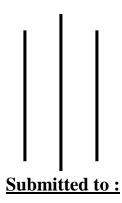
# PROBLEM AND PROSPECTS OF DEBENTURE MARKET IN NEPAL

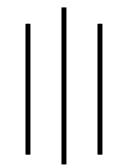


Office of The Dean

**Faculty of Management** 

**Tribhuvan University** 

In the partial fulfillment of Master of Degree in Business Studies (MBS)



A Thesis Submitted by:

**Anoop Shrestha** 

T.U. Reg No: 7-2-242-302-99

**Campus Roll No.: 516/059** 

**Shanker Dev Campus** 

Ramshah Path, Putalisadak, Kathmandu

Nepal

December, 2010

### RECOMMENDATION

This is to certify that the Thesis

Submitted by:

### **Anoop Shrestha**

#### **Entitled:**

# PROBLEM AND PROSPECTS OF DEBENTURE MARKET IN NEPAL

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

Supervisors		
Mr. Sri Bhadra Neupane	Prof. Bisheshwor Man Shrestha	Dr. Kamal Deep Dhhakal
(Thesis Supervisor)	(Head of Research	(Campur Chief)
	Department)	
Rabindra Bhattarai		
(Thesis Supervisor)		

### **VIVA-VOCE SHEET**

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

by

### **Anoop Shrestha**

Entitled:

# PROBLEM AND PROSPECTS OF DEBENTURE MARKET IN NEPAL

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

Master Degree of Business Studies (M.B.S.)

### **Viva-Voce Committee**

Head, Research Department	
Member (Thesis Supervisor)	
Member (Thesis Supervisor)	
Member (External Expert)	

### **DECLARATION**

I hereby declare that the work reported in this thesis entitled "**Problem and Prospects of Debenture Market in Nepal**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of Mr. Sri Bhadra Neupane and Mr. Rabindra Bhattarai Lecturer of Shanker Dev Campus.

.....

**Anoop Shrestha** 

Researcher

**T.U. Registration No. 7-2-242-302-99** 

Campus Roll No.: 516/059

ACKNOWLEDGEMENT

It was almost impossible to complete this thesis entitled "Problem and Prospects of Debenture

Market in Nepal" without expert professional guidance and assistance coupled with constant

encouragement from many quarters. I would like to express my deepest thanks to my supervisor

Mr. Sri Bhadra Neupane and Mr. Rabindra Bhattarai, Shanker Dev campus for providing all

sorts of guidelines, valuable comments and suggestions along with an analytical support in order

to complete this thesis. Their guidance and help has been a great source of encouragement and

inspiration to me.

I would like to offer my gratitude to all honourable teacher as well as staffs of Tribhuvan

University and Shanker Dev Campus, all the concerned staffs of Securities Board of Nepal and

Nepal Stock Exchange for providing all relevant data and necessary information.

I must also acknowledge to Shanker Dev Campus Library, and Administration of Shanker Dev

Campus, NRB library for providing necessary books, journals and articles.

I also owe a great deal of gratitude to my friends Mr. Suraj Maharjanand Mr. Santosh Pokharel

and Mr. Aashish Shrestha for their continuous support and assistance in all the ways possible.

Finally, I would like to offer my special thanks to all those who have supported me in completion

this thesis work.

Anoop Shrestha

December 2010

# **TABLE OF CONTENTS**

Recommendation		
Viva Voce Sheet		
Declaration		
Acknowledgement		
Table of Contents		
List of Tables		
List of Figures		
Abbreviations		
CHAPTER – I INTRODUCTION		
Background of the Study	1	
Focus of the Study	4	
Statement of Problem	4	
Objectives of Study	5	
Significance of the Study	5	
Limitation of the Study		5
Organization of the Study	6	
CHAPTER – II: REVIEW OF LITERATURE		
2.1 Conceptual Review		8
2.1.1 Concept of Debt		8
2.1.2 Debt Securities Market		9
2.1.3 History of Corporate Debt Market in Nepal		12
2.1.4 Long Term Debt Instruments.		20
2.1.5 Types of Government Debt Securities.		23
2.1.6 Terms Related to Corporate Bond Market		24
2.1.7 Key Characteristics of Bond		33
2.1.8 Risk associated with Bond Investment		36
2.1.9 Bond Ratings		39
2.1.10 Buying and Selling Rules of Securities		40

