	-
1999/00	110	2.80	69	-	7674.00	58.00
2000/01	115	4.55	67	-2.90	4989.00	-34.99
2001/02	96	-16.53	69	3.00	6005.00	20.36
2002/03	108	12.50	80	15.94	2428.00	-59.57
2003/04	114	5.56	92	15.00	6468.18	166.39
2004/05	125	9.65	102	10.87	18433.55	184.99
2005/06	135	8.00	110	7.84	12221.93	-33.70
2006/07	135	-	116	5.45	18147.25	48.49
2007/08	142	5.12	136	17.24	28599.77	57.60

Source: Annual Report, NEPSE 2007/08

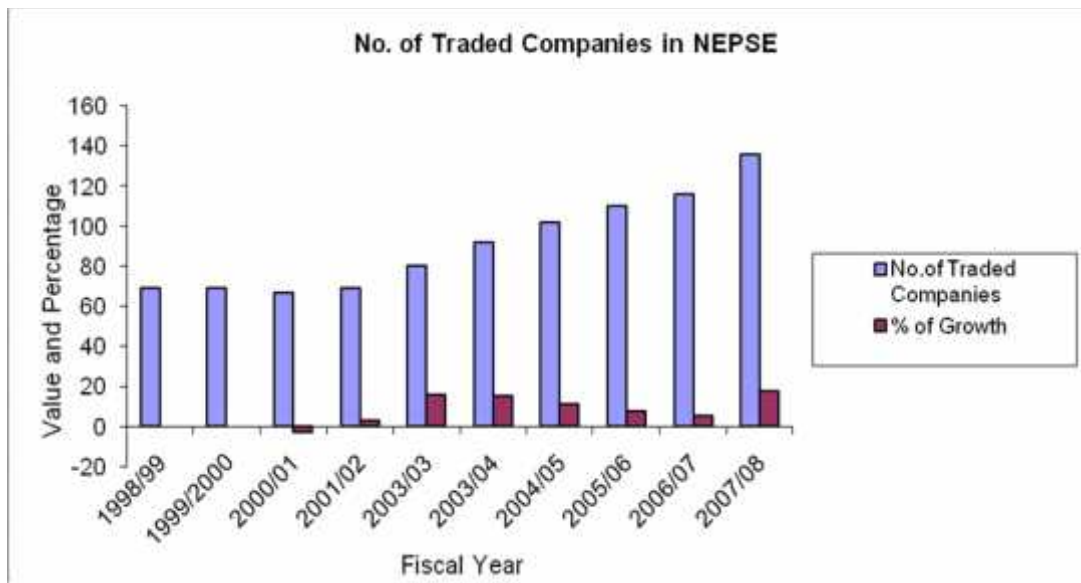
Growth trend of Stock Market Indicator

The followings figures show above information of the **table-3**:

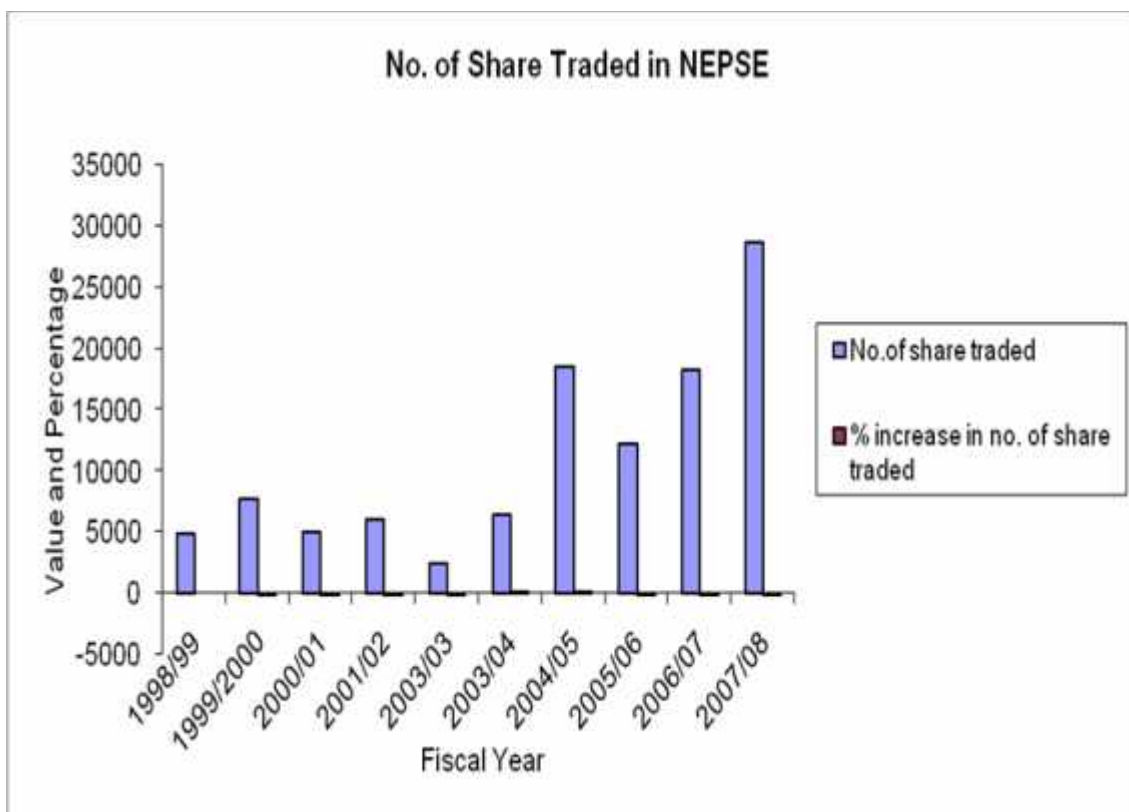


The number of listed companies is increasing year by year except in the fiscal year 2001/02 with the negative growth rate of 16.52%. In that year NEPSE deleted some

companies from its list because of non-disclosure of necessary information correctly and timely. According to Stock Exchange Act 1983, there is a provision for delisting the companies which are not able to disclose the documents regarding annual general meeting, audit report unable to pay the annual fees of listing in NEPSE for upto two years can be delisted from NEPSE. Thus, NEPSE 25 companies after it was empowered by the second amendment in securities listing By-Law 1996 on July 2, 2002. In the fiscal year 2003/04 NEPSE delisted Nepal Bank Limited. And in 2006/07, the number of listed companies remains constant with 135. In this year 12 new companies are listed in NEPSE and 12 companies are de-listed for non-compliance of legal provision. Again, in 2007/08 it increased by 5.19%. The number of listed companies in the FY 2007/08 reached 148 with the listing of 13 new companies. However, the number of listed companies at the end of the fiscal year came down to 142 with the delisting of five companies and merger of two. De-listed companies have been either already closed or have not held annual general meetings or have not audited their results for more than two years. Altogether 0.17 million unit shares amounting Rs.174.91 million have been de-listed during the year.



According to the table-3, the number of traded companies in base year is 69. It remains constant in 1999/00. In fiscal year 2000/01, it decreased by -2.90% as compared to the fiscal year 1999/00. However, the numbers of trading companies are in increasing position in all other fiscal years. The number of traded companies is highest in the fiscal year 2007/08 with 17.24% and lowest in 2000/01 with -2.90%.



Above table-3 shows that the number of share traded is very much fluctuating in different years. The number of share traded in the fiscal year 1998/99 is 4857. It increased by 58% with 7674 number of share in the fiscal year 1999/00. In 2000/01, it decreases and reached to 4989 with negative growth rate of 34.99%. This negative trend of growth rate is continued in the fiscal year 2002/03 and 2005/06 with -59.57% and -33.70% respectively. But in the year 2003/04, 2004/05, 2006/07 and 2007/08, the growth rate is positive.

4.1.4 No. of Transaction and Listed Securities in NEPSE.

The following table presents the no. of transaction and no. of listed securities in various years.

