

CHAPTER -1

INTRODUCTION

1.1 GENERAL BACKGROUND

Financial institution can be considered as the catalyst of the economic growth of the country. The development process of a country involves the mobilization and development of resources. There is range of banking institutions performing different functions. Among the banks, development banks play vital role for the development of the country.

Nepal's economy is in the earlier stage of economic development where financial (Banking) sector need to play crucial role in order to accelerate this pace as these sector can accumulate scattered saving for capital formulation. Developing country such as Nepal aspires for a rapid economic growth, which required additional capital formation with the sufficient amount of investment. No one can deny the fact that a country requires favorable economic environment to achieve economic development. Financial institution plays vital role to support the country's economic development.

Banking system has evolved itself as an integral part of trade, commerce and industry. At present, no banker can survive for long run without appropriate footing of economy and no economy can operate without proper application of banking system in state. Although the business of banking is as old as authentic history, banking institutions have few simple operations up to the satisfaction of individual wants.

Now days, debenture market is being popular for investors as well as organizations which require long term capital. It also provides fund in condition of paying certain amount of interest each and every year. In today situation, there is increasing debt market internationally because of more economical prospects of its utilization.

Debenture issue is especially more suitable for those institution, which are established with purpose of profit making. If a business organization able to make some profit may be benefited leveraging return on equity by using debenture and bond. Hence debenture is a tool of maximizing shareholder rate of return.

Government also requires a long term debt and short term debt. It can supply its short –term fund requirement by issuing Treasury bill. Treasury note can be issued for fund supplying more than 1 and less than 10 years. To supply long term loan, Treasury bond can be issued for more than 10 years.

Business organization can supply working capital from short term borrowing issuing commercial paper, secured short term loans and other spontaneous instruments. They can use equity financing instrument and debt financing instrument especially in supply of long term or fixed capital.

Equity financing is unavoidable sources which may not be profitable depending fully on it. Hence, debt financing is another economical source of long term project might be financed cheaply and easily from debentures issue.

In Nepal, money and capital market both are infancy stage. There is very slow growth rate of long term debt instrument issue and transaction in capital market. Just some private business institutions have issued debentures till report writing which clarifies the fact of slow growth of Nepalese debenture market.

In growth of debenture market in Nepal, the following components play vital role.

- Security Board
- Commercial Bank
- Nepal Rastra Bank
- Finance Companies

- Government
- Private Organization which are issuing debentures
- General People
- Brokers and agent
- Stock Exchange Ltd.
- Other investors

At present, there has been made significant achievement in growth of commercial banks, finance companies, insurance companies, development banks and cooperative associations. The growth of establishment was intense with restoration of democracy and amendments in laws and acts which were traditional. There were 25 commercial banks, 58 development banks including agricultural and Nepal cooperative associations, 47 non governmental organizations, 72 finance companies in 15th July 2008. There were 121 insurance companies in the same date. Deposit and credit Guarantee Corporation and non depositary institutions like Employee Provident fund from public in different companies organization for various purpose.

Recently issues of debentures or bonds by companies have proved very popular to raise fairly large amounts by issuing debentures and bonds for the purpose of financing their expansion and diversification projects. For growth of debentures and bond market of a country requires systematic development in industrial environment, development in a share market, positive attitude of general and institutional investors, adequate facilitating rules and regulation system, availability of secondary market of debentures, cooperative response of control mechanism etc. There have been made some attempts to develop regarding the above debentures and bond market growth factors such as established of SEBO/N, NEPSE under stock exchange act 1983, licensing system of brokers and amendments in previous legislation. NEPSE has made securities listing Bye- laws, 1996 and Transactions Bye – laws, 1990 and has been taking responsibility of making the securities and clearing and settlement activities more orderly and fairly which also help in promoting and growth of Nepalese

debenture market.

There were 27 stockbrokers, 2 market makers and no corporate debentures brokers due to listing debentures in NEPSE. If debentures are listed in NEPSE, there would exist debenture brokers too and secondary market of debentures would be commenced. (www.nepalstock.com)

There is increasing information disseminating activities about securities market after the establishment of security board and NEPSE in Nepal. Study and discussion programs, published booklet on investor education, booklet regarding the disclosure for securities business person in different fiscal years of annual reports from SEBO/N are positively contribution in Nepalese debenture and bond market development. Such activities are being in NEPSE.

1.2 FOCUS OF THE STUDY

The fact of slow growth of Nepalese capital and money market is not known. So the backward positions of Nepalese debenture market are covered considering other international debentures market. Therefore, study focus on debentures market and their relevant problem will be given on study of Nepalese debentures market generated from issued by Himalayan Bank Ltd, Everest Bank Ltd, Nepal Investment Bank Ltd & public debentures issues. So possibility of time and resources, researcher will study Nepalese debenture market deeply. The researcher will give focus in study following variables.

