

TRENDS AND CHALLENGES OF NEPALESE STOCK MARKET

A Thesis Submitted to
Office of the Dean
Faculty of Management
Tribhuvan University

By
Manikar Karki
Lumbini Banijya Campus
T.U. Reg. No. 7-2-446-33-2003
Roll No. 1269

In partial fulfillment of the requirements for the degree of
Master of Business Studies (M.B.S.)

Butwal, Nepal
May, 2010

DECLARATION

I hereby declare that this research work, entitled "*Trends and Challenges of Nepalese Stock Market*" submitted to Lumbini Banijya Campus, faculty of management, Tribhuvan University is my original work done for the partial fulfillment of the requirements for the **Master Degree in Business Studies (M.B.S.)** under the direct supervision of my thesis supervisor **Mr. Rajendra Lamsal**, lecturer of Lumbini Banijya Campus, Tribhuvan University.

Manikar Karki

Lumbini Banijya Campus

T.U. Reg. No. 7-2-446-33-2003

Roll No. 1269

May, 2010.

ACKNOWLEDGEMENT

This research report entitled to "*Trends and Challenges of Nepalese Stock Market*" has been prepared to fulfill the partial requirement of Master of Business Studies (M.B.S.) two years academic program launched by Tribhuvan University under the faculty of management. In this regard, I should express a handful regard to the faculty of management of the university for making this research work compulsory academic course.

This research work has been carried out under the direct supervision of Mr. Rajendra Lamsal, faculty member of finance of Lumbini Banijya Campus. I am extremely grateful to his constructive advices, suggestions and valuable time that he has given while preparing this research work. Likewise, I should be thankful for the proper guidance and instructions of Dr. Ishwor Gautam, head of the research department and campus chief of Lumbini Banijya Campus.

Additionally, my sincere thank is forwarded to Mr. Shashi Bhattarai for his kind cooperation while collecting required data and information during the course of writing this research report. I am extremely thankful to Security Board Nepal (SEBON), Nepal Rastra Bank (NRB), Nepal Stock Exchange (NEPSE) and other government offices for providing required data and information during the research period. I am equally thankful to all the investors, students, lecturers and everyone for providing valuable information along with their constructive comments and suggestions which ultimately support me to bring this report into a final shape.

Lastly, I would like to express my sincere gratitude to all my teachers and staffs of Lumbini Banijya Campus, friends and other well wishers for their kind co-operation and encouragement for the successful completion of this research report.

Manikar Karki

T.U. Reg. No. 7-2-446-33-2003

Roll No. 1269

May, 2010

ABBREVIATIONS

AGM	=	Annual General Meeting
BJM	=	Biratnagar Jute Mills
BoD	=	Board of Directors
BT	=	Blank Transfer
CBS	=	Central Bureau of Statistics
EG	=	Economic Growth
EPS	=	Earning Per Share
GDP	=	Gross Domestic Product
GNDI	=	Gross National Disposal Income
GoN	=	Government of Nepal
IPO	=	Initial Public Offering
IT	=	Information Technology
LAN	=	Local Area Network
MPS	=	Market Price per Share
NATS	=	NEPAE Automated Trading System
NBL	=	Nepal Bank Limited
NEPSE	=	Nepal Stock Exchange Limited
NI	=	NEPSE Index
NRB	=	Nepal Rastra Bank
NWPS	=	Net Worth Per Share
OTC	=	Over the Counter
PCI	=	Per Capita Income
SEBON	=	Securities Board of Nepal
SEC	=	Securities Exchange Center
WAN	=	Wide Area Network
WWW	=	World Wide Web