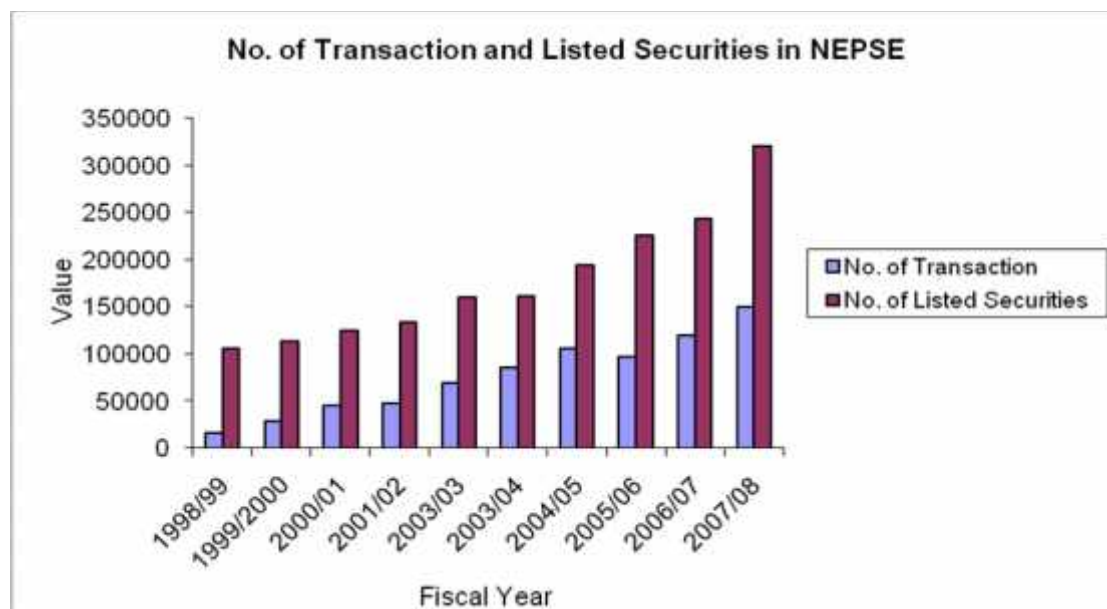
Table-4

No. of transactions and Listed Securities in NEPSE

Fiscal Year	No. of Transaction	% of Growth in no. of Transaction	No. of Listed Securities	% of Growth in no. of Listed Securities
1997/98	15483		90107	
1998/99	15814	2.14	105632	17.23
1999/00	29136	84.21	114057	7.98
2000/01	46095	58.21	124971	9.57
2001/02	48028	4.19	134150	7.34
2002/03	69163	44.01	159958	19.24
2003/04	85533	23.67	161141	0.74
2004/05	106246	24.22	194673	20.81
2005/06	97374	-8.35	226540	16.37
2006/07	120510	23.76	243504	7.49

Trading Report NEPSE 2007/08 and Annual Report SEBO 2007/08

We can show above informations of the **table-4** in the following figure



From above table, we can say that the no. of transaction is very much different (varied) comparing with different years. After the base years, no. of transaction increases by 84.21% which is the highest growth rate of number of transaction. But in fiscal year 2000/01, the growth rate reached to 58.21%. The growth rate of transaction

in2001/02 is only 4.19%. But it increased in the year 2002/03 by 44.01%. The no. of transaction is decreased in 2005/06 by -8.35% with transaction of 97374 while in 2006/07 and 2007/08, it rose up by 23.76% and 25.13% with transaction 12.510 and 150800 respectively.

The company should be listed their securities in Stock Exchange within 45 days after allotment which are issued to the public. The growth rates of listed securities are all positive. In fiscal year 2007/08, it reached to 22.60% which is the highest growth rate with 321131 no. of securities. And the lowest growth rate of no. of listed securities is 0.74% in 2003/04.

4.1.5 Market Turnover in Volume and Value

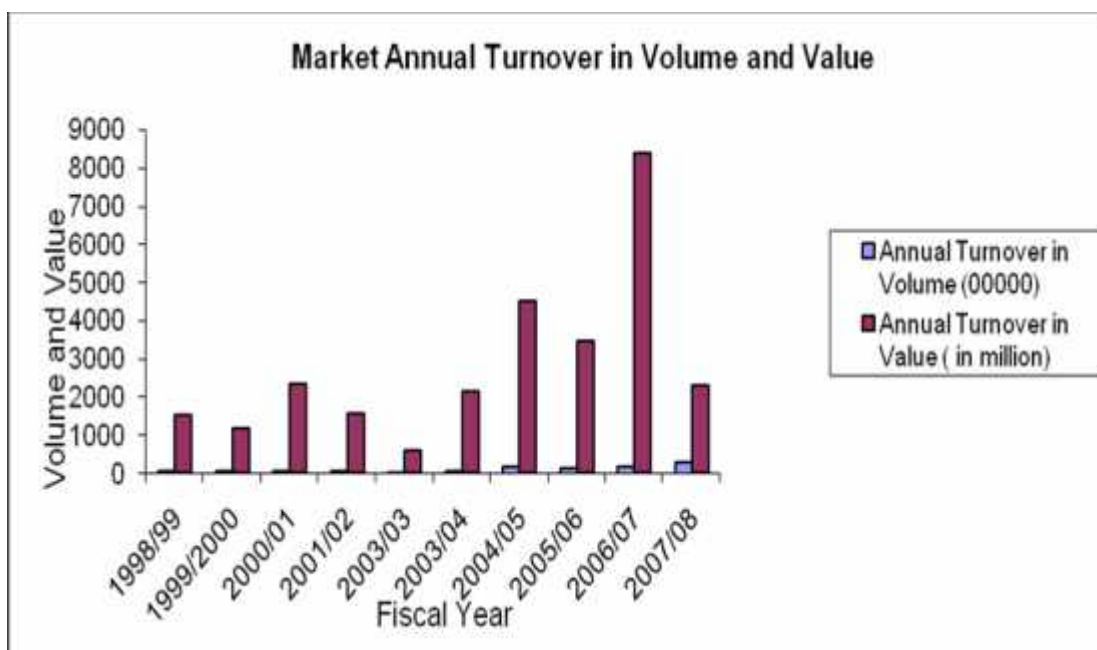
Annual turnover constitutes an important indicator for measuring the nation's economic activity. It also reflects the stock market liquidity as higher the amount of trading of stock market size greater is the stock market liquidity.

Table-5
Market Turnover in Volume and Value

Fiscal Year	Annual Turnover in Volume (00000)	Annual Turnover in Value (in million)
1998/99	47.88	1500.00
1999/00	76.74	1157.00
2000/01	49.87	2344.20
2001/02	57.91	1540.60
2002/03	24.28	575.99
2003/04	64.68	2144.27
2004/05	184.34	4507.68
2005/06	122.22	3451.40
2006/07	181.47	8360.10
2007/08	285.99	2282.08

Source: Annual Report, SEBO 2007/08

Above in formations of the **table-5** is presented in the following figure:



According to the table, the annual turnover in volume is highest in the fiscal year 2007/08 with 285.99 and the lowest annual turnover in volume is 24.28 in the fiscal year 2002/03. From the above table-5, we can conclude that there is fluctuation in annual turnover in value. In the base year 1998/99, annual turnover in volume is 1500. In 1999/00 it decreased and reached to 1157. Again it reached to 2344.20. One of the reason behind such fluctuation is numerous strikes and bandhs because of unstable political situation of the country over a series of years. The highest annual turnover in value is 8360.1 in the fiscal year 2006/07. The lowest is 575.99 in 2002/03.

4.1.6 Number of Issue Approved and Total Amount of Issue Approved

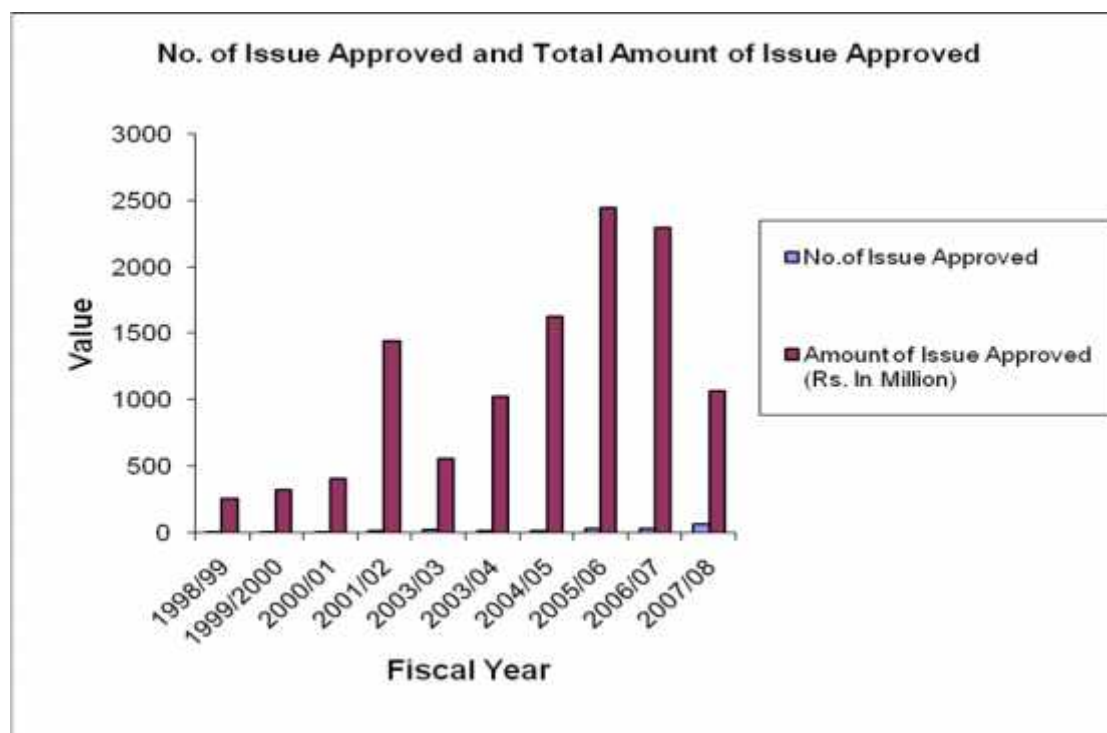
The number of issue approved, amount of issued approved and percentage increase in issue approved by NEBON/N for going to people are presented in **table-6**.