- Debentures issued by private organization
- Public debentures
- Rules and regulations of debentures issue and trading
- Primary and secondary market of debenture

1.3 INTRODUCTION OF THE LISTED BANKS

As there has been number of banks are established, the research has been taken into consideration of HBL, EBL, NIBL & NRB. Therefore, short glimpse of there banks as given as:

I. Himalayan Bank Limited (HBL)

Himalayan Bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employee Provident Fund and Habib bank Limited, one of the largest commercial bank of Pakistan. Banking operation was commenced from January 1993. HBL does not include government ownership. It has been established to maintain the economic welfare of the general people to facilitate loan for agriculture industry and commerce to provide the banking service to the country and people.

It is the first commercial bank of Nepal with maximum share holding by Nepalese private sector. Besides commercial, activities, the bank also offers industrial and merchant banking. Its ownership is composed of founder shareholder 51% Habib bank of Pakistan 20%, employee's provident fund 14% and general public 15%. It is the 1st bank having domestic ownership more than 50%. HBL has been operating in high profit from the establishment period till now. It accepts deposit through current deposit, saving deposit, fixed deposit and call deposit.

At present, Himalayan Bank has a total network of 17 branches across the country and a counter in the premises of the Royal palace. There are six branches in Kathmandu valley at the following locations: Thamel, new road, Maharajgunj, Pulchowk (Patan), SuryaVinayak (moved from Nagarkot) and card center in Pulchowk. In addition, the bank has also ten branches out side Kathmandu valley in Banepa, Tendi, Bharatpur, Birgunj, Hetauda, Bhairahawa, Biratnagar, Pokhara, Dharan, and Butwal. The Bank is aggressively opening new branches at different parts of the nation to serve its customer service.

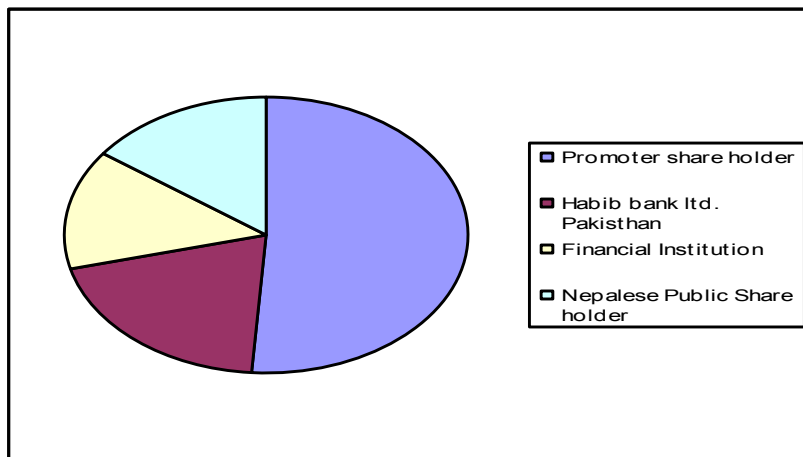
HBL was access to the world wide correspondent network of Habib bank for fund transfer, letter of credit or any other banking business any where in the world. Himalayan Bank has adopting innovative and latest banking technology. The bank provides various services and facilities such as:

- Tele- banking
- 24 hours banking
- Prepaid credit card & internet banking facilities

- Automatic teller machine (ATM)
- Visa card
- L.C. Service
- Safe deposit locker
- Himal Remit
- SMS Banking
- Foreign currency transaction etc. (*www.hbl.com*)

The ownership of HBL is compared as:

<u>Subscription</u>	<u>% Holding</u>
Promoter share holder	51%
Habib bank ltd. Pakistan	20%
Financial Institution (Employees Provident Fund)	14%
Nepalese Public Share holder	15%
Total	100%



The present capital structure of HBL is shown below:

<u>Share Structure</u>	<u>Amount (Rs)</u>
Authorized Capital	1000000000
Issued Capital	77,22,00,000
Paid up Capital	77,22,00,000

(77,22,00,000 equity share EPS 100 each, fully paid)

Source: Annual Report of HBL, 2006/07

II. Everest Bank limited (EBL)

Everest Bank limited started its operations in 1994 & and objective of extending professionalized & efficient banking services to various segments of society. EBL joined hands with Punjab National Bank (PNB), nationalized bank in India having 110 years of banking history with more than 4500 offices all over India of which 1400 branches are interconnected. PNB has over 1000 ATMs spread across India. As on 31/3/05, PNB had a total business INK 163000 mores and posted a net profit of INR 1410 corers. Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations. And established itself as a leading Private Sector Bank, EBL is ranked as no 2 bank by NRB the bank has 18 branches including main branch (i.e. head office) in Nepal and over 250 correspondents across the globe.