2.1.11 Valuation of Bond	41
2.1.12 Bond Return Measures	44
2.1.13 Cost of Debt Capital	48
2.1.14 Bond Spreads	49
2.1.15 How Bonds Trade	52
2.1.16 Why Interest Rate Changes	53
2.1.17 Bond Management Strategies	54
2.2 Review of Security Laws and Acts	56
2.3 Review of Previous Studies	60
CHAPTER – III: RESEARCH METHODOLOGY	
3.1 Introduction	<i>63</i>
3.2 Research Design	<i>63</i>
3.3 Sources of Data	64
3.4 Population and Sample	64
3.5 Research Variables	<i>65</i>
3.6 Graph	<i>65</i>
3.7 Method of analysis	65
3.8 Statistical Tools Used	65
CHAPTER –IV DATA PRESENTATION AND ANALYSIS	
4.1 Presentation and Analysis of Secondary Market	66
4.1.1 Features of Nepalese Corporate Debentures	66
4.1.2 Corporate Debt Securities in Nepalese Market	68
4.1.3 Position of Corporate Debt in Total Debt Market in Nepal	70
4.1.4 Position of Corporate Debenture in Nepalese Corporate Capital Market	72
4.1.5 Interest Rate Analysis	75
4.1.6 Debenture Trading in Security Market	79
4.1.7 Corporate Debenture Issue and Commercial Banks	80
4.2 Presentation and Analysis of Primary Data	82
4.2.1 Most Preferable Investment Alternative	82

4.2.2 Investment in Corp	porate Debenture	83
4.2.3 Most Preferred De	benture Issuing Corporate Sector	84
4.2.4 Major factor for L	Debenture Market not being Popular	85
4.2.5 Reason for Nepale	ese enterprises preferring common stock	
rather than debt s	securities for generating fund	85
4.2.6 Observations on U	nder Developed Stage of Debt Securities	
Market in Nepal		87
4.3 Major Findings		88
CHAPTER – V: SUI	MMARY, CONCLUSION AND RECOMN	<b>MENDATIONS</b>
5.1 Summary		90
5.2 Conclusion		93
5.3 Recommendation		94
Bibliography		
Appendix		

# LIST OF TABLES

No.	Titles	Page No.
4.1	Features of Nepalese Corporate Debentures	67
4.2	Debenture Issue out of Total Issue	68
4.3	Position of corporate and Government Debt in Total Debt Market	71
4.4	Instrument wise Securities Issue	73
4.5	Structure of Interest Rate	76
4.6	Interest Rate of Debenture currently floating in Nepalese Market	78
4.7	Secondary trading of Corporate Debenture	79
4.8	Capital Fund to Risk weighted asset ratio of Nepalese commercial Banks	81
4.9	Most Preferable Investment Alternative	82
4.10	Investment in corporate debenture	83
4.11	Most Preferable Investment Alternative	84
4.12	Major factor for debenture market not being popular	85
4.13	Reason for Nepalese Enterprises preference towards issuing common	
	stock	86
4.14	Reason for less trading of debt securities in secondary market	86
4.15	Observations on under developed stage of debt securities market	87

### **ABBREVATION**

AGM: Annual General Meeting

BOK: Bank of Kathmandu Limited

CPI: Consumer Price Index

EBL: Everest Bank Ltd

FY: Fiscal Year

HBL: Himalayan Bank Limited

HPR: Holding Period Return

IM: Issue Manager

INB: Nepal Investment Bank

KBL: Kumari Bank Limited

LB: Laxmi Bank

MD: Macaulay Duration

NEA: Nepal Electricity Authority

NEPSE: Nepal Stock Exchange

NIC: Nepal Industrial Commerce Bank Limited

NIDC: Nepal Industrial and Development Corporation

NRB: Nepal Rastra Bank

NSB: National Saving Bonds

PP: Public Placement

PVIF: Present Value of Annuity Factor

PVIFA: Present Value of Annuity Factor

RWA: Risk Weighted Assets

SBL: Siddhartha Bank Limited

SEBO: Securities Board of Nepal

SEC: Securities Exchange Center

SMC: Securities Market Center

TPV: Total Present Value

YTM: Yield to Maturity

# LIST OF FIGURES

Fig	ure no. Title	Page
2.1	Different Shapes of Yield curve	32
4.1	Debenture out of Total Securities Issue	69
4.2	Percentage of Debenture Issue out of Total Issue	70
4.3	Contribution of Corporate Debt in Total Debt of Nepal	72
4.4	Trend of Securities Issue Instrument Wise	74
4.5	Market share of Security Instrument	75