Table - 6

Fiscal Year	No. of Issue Approved	Amount of Issue Approved (Rs. In Million)	% increased in Issue Approved
1998/99	5	258	
1999/00	6	326.90	31.27
2000/01	9	410.50	0.26
2001/02	12	1441.30	2.51
2002/03	18	556.50	-0.61
2003/04	14	1027.50	0.85
2004/05	14	1626.80	0.58
2005/06	29	2443.30	0.50
2006/07	34	2295.50	-0.06
2007/08	64	1066.32	-0.54

Source: Annual Report, SEBO 2007/08

The following figure shows the information of **table-6**



According to the table-6 the number of issue approved is 5 in the base year 1998/99. But the number of issue approved reached to 64 in the fiscal year 2007/08. At the end of fiscal year 2007/08, the total number of issue approved reached to 205. The highest number of issue approved is 64 in 2007/08 and lowest is 5 in 1998/99. Similarly, the highest amount of issue approved is Rs. 2443.3 million in 2005/06 and least amount of issue approved is Rs.258 million in base year 1998/99.

4.1.6 NEPSE Index

An index is an indicator. It is a number used to represent the changes in a set of values between a base time period and another time period. A securities market index is a number that helps to measure the levels of the market. It is known as the indicator of the movement of the overall securities prices in the secondary market. Therefore, an index is developed to give a quick answer to the question: What is the market doing? What did the market do yesterday? 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. Market indexes have always been of great important in the world of security analysis and portfolio management. Different people, institutions and analysts use index in their own ways.

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. It is the indicator of performance of markets. It is an indicator of market capitalization of securities traded on NEPSE. NEPSE opened its trading floor on 13th January 1994 and started to calculate index, as NEPSE index, since 12th February 1994. NEPSE is calculating the index on market value weight base and total market value of 12th February, 1994 has been taken as base value (Rabindra Bhattarai 2006:67).

We have calculated the Market Return, Standard Deviation, Variance and Coefficient of Variance on the basis of NEPSE index.

The computation formula for price index is as follows:

$$\text{Market Return (R}_m) = \frac{\text{NI}_t - \text{NI}_{(t-1)}}{\text{NI}_{(t-1)}}$$

Where,

NI_t = NEPSE index of present year

NI_(t-1) = NEPSE Index of previous year

The NEPSE Index and market movement is shown in the table below:

Table-6
NEPSE Index

Fiscal Year	NEPSE Indexes(NI)	Market Return (R _m)	(R _m -ER _m)	(R _m -ER _m) ²
1998/99	216.92		-0.21	0.0441
1999/2000	360.70	0.66	0.45	0.2025
2000/01	348.43	-0.03	-0.24	0.0576
2001/02	227.54	-0.35	-0.56	0.3136
2002/03	204.86	-0.10	-0.31	0.0961
2003/04	222.04	0.08	-0.13	0.0169
2004/05	286.67	0.29	0.08	0.0064
2005/06	386.83	0.35	0.14	0.0196
2006/07	683.95	0.77	0.56	0.3136
2007/08	963.36	0.41	0.20	0.0400
	Total	2.08		1.1104

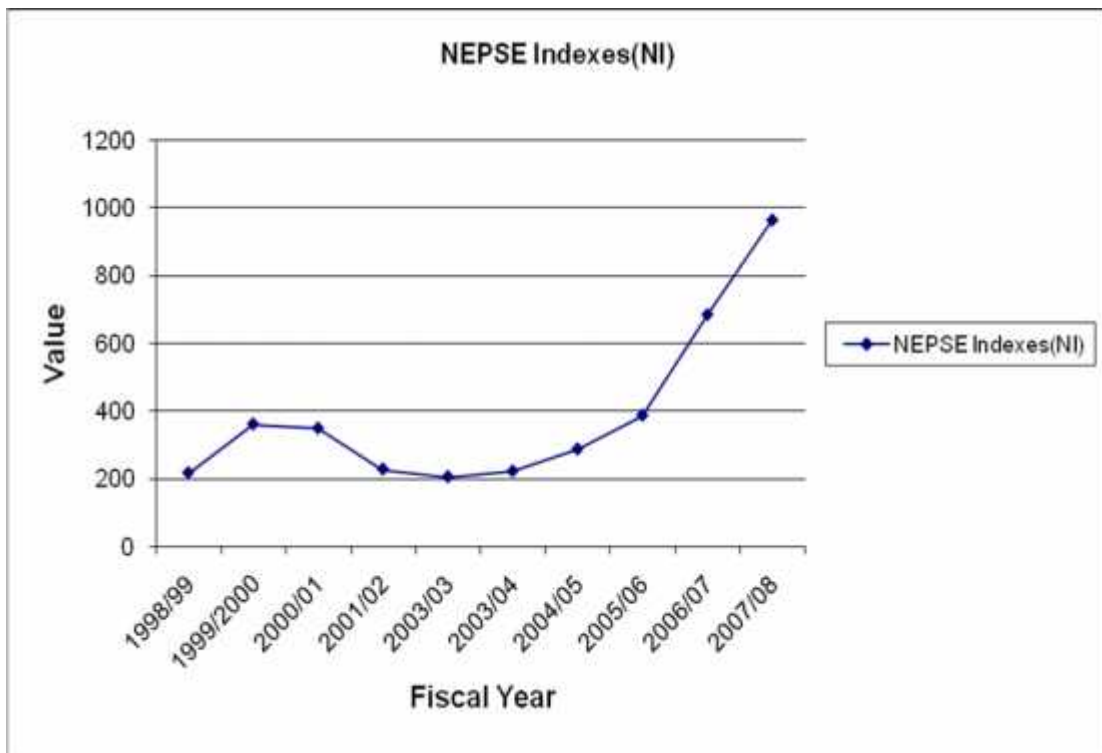
Source: Trading Report of NEPSE 2007/08

$$\begin{aligned} \text{Expected Return } (\bar{ER}_m) &= \frac{\sum R_m}{n} \\ &= \frac{2.08}{10} \\ &= 0.208 \text{ or } 0.21 \end{aligned}$$

$$\begin{aligned} \text{Standard Deviation } (\dagger) &= \frac{\sum (R_m - \bar{ER}_m)^2}{n - 1} \\ &= \frac{1.1104}{10 - 1} \\ &= 0.1234 \text{ or } 12.34\% \end{aligned}$$

$$\text{Variance}(\dagger^2) = (0.1234)^2$$

$$\text{Coefficient of Variance (C.V)} = \frac{\dagger}{\bar{ER}_m}$$



According to the above table-6, NEPSE Index in the base year 1998/99 is 216.92. It increased by 0.66 or 66% in 1999/00 as compared to the base year. But, it decreased by -0.03 or 3% in the fiscal year 2000/01. This negative growth rate was continued in the fiscal year 2001/02 and 2002/03 with -0.35 or -35% and -0.10 or 10%

respectively. The reasons behind such decreasing of the growth rate are global economic depression, political instability in the country, nation wide insurgency thus creating a situation of hazy horizon for the investors and NEPSE delisted about 25 companies in July 2002 since they could not submit the required financial documents within stipulated time to the NEPSE. During 1999/00 and 2000/01, NEPSE experienced a boom in the security market. Then after the fiscal year 2001/02, the index declined drastically in the fiscal year 2001/02. Then NEPSE index gradually caught pace and started to climb up the chart in 2003/04 to 2007/08. One major reason for the increase in market capitalization was listing of some big companies such as Laxmi Bank Ltd., Kumari Bank Ltd., Lumbini Bank Ltd. and number of finance companies. Also, Listed National Hydro, the first power generation company listed in NEPSE.

The mean expected return for 10 years is 0.208 or 21% and the standard deviation is 0.1234 or 12.34%. Variance is 0.0152276 or 152.276% whereas coefficient of variance is 0.588 or 58.8%.

4.2 Study and Analysis of Primary data relating to Stock Market

This investigation deals with the study of the opinions of respondents with respect to Prospects and Challenges of Stock Market Development in Nepal. This study is mainly based on questionnaire survey of the opinions of 110 respondents.

Q. no. 1. Factors motivate to make investment in stock

Option	Factors	No. of Respondent	% of Respondents
(a)	Marketability and profitability	43	39.09
(b)	Limited Opportunity to invest in other sector	24	21.82
(c)	Friends and Family	35	31.82

(d)	Share Brokers	8	7.27
(e)	If other, please specify		
	Total	110	100

After analyzing the data received by all respondents on factor motivates to make investment in stock, majority of respondents gave their first priority to option 'a' (marketability and profitability), second priority to option 'c' (Friends and family), third priority to option 'b' (limited opportunity to invest in other sector), fourth priority to option 'd' (share brokers) and no respondents haven't shown any response towards option 'e' (any others). This shows that majority of the respondents gave first priority to marketability and profitability.

Q.no.2. Factor that make decide to buy share of particular company.

Option	Factors	No. of Respondent	% of Respondents
(a)	Increasing Market Price of the share	43	39.09
(b)	Profit/Loss trend of the company	24	21.82
(c)	Value of the company	35	31.82
(d)	Brokers, consultation	8	7.27
(e)	If other, please specify		
	Total	110	100

Regarding to this question, majority of respondents gave their priority to option 'b' (profit/loss trend of the company), second priority to option 'a' (increasing market price of the share), third priority to option 'c' (value of the company), fourth priority to option 'd' (Brokers, consultation) and no respondents have shown any response towards option 'e' (if other).