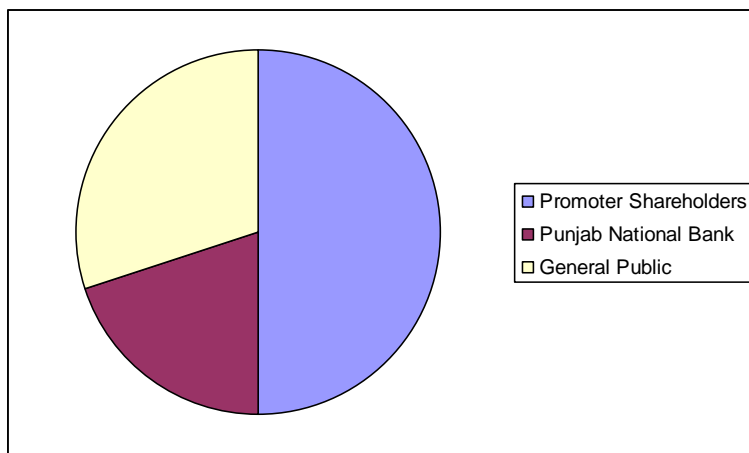
On equity holding PNB has 20% equity participation in its total share holding and also has under taken management responsibility under a technical service agreement and promoter holding 50% and rest 30% held by general public. The main purpose of EBL is to extend professional banking services to various sectors of the society of Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers.

- Cumulative Deposit Scheme

- Unfix fixed deposit
- Remittance
- ATM facilities
- FC deposit/lending
- Facilities of NRV
- Required Deposit plan
- Technology transfer (T.T.)
- Drawing arrangement
- Foreign Exchangement
- International Trade and Bank guarantees
- Merchant Banking (*www.ebl.com.np*)

The ownership of EBL is composed as:

<u>Subscription</u>	<u>%Holding</u>
Promoter Shareholders	50%
Punjab National Bank	20%
General Public	30%
Total	100%



The authorized capital of the bank has been Rs. 240 million, issued Rs. 120 million and paid up Capital Rs. 117.5645 million in the beginning of 2051/052. The present capital structure of EBL is shown below:

<u>Share Structure</u>	<u>Amount (Rs)</u>
Authorized Capital	600,000,000
Issued Capital	529,800,000
Paid up capital	518,000,000

(51,810,000 equity share EPS 100 each, fully paid)

Source: Annual Report of EBL, 2006/07

III. Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd. Was established as a joint venture bank between Nepalese & French partners in 21st January 1986 under the company act 1964. The French partner (holding 50% of the capital of NIBL) was credit Agric ale Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of credit Agric ale Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessman, has acquired on April 2002 the 50% shareholding of credit Agric ale Indosuez in Nepal Indosuez Bank Ltd.

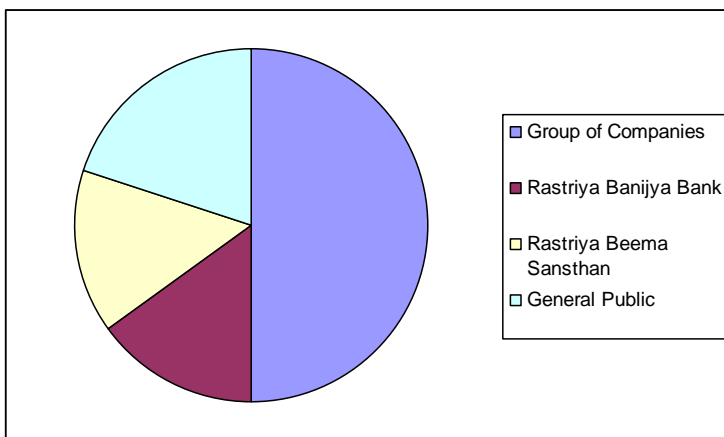
The name of the bank has been changed to Nepal Investment Bank ltd. Upon approved of bank's Annual General Meeting, Nepal Rastra Bank and company registrar's office.

Out of total equity shares of NIBL, 50% shares hold by a group of companies, 15% shares by Rastriya Banijya Bank, another 15% shares by Rastriya Beema Sansthan and remaining 20% being held by the General Public (which means that NIBL is a company listed on the Nepal Stock Exchange.) It provides following facilities and services to their customers.

- Trade Finance
- Remittance
- Export credit
- Tele Banking
- ATM with any branch banking
- Vehicle loan
- E-banking service
- Locker facilities
- Any Branch Banking
- 365 Days Banking
- Ezee saving scheme (www.nibl.com.np)

The ownership of NIBL is composed as:

<u>Subscription</u>	<u>% Holding</u>
Group of Companies	50%
Rastriya Banijya Bank	15%
Rastriya Beema Sansthan	15%
General Public	20%
Total	100%



The present Capital structure of NIBL is presented below.