LIST OF TABLES

Tables	Page
2.1.5.1 Proportion of public issue out of issued capital	14
2.1.5.2 Capital Structure of NEPSE	15
2.1.6.1 Brokerage for government bond	18
2.1.6.2 Brokerage for equity	18
2.1.6.3 Brokerage for other stocks	18
2.1.8.1 Relationship between lenders and borrowers	22
4.2.1.1 Number of Listed and Traded Companies	42
4.2.2.1 Analysis of growth of NEPSE Index	44
4.2.3.1 Nepse index trend during the year 2008/09	46
4.2.4.1 Sector-wise Index for various years	48
4.3.1.1 Know-how about the stock market	50
4.3.2.1 Investment in corporate stock	51
4.3.3.1 Factors influencing for investment in corporate stock (IPOs)	52
4.3.4.1 Motivating factors for purchasing share of a company	54
4.3.5.1 Reason for concentration on banking and financial sector	55
4.3.6.1 Performance of Nepalese stock market	57
4.3.7.1 Growth of Nepalese stock market	58
4.3.8.1 Correlation with economic growth	59
4.3.9.1 Sufficiency of existing stock market for security trading	60
4.3.10.1 Need of another security exchange	61
4.3.11.1 Problems of Nepalese security market	62
4.3.12.1 Remedial measures to boost up Nepalese stock market	63
4.4.2.1 Analysis of Nepse Index with Turnover, GDP and EG	66
4.4.2.2 Growth of NEPSE, turnover, GDP and EG	67

LIST OF FIGURES

Figures	Page
4.2.1.1 Number of Listed and Traded Companies	43
4.2.2.1 Analysis of growth of NEPSE Index	45
4.2.3.1 Nepse index trend during the year 2008/09	47
4.2.4.1 Sector-wise Index for various years	49
4.3.1.1 Know-how about the stock market	51
4.3.2.1 Investment in corporate stock	51
4.3.3.1 Factors influencing for investment in corporate stock	53
4.3.4.1 Motivating factors for purchasing share of a company	54
4.3.5.1 Reason for concentration on banking and financial sector	56
4.3.6.1 Performance of Nepalese stock market	57
4.3.7.1 Growth of Nepalese stock market	58
4.3.8.1 Correlation with economic growth	59
4.3.9.1 Sufficiency of existing stock market for security trading	60
4.3.10.1 Need of another security exchange	61
4.3.11.1 Problems of Nepalese security market	63
4.3.12.1 Remedial measures to boost up Nepalese stock market	64

TABLE OF CONTENTS

Title	Page
Declaration	i
Acknowledgements	ii
Abbreviations	iii
List of Tables	iv
List of Figures	v

Chapter	Page
1. INTRODUCTION	1 - 9
Background Information	1
Focus of the Study	3
Statement of Problems	4
Objectives of the Study	6
Significance of the Study	6
Hypothesis formulation	7
Limitations of the Study	8
Organisation of the Study	8
2. REVIEW OF LITERATURE	10-32
Theoretical Reviews	10
Review of Journals and Articles	23
Review of Previous Thesis	26
3. RESEARCH METHODOLOGY	33-38
Research Design	33
Population and Sample	34
Nature and Sources of Data	34
Data Collection Technique	35
Data Processing and Analysis	35
Statistical Tools and Tests	36
4. PRESENTATION AND ANALYSIS OF DATA	39-76
Overview of Nepalese Stock Market	39

Overview of Nepalese Economy	39	
Overview of Nepalese security market and trading process	40	
Analysis of overall trend of Nepal Stock Exchange, NEPSE Index	41	
Comparison of listed and traded companies in NEPSE	41	
Analysis of overall NEPSE index	43	
Analysis of NEPSE index trend during a fiscal year	45	
Analysis of sector-wise index	47	
Analysis of investor's perspective with regard to investment in secondary market	50	
Know-how about the stock market	50	
Investment in corporate stock	51	
Factors influencing for investment in corporate stock (IPOs)	52	
Motivating factors for purchasing share of a company	53	
Reason for concentration on banking and financial sector	55	
Performance of Nepalese stock market	57	
Growth of Nepalese stock market	58	
Correlation with economic growth	59	
Sufficiency of existing stock market for security trading	60	
Need of another security exchange	61	
Problems of Nepalese security market	62	
Remedial measures to boost up Nepalese stock market	63	
Respondent opinion regarding Nepalese stock market	64	
Analysis of growth of NEPSE index with other variables	65	
Relationship between NEPSE index and other relevant macroeconomic variables	65	65
Statistical analysis	67	
Testing of hypothesis	69	
Obstacles of stock trading	72	
Influence of individual investors	72	
Lack of institutional support and coordination	72	
Lack of modern technology	73	
Lack of investable instruments	73	
Lack of awareness among investors	73	

Major findings of the study	74
5. SUMMARY AND CONCLUSIONS	77-83
Summary	77
Conclusions	80
Recommendations	82

BIBLIOGRAPHIES

ANNEXURES

RESUME