Q.no.3. Investment in Primary Market than in Secondary Market

Option	Variables	No. of Respondent	% of Respondent
(a)	Primary Market is riskier than Secondary Market	23	20.91
(b)	Secondary Market is riskier than Primary Market	51	46.36
(c)	Because of the broker	29	26.37
(d)	None	7	6.36
	Total	110	100

After analyzing the data received by all respondents on investing primary market than in Secondary Market, 46.36 respondents gave their first priority to option 'b', 26.37% respondents gave their first priority to option 'c', 20.91% respondents gave their first priority to option 'a' and 6.36% respondents gave their first priority to option 'd'.

Q.no.4. Automation trading system in Nepalese stock market

Option	Variables	No. of Respondent	% of Respondents
(a)	Yes	59	62.73
(b)	No	23	20.91
(c)	Don't Know	18	16.36
	Total	110	100

According to the above table, out of total respondents (i.e. 110), 62.73% think that Automation Trading system is good for Nepalese Stock Market. 20.91% respondents

think that it is not good for Nepalese Stock Market and 16.36% respondents do not know about this.

Q.no.5. Rumour about the stock market.

Option	Variables	No. of Respondent	% of Respondents
(a)	True	89	80.91
(b)	False	21	19.09
	Total	110	100

Regarding to the question, Rumour about the stock market is the one of the reason to decline or increase of the share price, 80.91% respondents agree that it is true and 19.09% respondents disagree with the reason of the share price increasing and decreasing.

Q.no.6 Percentage increased in Capital gain percentage (5% to 15%) affects the stock market

Option	Variables	No. of Respondent	% of Respondents
(a)	Yes	70	63.64
(b)	No	29	26.36
(c)	Don't Know	11	10.00
	Total	110	100

Regarding to the above table out of total respondents (i.e. 110), 63.64% respondents agree that percentage increased in capital gain percentage affects the stock market, 26.36% respondents disagree with this and 10% respondents do not know about it.

Q.no.7. Difficulties in trading in Nepalese Stock Market

Option	Variables	No. of Respondent	% of Respondents
(a)	Yes	56	50.91
(b)	No	54	49.09
	Total	110	100

After analyzing the data received by all respondents on difficulties in trading in Nepalese market, 50.91% respondents accept that there are difficulties in trading in Nepalese market and 49.09% respondents answered that there is no difficulties in trading in Nepalese stock market.

Q.no.8. Do you think investors in Nepalese stock market are aware?

Option	Variables	No. of Respondent	% of Respondents
(a)	Yes	48	43.64
(b)	No	62	56.36
	Total	100	100

Regarding to this question, 56.36% respondents answered that the investors in Nepalese stock market are not aware and 43.64% respondents answered that the investors in Nepalese stock market are aware.

Q.no.9 Analysis of Performance of the NEPSE

Option	Variables	No. of Respondent	% of Respondents
(a)	Yes	72	65.45
(b)	No	23	20.91
(c)	Don't Know	15	13.34
	Total	100	100

Regarding to this question, 65.45% respondents are satisfied with the performance of the NEPSE, 2.91% respondents are not satisfied with the performance of the NEPSE and 13.34% respondents do not know about it.

Q.no.10 Responsible for not presenting financial statement in time to NEPSE & SEBO

Option	Variables	No. of Respondent	% of Respondents
(a)	The office of the company registrar	39	35.45
(b)	NEPSE	22	20.00
(c)	Particular Company	13	11.82
(d)	SEBO/N	27	24.55
(e)	Investors/Brokers	9	8.18
	Total	110	100

After analyzing the data received by ball respondents on priority of responsible for not presenting financial statement in time to NEPSE and SEBO/N, above table shows that out of total respondents (i.e 110), 35.45% respondents gave the first priority to option 'a', 24.55% respondents gave the first priority to option 'd', 20% respondents gave the first priority to option 'b' , 11.82% respondents gave the first priority to option 'c' and 8.18% respondents gave the first priority to option 'e'.

Q.no.11. How to develop the Nepalese Stock Market?

Regarding the question, in your opinion how to develop the Nepalese stock market, most of the respondents have given following opinions:

1. Investors should be provided with investment guidelines from news and media.
2. Government should make legal provision to protect the rights of investors.

3. Clear and Strict rules should be made.
4. Implementation and monitoring mechanism should make effective regarding stock market.
5. Information should be easily provided to investors.

4.3 The major findings from the analysis of secondary data are as follows:

1. By the end of 2008, the financial sectors in Nepal included 25 commercial banks, 58 development banks, 78 finance companies and 12 micro-finance development banks. The number of commercial banks' branches has also increased in this period. In addition, there are 12 micro credit development bank, 16 saving & co-operatives (license by NRB), 45 Non-government organization, one Citizen Investment Trust, one Employee Provident Fund, and one Credit Guarantee and Deposit Insurance Corporation.
2. The paid up value of listed securities is highest in year 2007/08 with Rs.29465 million and lowest in base year 1998/99 with Rs. 6487.40 million while the highest growth rate in paid up value is 35.17% in year 2007/08 and lowest is 6.73% in year 2003/04.
3. The highest percentage of turnover on paid up capital is 38.35% in 2006/07 and the lowest percentage of turnover on paid up capital is 4.84% in 2002/03.
4. The market capitalization of listed securities in the fiscal year 2006/07 is Rs.186301.3 million which is the highest market capitalization during ten years and percentage increase in market capitalization is also high in this fiscal year. It is 92.53%.
5. The highest percentage of turnover to market capitalization is 7.35 in 2004/05 and lowest in 2002/03 with 1.63%.

6. The growth rate of listed companies is positive in all these years except in the year 2001/02 with the negative growth rate of -16.52%. The highest growth rate in listed companies is 12.5% in the fiscal year 2002/03. The total number of listed companies is reached to 142 in 2007/08 against 107 in its base year 1998/99.
7. The number of traded companies is highest in the fiscal year 2007/08 with 136 and the percentage increase in traded companies is also high in this year by 17.24%. However, it is negative in the fiscal year 2000/01 with -2.90%.
8. The number of share traded is very much fluctuating in different year as a result the impact on growth rate is also affected. The percentage increased in number of share traded is negative in the fiscal year 2000/01, 2002/03, 2005/06 with -34.99%, -59.57% and -33.70% respectively. The highest increased in number of share traded is 184.99 in the fiscal year 2004/05.
9. The number of transaction is very much varied comparing with different years. There is negative growth rate in the fiscal year 2005/06 with -8.35% whereas it is highest in the fiscal year 1999/00 with 84.21%, But, number of transaction is highest in 2004/05 by 106246 numbers.
10. Number of listed securities is highest in the fiscal year 2007/08 with 321131 numbers of securities and lowest in base year 1998/99 with 105632 numbers of securities. The growth rates of number of listed securities are all positive. It is highest in the fiscal year 2007/08 by 22.60%. And the lowest growth rate is 0.74% in the fiscal year 2003/04.
11. The annual turnover in volume is highest in the fiscal year 2007/08 with 28599 lakh and lowest in the fiscal year 20002/03 with 2428 lakh whereas the annual turnover in value is highest in the fiscal year 2006/07 with 8360.1 million and lowest in the fiscal year 2002/03 with 575.99 million.

4.4 Major findings from the Analysis of Primary data

To fulfill the objectives of Prospects and Challenges of Stock Market Development in Nepal, following major findings are obtained after analysis of primary data which are collected by questionnaires method from all respondents.

1. With respect to the factor motivate to make investment in stock; the majority of respondents gave the priority to the marketability and profitability. It indicates that people invest in stock for marketability and profitability.
2. With respect to the factor that decide to buy share of particular company; the majority of respondents presented their opinion in P/L trend of the company. This refers that investors invest their fund after analyzing P/L trend of particular company.
3. With respect to the reasons to invest in primary market than secondary market; the majority respondents gave their opinion in favor of secondary market is riskier than primary market. It indicates that investor don't want to take risk.
4. Most of the respondents agree that automation trading system is good for Nepalese stock market. This refers that NEPSE should soundly developed the automation trading system and it should be use in practically.
5. Most of the respondents said that rumour about stock market is the one of the reason to increase or decline of the share price. It indicates that if there is positive information about the market, the price will be increase and if there is negative information about the market, the share price will be decline.
6. With respect to the increase in capital gain percent (5% to 15%), the majority of respondents accept that it affect the stock market. It indicates that investor will decrease their investment in stock market. Investors are flexible. They invest their

investment where they can earn more profit. So, government should take transaction cost instead of capital gain percent.

7. With respect to difficulties in trading in Nepalese market, the majority of the respondent are accept that there is difficulties in trading in Nepalese market.
8. According to the survey, it was found that investors of Nepalese stock market are not well aware about it. Most of the investor takes decision on the basis of their own analysis. They invest their investment with their experience, rumour, etc.
9. With respect to the performance of NEPSE, the majority of respondents are satisfied with the performance of NEPSE.

4.5 Challenges of Stock market development in Nepal

Stock market growth is one of the important issues in Nepalese capital market. Though, the Nepalese stock market is making progress through steadily, as compared to the performance of previous years, we can found lots of challenges in stock market to develop soundly. Some of them are mentioned followed:

1. Geographical condition of the country

Nepal is a landlocked country and there is only one stock exchange in the country which is located in the capital. Because of that the participation of investors from out side the valley is very low. There is no other alternative in participation of the investors from outside the valley.

2. Agro based economy

In Nepal above 90% of the total population depends on agriculture. The size of the urban economy is very small. It is one of the poorest countries in the world i.e. 40 percent are still below poverty line. Therefore, the size of the stock market is simply too small.

3. Political instability

For the sound development of stock market, political stability is necessary. At present Nepal is suffering from poor law and order situation; killing, violence, strike, etc. which obstructed the regular movement of the activities of the government. All the mentioned factors definitely affect the smooth development of the stock market. Political stability changes the investor's expectation about the prospects for the economy in a certain environment.

4. Low investors confidence

Investor's confidence in the stock market is relatively low because of share price volatility, low return on investment, inadequate information on which to base investment decision, lack of understanding about the operation of financial markets and instruments and a general perception that the stock market is not a fare game. Investors still hesitate to invest in securities. However considerable progress has been made but it is not adequate to restore investor's confidence. And on the other hand there is no investment environment in Nepal.

5. Low capital formation

There is low formation of capital in Nepal. Capital required for investment in business is raised from capital formation. The capital is formed from the saving of the people. Nepal, being an undeveloped country with 90 percent of the population dependant on agriculture, has low income to make sufficient saving. Even saving is spent in unproductive activities rather than in commercial or industrial activities. Thus due to low saving there is low capital formation and the primary market could not develop on Nepal.

6. Unawareness of investors

Investors in Nepalese stock market are not aware about investment. They take decision on the basis of their own analysis. They invest their savings without analyzing financial statement, value of company, etc. They invest their savings

with their experience, rumour, etc. Investors are not aware of their rights also which create lots of problems in stock market.

7. Unclear policy

Clear policy and strict rules and regulation help to develop stock market. But in Nepal, lots policy in NEPSE is unclear. Sometimes it create dilemma to the investors. And there is no strict rules and regulation which directly affect the development of stock market.

4.6 Present Status of Stock market

4.6.1 Financial Sector

The financial sector of the country has further intensified and deepened during the FY 2007/08. In this period, five commercial banks, twenty development banks, four finance companies and one micro-finance development bank were established. Consequently, the number of commercial banks, development banks, finance companies and micro-finance development banks reached 25, 58, 78, and 12 respectively in April 2008. In addition, the number of commercial banks' branches has also increased in this period. With this, the outreach of the banking services has increased, with the average population served by one bank branch reduced to 46 thousand compared to 48 thousand a year ago and 58 thousand two years ago. In the review period as at mid-July 2008, deposits of commercial banks increased by Rs. 87.07 billion (26.0 percent) to Rs. 421.52 billion. Accordingly, capital mobilization of non-bank financial institution grew significantly in the review period. The higher deposit growth is attributed to the inflow of remittance income. (Final Annual Report: NEPSE 2007/08) In addition, there are 12 micro credit development bank, 16 saving

& co-operatives (license by NRB), 45 Non-government organization, one Citizen Investment Trust, one Employee Provident Fund, and one Credit Guarantee and Deposit Insurance Corporation. (as to Mid June 2008, NRB Annual Report)

4.6.2 Primary Market

In the FY 2007/08 the Security Board of Nepal (SEBON) granted permission to 71 companies for mobilization of Rs.11.56 billion while 33 companies got approval to mobilize Rs. 2.75 billion in the preceding year. The number of capital mobilizing companies and amount of capital mobilization has risen by 132.25 percent and 320.36 percent respectively. So, the capital mobilization trend in the primary market is increasing. (Final Annual Report: Security Board of Nepal).

4.6.3 Secondary Market

The Nepalese stock market continued to expand in the FY 2007/08 too. With the restoration of peace and a subsequent boost in investors' confidence, major indicators of the share market grew tremendously. Almost all the major indicators of the secondary market like amount of shares traded, number of listed shares, the number of transactions, annual turnover, total market capitalization of listed shares, market capitalization and GDP ratio, turnover to market capitalization and the GDP ratios all increased in the review period. (NEPSE Annual Trading Report 2007/08)

4.6.4 Trading of Bonds

In case of bond, both the government and corporate bonds have been listed but they were not traded at all in the secondary market during the review period. Listing of government bonds reached 12 amounting Rs.13.15 billion and corporate bonds amounting Rs. 4.85 billion has been listed on NEPSE till the end of the FY 2007/08.

A low number of individual investors and a income tax differential on interest for individuals and the corporate were the major reasons for a minimal transaction of specially government bonds. Two million units of corporate debentures amounting Rs. 200.00 million and 61.00 million units of government bonds amounting Rs.6100.00 million were listed for trading. (Final Annual Report 2007/08)

4.6.5 Listing & De-listing

The number of listed companies in the FY 2007/08 reached 148 with the listing of 13 new companies. However, the number of listed companies at the end of the fiscal year came down to 142 with the delisting of five companies and merger of two. De-listed companies have been either already closed or have not held annual general meetings or have not audited their results for more than two years. Altogether 0.17 million unit shares amounting Rs.174.91 million have been de-listed during the year.

At the end of the FY 2006/07 there were 17 companies listed under the commercial bank group. Similarly, there were 23 companies in the development bank group, 17 companies in the insurance group, 55 companies in the finance group, 18 companies in the manufacturing and processing group, 4 each in the hotel and trading group, 1 in other group and 3 in the hydropower group.

During the year, a total of 7.49 million units of ordinary shares amounting Rs. 749.40 million, 38.45 million units of rights shares amounting Rs. 384.56 million, 18.69 million units bonus shares amounting Rs. 1869.73 million were listed for trading. With the listing of these shares the number of listed securities other than corporate and government bonds reached 321.13 million units in the FY 2007/08. This is an increase of 31.9 per cent, from 243.50 million units in the previous year. The paid-up value of listed shares reached Rs. 29.46 billion during the FY 2007/08, which rose by 35.50 percent over the previous year. Likewise, for the first time 2 million units of

convertible preference shares amounting Rs.200 million were listed during the review period. (NEPSE Annual Trading Report, 2007/08)

4.6.6 Turnover

Since 24 August 2007 trading is being done through the Automated Trading System (ATS), a fully automated screen-based trading system. The introduction of the ATS, extension of trading hours and listing of new companies has contributed to a substantial increase in trading activities. The total transactions of shares in terms of value increased by 172 percent to Rs. 22.82 billion in the FY 2007/08, while it was Rs. 8.36 billion last year. Similarly, the number of transactions increased by 25.1 percent to 15.08 hundred thousand, and it was 12.05 hundred thousand last year. The number of shares traded during the year increased by 17.2 percent to 136, whereas it was 116 a year before. Likewise, the number of ordinary shares traded during the review period was 28599.77 million, which is a 57.6 percent increase from previous year. The daily average turnover recorded in the review year was Rs. 97.11 million; the turnover was Rs. 78.22 million last year. Similarly, the market opened for 235 days this year, three days more than last year. In the total turnover, the commercial banking group's overall domination continued as before because of a better performance of commercial banks. Almost all commercial banks have posted profit in the review period in which the turnover of the commercial banking group was Rs.5.56 billions. However, in total composition of turnover share of commercial bank declined slightly compared to 63 percent in the review year which occupied 65 percent in the FY 2006/07. The Hydropower group came second on the basis of annual turnover. This group's turnover was Rs. 3.19 billion, which accounts for 15 percent of the total transaction. In the same way, finance companies occupied 10 percent and development banks 9 percent.

But, the contributions of the manufacturing and processing group, other group, trading group and hotel group was insignificant as these groups contributed less than one percent in total turnover. The block transaction of Bottlers Nepal Limited contributed to tremendous growth of the manufacturing and processing group in terms of turnover. This group posted a 100 times growth in the review period. Similarly, the turnover of the development banking group increased by approximately five fold compared to the previous year. The commercial bank, finance, hotel and trading groups posted a good rate of growth on the basis of turnover while insurance companies posted a relatively moderate growth but that of hotel and trading companies declined. The ratios of turnover to market capitalization and turnover to GDP are 6.2 percent and 2.8 percent respectively--a significant improvement over the previous years' 4.5 percent and 1.1 percent. (Final Annual Report: NEPSE 2007/08)

4.6.7 Market Capitalizations

The total market capitalization of listed shares almost doubled to Rs.366.24 billion during the review year. The central bank's directive to increase the capital base of banks and financial institutions has a major impact on the market value of listed shares. Most of the companies opted to issue bonus and right shares to increase their capital base, which attracted lots of investors. With the steep increase in market capitalization, its ratio to GDP went up to 44.3 percent this year. It is a notable increment over previous year's 29.8 percent level. In terms of market capitalization, the commercial bank sector again dominated the stock market. The market capitalization of the commercial banking group touched Rs.259.55 billion in the FY 2006/07, which is 72 percent of the total market capitalization. Hydropower companies occupied 7 percent of the total market capitalization. Similarly, shares of finance companies, insurance companies, development banks, manufacturing and

processing, hotels occupied 10 percent, 3 percent, 5 per cent, 2 percent and 1 percent of the total market capitalization whereas others and trading each occupied less than 1 percent. (Final Annual Report: NEPSE 2007/08)

4.6.8 Indices

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 direction, dated 26 March 2007, to double paid-up capital for banks and financial institutions contributed to a remarkable increment in share prices and subsequently the stock market indices. The stock market opened with the NEPSE index of 683.95 points at the beginning of the FY 2007/08 and ended with 963.36 points during the year. The year on year NEPSE index increased by 40.9 percent. It reached the high of 1064.09 on 17 December 2007 and the low of 677.98 on 18 July 2008. Of the NEPSE Index, banking sub-index went up by 181.39 points to 985.65 (which is also the highest point) during the year. The banking sub-index measures the transactions of companies listed under commercial bank group. It touched the lowest point of 759.67 on 31 July August 2007. The twelve-month standard deviation stood at 110.8 in mid-July 2008 compared to 87.4 a year ago, reflecting an increased volatility in the stock market. The sensitive index, unveiled from 1 January 2007, which shows the share price movement of the companies categorized under Class A reached 253.72 point at the end of the fiscal year registering a rise of 44.9 points. It recorded the low of 172.19 on 30 July 2007 and the high of 275.21 on 19 December 2007. (Final Annual Report: NEPSE 2007/08)

Chapter - V

Summary, Conclusion and Recommendation

This chapter deals with the recommendation to solve the existing problem in the Nepalese stock market on the basis of the findings of the study and the conclusion drawn from the entire topic.

Summary

Capital market facilitates the exchange of financial assets by bringing together buyers and sellers of securities. Capital market provides an effective way of raising money for commercial enterprises and at the same time provides an investment opportunity for individuals and institutions. Capital market remains important for all types of investors to participate in Economic development. Nepal lags behind to develop a healthy capital market with a sound financial infrastructure through the Nepal stock Exchange was formalized twenty three years ago in 1985 and NEPSE established only in 1994. Capital market in Nepal is confined to equity market only. Debt transaction is negligible in NEPSE. NEPSE is the only stock market in Nepal. Apart from being developed from the time it established more effort is necessary for the better development of stock market.

Stock market growth is one of the important issues in Nepalese capital market. Investors still hesitate to invest in securities because of lack of proper knowledge and guidance in this field. Investor wants to have full information about risk and return from their investment and they should be confident about their investment in secured field.

SEBO realizes that the trading automation should be a high priority area for the modernization of NEPSE and for its growth. This year SEBO has directed NEPSE to improve the trading and record system so as to make trading more competitive and transparent. Similarly, SEBO also insisted on having transparent provisions for the transfer of ownership of brokerage firms and approved amendment in the related byelaws. SEBO also has begun on-site inspection of the sock brokers.

People are showing interest in stock market and large number of people is investing in shares in very positively. Nowadays, most of peoples want to invest in primary market, although the index is declining. They do not want to invest in secondary market.

The Nepalese stock market is making progress through steadily, as compared to the performance of previous years. They think that the main reason for the public response to be high due to lack of opportunities for investment in other sectors. The liquidity position of our country is also high; this could have also led to high public response to share application. There is no proper analysis to make and people invest in shares looking at the market situation and by making some wild guesses public are attracted towards share market than other companies, basically to increase their values of investment.

This study is based on primary as well as secondary sources of information. The valuation and duration of stock market are analyzed by using the secondary data for the period of FY 1998/1999 to FY 2007/2008. In this way, survey of respondents has been accomplished by using primary data of 110 respondents. All of the respondents gave their opinions on different aspects of Nepalese stock market. The opinion of each respondent also analyzed on each question, to ascertain the differences in their opinions.

Conclusion

Capital plays key role in financial market, which can be collected by issuing tradable securities such as common stocks, debenture/bonds, preference shares and warrants as a long term fund in order to mobilize necessary funds for the economic development of a nation. The securities market is the requisite for the sound development of an economy because it not only provides stable long term capital for organization and an effective saving vehicle for the public but also functions as an efficient tool for resources allocation. Stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the latter. The stock market raises and mobilizes the invest resources to finance the large projects in the economy. The stock market therefore can be regarded, as a heart of an economy. It has been a great role for the capital formation of the capital deficient economy like Nepal.

The investors are interested to invest their resources in the share of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. Management capability of the entrepreneurs is a key for a better performance of the firms. The government should launch programs to enhance the management capability of entrepreneurs, which may contribute to raise the return from the investment.

Although it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has a good prospect for the resource mobilization to finance the productive enterprises in the Nepalese economy. The incorporation of the securities Board and conversion of the

SEC into the NEPSE has greatly contributed to the development of primary as well as secondary market for the corporate securities market in Nepal. By the end of 2007/08, the stock market indicators like; total number of listed companies had reached to 142 which were 107 in its initial fiscal year 1998/99, the amount of paid up value reached to Rs.29465 million from Rs.6487.4 million, the amount of annual turnover reached to Rs.2282.08 million from Rs.1500.00 million, number of listed securities reached to 321131 from 105632 securities, the amount of market capitalization increased to Rs.36624.75 million from Rs.23508 million. In addition, the number of issue approved reached to 64 from 5. These all indicate that there was a significant development in various stock market indicators during the period of 1998/99 to 2007/08. Likewise HMG/N after adopting liberalized economic policy has been initiating different programs for the organized development of securities market. However, other programs like amendment of securities Exchange Act, standardizing Stock Exchange etc. which were perceived to be more important for the securities market development for the securities market development. Furthermore, HMG/N also developed various objectives and programs for securities market development. It has taken the policy of modernizing stock Exchange, strengthening the regulatory system of the securities market, widening the participation of the Stock Exchange and making it dynamic, transparent, credible and investor friendly capital market for developing the securities market as an important sources of long term financing.

Finally, the trend of stock market is increasing but not at satisfactory level. It has failed to show impact on overall national economy. The secondary aspect of the stock is not also functioning well in Nepal. There is low liquidity in the stock market for shares except that of banking and some finance and insurance sectors. Although the number of companies and paid-up value of the securities listed with the exchange is increasing, most of the companies that are listed with the exchange belong to banking,

finance and insurance sectors, while only few companies from the trading, hotel, manufacturing and aviation sectors are listed with the exchange, not a single company from powers information technology and construction sectors has entered organized stock exchange of the country. The size of the market in terms of market capitalization and number of issue is relatively small. The retailers also dominate present stock market in the absence of foreign investors and local institutional investors. Only a small portion of shares is actively traded while others are traded either in small number or infrequently which leads to poor liquidity and small turnover in the market. Market for corporate debt instrument is undeveloped. The general investor shows poor response to the recently issued debenture due to many factors affecting debt securities market. On the other hand Investor's confidence in Nepalese stock market is relatively low because of stock market volatility, low return in investment, inadequate information, lack of financial market instrument, etc. Government should create investment environment so that investor's feel that their investment is secured.

Recommendation

The researcher discovered so many weaknesses in all area and overall system of Nepalese stock market. So, the researcher desires to give some advice to concern authorities i.e, corporate sector, government, issue manage, brokers individual investors and institutional mechanism for converting the major problems into strength and grasping the opportunities for the overall development of Nepalese stock market.

a) To corporate sector

Corporate sectors are important stakeholders of stock market. If they do not issue shares, development of stock market will impossible. The researcher gives following suggestions to corporate sector.

1. A lots of companies do not disclose their financial status before the public on time. Some companies may also be disclosing false information and financial statements. This should be avoided. True financial condition and plans should be brought out.
2. There are lots of procedures related to offering public issues. This hampers the business both for the companies offering such securities and the investors who want to buy those stocks inadequate legal provision and conflicting control mechanism should be opposed.

b) To Government

Government has main responsibilities in promoting desirable activities and restricting undesirable activities for the smooth growth of Nepalese stock market. Since development of stock market is essential for the overall growth of economy concerned bodies of government should do following activities for the development of stock market.

1. It is clear that political stability as well as security of the nation is not favorable for the overall development of country. From which capital market is not also free from it. So, security as well as political stability should be maintained in the country.
2. The laws and policies regarding capital market are not clear. This sometimes creates confusion among the investors. So, government should make clear and specific plans and policies to expand capital market.

3. Implementation and monitoring mechanism should make efficient and effective regarding stock market.
4. Privatization of public company is must economic growth, thus the government of Nepal should make policy to float share and distribute share to there employees while privatizing public companies. Financial sector Reform Program should be a continual process as it is very necessary for the financial sector as well as investors.
5. The government should allow foreign investors to invest in Nepalese capital market.
6. The developments of securities market depends on their efficiency. They are a vital part for securities market. So, these intermediaries should be adequately educated, trained and professionalized.
7. Since, there is only one stock exchange in the country, which is located in the capital and there is no other alternative, participation of the investors from outside the valley is very low. Therefore, expansion of the stock exchange outside Kathmandu will help to increase the no. of investors from out of the valley in securities transaction.

c) To Investors.

Investors are the basic variables and back bone of the capital market. There are two types of investors such as individual investors and institutional investors. The researcher gives following suggestion to general investors.

1. Investors should be aware of their rights so that thy may use it when needed while inadequacy of laws should be opposed.

2. Most of the investors in stock market take the investment decision on the basis of the market price of share. But investment decision should be made according to the value of a company not price of share.
3. They should invest in securities after properly analyzing financial statement & risk and return. Before making investment, they should think rationally.
4. Investors should be updated with the information about stock market.

d) To Institutional Mechanism

There is NRB, NEPSE, ROC, SEBO/N etc. as institutional mechanism arrangement made by government. The researcher gives following suggestions to institutional mechanism to overrun existing problem.

1. Security Board of Nepal (SEBO/N) should co-operate NEPSE. Automation trading system should effectively implement. Auditing and accounting system should be strictly review and reward and punishment should be simplified. Information disclosure should be strictly enforced to listed companies.
2. Company Register officer (ROC) should be transparent and open with modern technology. Bureaucratic procedures must be quick and prospectus should be approved strictly reviewing all economic and technical aspect of companies.

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ANNEXES

Annex-1

सूचिकृत संगठित सस्थाहरुको सूचि (List of Listed Companies)

क्र.स.		चुक्ता पूजा (रु.करोडमा)	प्रति सेयर नेटवर्थ (रु.)	खुद नाफा (रु.करोडमा)	प्रति सेयर आम्दानी (रु.)	कुल सम्पत्ति रु.करोडमा)	बजार मुल्य (रु.)
वाणिज्य बैंक							
१	स्ट्याण्डर्ड चार्टर्ड बैंक नेपाल लि.	४१.३३	५१२.१२	६९.१७	१६७.३७	२८५९.६९	५९००.००
२	नेपाल इण्डस्ट्रियल एण्ड कमर्सियल बैंक लि.	६६.००	१३९.०९	१५.८५	२४.०१	११६७.८८	९५०.००
३	लक्ष्मी बैंक लि.	७२.९७	११८.४६	६.५६	८.९९	८५८.२७	६६४.००
४	नेपाल एस.वि.आइ. बैंक लि.	६४.७८	१७९.५८	२५.४९	३९.३५	१३९०.१२	११७६.००
५	नेपाल इन्भेष्टमेन्ट बैंक लि.	८०.१४	२३४.३७	५०.१४	६२.५७	२७५९.०८	१७२९.००
६	बैंक अफ काठमाण्डू लि.	६०.३१	१६२.८१	२६.२४	४३.५०	१४५७.०१	१३७५.००
७	लुम्बिनी बैंक लि.	६०.००	(७१.६१)	१९.२४	३२.०७	५७०.५०	५०५.००
८	हिमालयन बैंक लि.	८१.०८	२६४.७४	४९.१८	६०.६६	३३५१.९१	१७६०.००
९	कुमारी बैंक लि.	७५.००	१३६.७५	१७.०३	२२.७०	११९१.८३	८३०.००
१०	माछापुच्छ्रे बैंक लि.	८२.१६	१२१.७४	७.४१	९.०२	१०८०.७६	६२०.००
११	नविल बैंक लि.	४९.१६	४१८.३९	६७.४०	१३७.०८	२७२५.३४	५०५०.००
१२	एभरेष्ट बैंक लि.	५१.८०	२३१.९५	२९.६४	५७.२२	२१४३.२६	२४३०.००
१३	नेपाल क्रेडिट एण्ड कमर्श बैंक लि.	६९.९१	(७३.००)	(११.५९)	(१६.५८)	६०३.६७	३१६.००
१४	नेपाल बङ्गलादेश बैंक लि.	७१.९८	(३६४.५४)	(१०६.१६)	(१४७.४७)	७२५.४५	५५०.००
१५	डेभलपमेन्ट क्रेडिट बैंक लि.	२६.८८	१२९.२८	४.५१	१६.७८	२९६.९३	८००.००
१६	एनएमवि बैंक लि.	१९.९५	१४२.५६	७.५१	३७.६६	४४२.०९	८४०.००
विकास बैंक							
१	नर्धन उत्थान बैंक लि.	३.३०	३३२.३१	१.३८	४१.८४	८५.९०	११०.००
२	नेपाल डेभलपमेन्ट बैंक लि.	२४.६२	(१२९.२०)	(१८.३१)	(७४.३८)	१००.२३	१५३.००
३	छिमेक विकास बैंक लि.	३.००	१९२.९३	१.३४	४४.६८	४९.८८	२४२.००
४	सानिमा विकास बैंक लि.	३२.००	१०८.६८	१.८७	५.८६	२५०.६७	४५०.००
५	बागेश्वरी विकास बैंक लि.	३.००	११६.३०	०.२८	९.३७	३१.५९	२९४.००
६	विजनेस डेभलपमेन्ट फाइनान्सियल इ. लि.	६.००	१११.७७	०.५७	९.६०	४५.१३	३६५.००
७	डिप्रोक्स विकास बैंक लि.	१.७४	१६०.२३	०.६३	३६.२६	३३.४१	१५६.००
८	भृकुटी विकास बैंक लि.	२.४०	१३०.७८	१३०.७८	२६.०५	४२.५०	१५०.००
९	गण्डकी डेभलपमेन्ट फा. इन्स्टीच्यूशन लि.	५.००	११०.३२	०.४२	८.४२	२९.०१	२६०.००
१०	सिद्धार्थ विकास बैंक लि.	५.००	११६.४०	१.२७	२५.५०	६९.२०	२९०.००
११	नारायणी इण्डस्ट्रियल विकास बैंक लि.	२.००	१५१.१३	०.४४	२१.८३	३२.७३	१४०.००
१२	सहयोगी विकास बैंक लि.	२.००	११७.८५	०.३४	१७.००	१८.८०	२००.००
१३	गोरखा विकास बैंक लि.	३२.००	१०७.४२	१.९८	६.१८	१४५.८५	४२९.००
१४	एस डेभलपमेन्ट बैंक लि.	९.००	१५२.२५	१.६०	१७.७८	९८.५२	४५९.००
वित्त कम्पनी							
१	नारायणी फाइनान्स लि.	५.०१	१४८.४३	१.८३	३६.४६	६९.०१	२७५.००
२	काठमाडौं फाइनान्स लि.	३.३०	१७५.३०	०.६६	२०.०३	३९.०७	२०३.००
३	नेपाल हाउजिङ्ग एण्ड मर्चेन्ट फाइनान्स लि.	६.५३	१६१.८०	२.२२	३३.९९	९४.१५	२८०.००
४	श्री इन्भेष्टमेन्ट एण्ड फाइनान्स कं. लि.	५.६०	१६४.४१	१.९४	३४.६६	८३.१२	३१५.००
५	नेशनल फाइनान्स कं. लि.	१०.४६	१९९.८९	२.६५	२५.३६	८२.१०	४६०.००

६	पिपल्स फाइनान्स लि.	६.६४	१२९.९९	०.८७	१३.१५	६२.५४	१२५.००
७	किष्ट मर्चेण्ट बैकिङ्ग एण्ड फाइनान्स लि	२०.००	१०९.५३	२.६१	१३.०३	१७४.०४	५६०.००
८	महालक्ष्मी फाइनान्स लि.	६.६०	१४३.१२	१.६७	२५.३६	१०१.७०	३७२.००
९	अन्नपूर्ण फाइनान्स कं. लि.	१६.८०	१६.८०	३.७४	२२.२५	१६३.०४	५००.००
१०	रोयल मर्चेण्ट बैकिङ्ग एण्ड फाइनान्स लि.	५.५०	१३५.२५	१.६४	२९.८०	७९.००	१८५.००
११	स्ट्याण्डर्ड फाइनान्स लि.	६.६०	१४६.२१	२.१८	३३.०५	८४.५३	२४३.००
१२	नेपाल आवास विकास वित्त कं. लि.	६.३८	१६०.७५	१.५३	२३.९१	६०.७१	२५७.००
१३	पोखरा फाइनान्स लि.	६.००	१८३.०३	१.४०	२३.३३	१०७.९३	४००.००
१४	इन्टरनेशनल लिजिङ्ग एण्ड फाइनान्स कं. लि.	१२.००	१४६.६९	३.२३	२६.९४	१९१.०५	३८०.००
१५	ललितपुर फाइनान्स कं. लि.	५.०६	२३८.९३	२.६७	५२.७०	१००.१०	३१५.००
१६	वीरगंज फाइनान्स लि.	६.६०	११६.७०	०.६४	९.६७	५९.९५	२७०.००
१७	फेवा फाइनान्स कं. लि.	५.००	१६०.५०	१.७०	३४.०६	६८.५३	३००.००
१८	सेन्ट्रल फाइनान्स कं. लि.	४.८०	१४८.२५	१.४८	३१.२१	६२.५०	३००.००
१९	ओम फाइनान्स लि.	७.००	१४०.९०	१.३७	१९.५६	७६.१८	२७५.००
२०	प्रिमियर फाइनान्स कं. लि.	२.८८	१४१.०१	०.४७	१६.२८	३६.७८	२३५.००
२१	नेपाल सेयर मार्केट्स एण्ड फा. कं. लि.	१६.००	१३३.६६	३.५४	२२.११	१९०.७१	३००.००
२२	युनिभर्सल फाइनान्स लि.	५.०१	१६७.५२	१.७२	३४.२५	७५.७०	२००.००
२३	सिद्धार्थ फाइनान्स लि.	५.२०	१५६.००	१.२९	२४.७९	६८.०२	२४२.००
२४	पश्चिमाञ्चल फाइनान्स कं. लि.	५.५७	१७६.८८	१.६६	२९.९०	८०.६५	२७३.००
२५	एन.आई.डि.सी.क्यापिटल मार्केट्स लि.	७.५०	१६६.१४	३.६४	४८.५२	१११.१५	४५५.००
२६	कस्मिक मर्चेण्ट बैकिङ्ग एण्ड फाइनान्स लि.	७.५०	११३.२८	०.२३	३.०१	५९.३५	१२२.००
२७	नेपाल फाइनान्स कं. लि.	३.००	२४८.८७	१.९९	६६.२०	४९.३१	२६५.००
२८	युनाइटेड फाइनान्स लि.	६.००	१४८.८०	३.००	३४.९७	८७.४०	४१६.००
२९	गुडविल फाइनान्स कं. लि.	५.००	१३२.९६	०.९२	१८.४४	६०.२३	२२०.००
३०	वर्ल्ड मर्चेण्ट बैकिङ्ग एण्ड फाइनान्स लि.	६.००	१६०.१२	१.९४	३२.२५	९३.५०	२६५.००
३१	गोरखा फाइनान्स कं. लि.	३.००	१३०.२७	०.२७	९.०३	३५.४९	१८०.००
३२	बुटवल फाइनान्स लि	६.३२	१३०.८५	०.८०	१२.६२	८०.९९	२००.००
३३	नवदुर्गा फाइनान्स कं. लि.	३.९५	१३४.१८	०.७३	१८.४६	३७.०९	१३२.००
३४	एल्यिक एभरेष्ट फाइनान्स लि.	७.८०	११८.३८	१.०५	१३.४३	८५.८२	१८३.००
३५	लुम्बिनी फाइनान्स एण्ड लिजिङ्ग कं. लि.	६.००	२१३.७८	२.७९	६३.२०	९६.१५	१६३.००
३६	क्यापिटल मर्चेण्ट बैकिङ्ग एण्ड फाइनान्स लि.	१६.१०	१२०.९३	२.६५	१६.४६	१३०.८४	१७५.००
३७	जानकी फाइनान्स कं. लि.	४.००	१५४.७८	०.५९	१४.८०	५२.९१	२००.००
३८	नागरिक लगानी कोष	४.००	२८५.३७	२.६३	६५.५३	५३९.१५	३५२.००
३९	सम्भना फाइनान्स कं. लि.	२.२२	(३७.६४)	(२.०९)	(९४.५४)	२३.८४	१००.००
४०	यती फाइनान्स कं. लि.	३.१३	१४५.६६	०.५९	१८.८८	४०.३५	२२५.००
४१	युनियन फाइनान्स लि.	७.२५	७६.३२	२.९८	(४१.३३)	७१.४९	१७५.००
४२	गृहेश्वरी मर्चेण्ट बैकिङ्ग एण्ड फाइनान्स लि.	५.५०	१२०.६९	१.१७	२१.३५	४१.९०	१४९.००
४३	आई.एम.ई.फाइनान्सियल इष्टिच्युशन लि.	५.००	१२०.९४	०.९२	१८.३०	६२.२९	३८६.००
४४	पाटन फाइनान्स लि.	५.००	१०८.६०	०.४३	८.५२	४५.९१	१०५.००
४५	भाजुरतन फाइनान्स एण्ड सेभिङ्ग कं. लि.	३.५०	१४०.३७	०.५०	१४.३७	२४.२४	१११.००

बीमा कम्पनी							
१	नेपाल लाइफ इन्स्योरेन्स कं. लि.	२५.००	१००.००	८९.९६	३५९.८६	२५६.९०	७६६.००
२	लाईफ इन्स्योरेन्स कर्पोरेशन (नेपाल) लि.	२५.००	१२०.३८	८३.०२	३३२.०८	२३०.१७	८८०.००
३	हिमालयन जनरल इन्स्योरेन्स कं. लि.	३.००	२००.००	१.९५	६५.१७	८०.०८	३००.००
४	युनाइटेड इन्स्योरेन्स कं. (नेपाल) लि.	६.००	१८४.३५	१.७९	२९.९२	२८.६१	२१९.००
५	प्रिमियर इन्स्योरेन्स कं. (नेपाल) लि.	३.००	३६७.९०	२.५३	८४.३७	१९.६३	२६०.००
६	नेको इन्स्योरेन्स लि	५.००	१८२.५८	२.१०	४२.०२	१५.११	१२१.००
७	एभरेष्ट इन्स्योरेन्स कं. लि.	९.००	९.००	४.५०	५०.००	३८.७९	२९०.००
८	पुडेन्सियल इन्स्योरेन्स कं. लि.	१०.००	११२.८२	२.१९	२१.८६	२१.८२	२०५.००
१०	लुम्बिनी जनरल इन्स्योरेन्स कं. लि.	१०.००	१०१.६८	२.१४	२१.४३	१९.४७	-
११	शिखर इन्स्योरेन्स कं. (नेपाल) लि.	१२.५०	१०७.६३	२.९५	२३.६३	२९.८६	२९६.००
१२	नेपाल इन्स्योरेन्स कं. लि. १	१०.२७	१८८.७५	१२.२९	११९.६७	५७.८४	३५७.००
१३	एलायन्स इन्स्योरेन्स कं. लि.	५.९९	२२५.४५	२.३७	३९.५८	२१.५३	१११.००
होटल							
१	सोल्टी होटल लि.	८.६९	२०१.५४	२.९८	३४.२९	२८.४३	१२६.००
२	ओरियन्टल होटल्स लि.	४९.५५	९९.९९	०.३६	०.७४	१४८.०३	८६.००
३	तारागाउँ रिजेन्सी होटल लि.	१८८.६५	१००.००	(८४.५०)	(४४.७९)	२४७.८४	५५.००
	उत्पादन तथा प्रशोधन कम्पनी						
१	युनिलिभर नेपाल लि.	९.२०	२५५.०१	२५५.०१	२८५.७२	२३.४८	३४००.००
२	नेपाल बनस्पति ध्यु उद्योग लि.	२.०३	३६१.३८	(१.१८)	(५८.५२)	७.३२	-
३	खाद्य उद्योग लि.	१.२९	२५३.६७	(१.००)	(७७.५७)	३.३५	-
४	ज्योति स्पिनङ्ग मिल्स लि.	१८.९८	१००.००	७.५५	(३९.७६)	७८.७६	२७.००
व्यापार कम्पनी							
१	विशाल बजार कं. लि.	२.७३	१३९.८९	२.६०	९५.३८	६.००	२५७५.००
२	साल्ट ट्रेडिङ्ग कर्पोरेशन लि.	२.४८	५६४८.८०	(१०.३७)	(४१८.३५)	१८१.८२	३२५.००
अन्य कम्पनी							
१	बुटवल पावर कं. लि.	८३.९१	१४४.२८	२५.२८	३०.१३	१२९.४९	१०००.००
२	चिलिमे जलविद्युत कं. लि.	७२.९६	२६६.२२	१०३.०३	१४१.२२	२११.०७	९४०.००
३	नेशनल हाईड्रोपावर कं. लि.	६९.३०	१०२.०५	५.३२	७.६७	१५७.५५	१८५.००

Annex- 2

Questionnaire Survey

I am preparing my research work on the topic **“Prospect and Challenges of Stock Market Development in Nepal”** for the partial fulfillment of the requirement for the Master of Business Study. The questionnaire given below will be very helpful to collect primary data in respect of my research work. Therefore, I would like to request for your grateful opinions and correct information regarding these questions.

I hope forward for your kind cooperation.

Respondent

Name: -----

Education: -----

Occupation: -----

Position: -----

Date: -----

Questions:

1. What factor motivates you to make investment in stock?

- a) Marketability and profitability. []
- b) Limited Opportunity to invest in other sector. []
- c) Friends and Family. []
- d) Share Brokers. []
- e) If other, please specify. []

2. Which of the following factor makes you decide to buy share of particular company?

- a) Increasing Market Price of the share. []
- b) Profit/Loss trend of the company. []
- c) Value of the company []
- d) Brokers, consultation. []
- e) If other, please specify. []

3. Why do investors want to invest in Primary market than in Secondary market?
 - a) Primary market is riskier than Secondary market. []
 - b) Secondary market is riskier than primary market. []
 - c) Because of the broker. []
 - d) None []

4. Do you think Automation trading system is good for Nepalese stock market?
 - a) Yes []
 - b) No []
 - c) Don't know []

5. Rumour about stock market is the one of the reason to decline or increase of the share price.
 - a) True []
 - b) False []

6. Government increased capital gain percentage 5% to 15%, Do you think it affect the stock market?
 - a) Yes []
 - b) No []

7. Are there any difficulties in trading in Nepalese market?
 - a) Yes []
 - b) No []

8. Do you think investors in Nepalese stock market are aware?
 - a) Yes []
 - b) No []

9. Are you satisfied with the performance of Nepal Stock Exchange?
 - a) Yes []
 - b) No []
 - c) Don't know []

10. Listed companies do not present financial statement in time to NEPSE & SEBO who is responsible for this?
 - a) The office of the company registrar. []
 - b) Nepal Stock Exchange (NEPSE) []
 - c) Particular Company. []
 - d) Security Board Nepal []
 - e) Investors / Brokers []

11. In your opinion how to develop the Nepalese stock market?
 - a)
 - b)
 - c)
 - d)