<u>Share Structure</u>	<u>Amount (Rs.)</u>
Authorized Capital	1,000,000,000
Issued Capital	590,586,000
Paid up Capital	590,586,000

(590,586,000 equity share EPS 100 each, fully paid)

Source: Annual Source of NIBL, 2006/07

IV. Nepal Rastra Bank (NRB)

Nepal Rastra Bank (NRB), the central bank of Nepal was established in 1956 to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial sector. Since then, there has been a huge growth in both the number and the activities of the domestic financial institutions. The authorized capital of NRB at establishment period was 1 corer and at present the authorized capital is 1 Arab (i.e. 10 billion).

Now, NRB has playing crucial role towards fulfilling Nepal aspirations. It has instrumental in bringing about substantial improvement in the statue of socioeconomic development in the country. Hardly, any sector of economy exists which ahs been untouched by the guideline of NRB. The NRB is responsible for management and supervision of monetary and credit system of the country. This central bank has been given wide power under the various provisions of following legislation NRB act 1955, banks and financial institutions ordinance 2062. The provisions of this act are applicable to domestic as well as joint venture bank institution.

Prior to establishment of Nepal Rastra Bank in 1956, Nepal bank limited is the first and only one commercial bank, hand to perform some of function of the

central bank. Before the establishment of NBL, there was Tejarath adda, which was established with a view to extend credit to the public on the security of gold and silver up to 1955. The NBL was one only financial institution and taking charge of all. The business transaction of government is including currency exchange except commercial banking function. NRB later took a lead role as the central bank of the country and assumed the responsibility of ensuring proper management of the issuance of Nepalese currency notes: making proper arrangement for the circulation of Nepalese currency throughout the nation; stabilizing the exchange rate of Nepalese currency mobilizing capital for development, encouraging activities related to expansion of trade and industry and developing banking. (*www.nrb.org.np*)

1.4 STATEMENT OF PROBLEM

It is assumed that debentures are least risky security of investment than other security. There is fixed regular interest income as well as little bit chances of losing principal and interest in liquidation of company. Debentures are means of maximizing value of firm. For industrial expansion and growth, lots of fund are required which can be received from debenture issue. Government and other local authorities also can receive fund required in development of country and local community, even having so many opportunities.

Since research to be made on some specific problems, here are underlined some specific problems which are desired to research.

- How is existing debenture market in Nepal?
- What are problems in Nepalese debenture market?
- What are prospects of development of debentures market?
- What should be done to promote secondary market of debentures?
- What are inadequate legal provisions in Nepalese debentures market?

1.5 OBJECTIVES OF THE STUDY

The main objectives of the study are to identify the problems and prospects of Nepalese debentures market. The specific objectives of the study are as

follows:

1. To evaluate existing debentures market of Nepal.
2. To examine the potentiality in growth of debentures market.
3. To identify existing problems of debentures market growth.
4. To provide recommendation for systematic growth in Nepalese debentures market.

1.6 SIGNIFICANCE OF THE STUDY

The study is related with the problems and prospect of debentures market growth in Nepal. This study will explain theoretical concept about debentures use and debentures market growth requirement as well as relevant problem and prospect for Nepalese debentures market growth. The output of the study still will help to develop just creeping forward Nepalese debentures market. All concerning about debentures market of Nepalese will be benefited.

It is hoped that the study will actually highlight present Nepalese debentures market conditions. Since no research conducted regards this topics.

1.7 LIMITATIONS OF THE STUDY

Every research has more or less limitations. The following are limitations of this research:

- The study is based on secondary data to some extent.
- Limited time and resource are available.
- Limited information is availability.
- The study is confined only in debentures market concept.

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1.8 ORGANIZATION OF THE STUDY

This study is organized into five chapters. Each denoted to some aspect of the study of clearing and settlement system. The title of each of these chapters is as follows:

- Chapter I : Introduction
- Chapter II : Review of Literature
- Chapter III : Research Methodology
- Chapter IV : Presentation and Analysis of Data
- Chapter V : Summary, conclusions & Recommendations

The rational behind this kind of organization is to follow a simple research methodology approaches. The contents of each of the five chapters of the study are briefly mentioned below:

Chapter one consists of introductory part of the study. The chapter consists of background, statement of problem, objective of the study, significance of the study, limitation of study and organization of study.

Chapter two includes the brief review of available literature on related topic. It includes a discussion on the conceptual frame work and review of major studies.

Chapter three includes the research methodology employed in the study. This chapter deals with the nature and serious of data research design, population and sample, data collection procedure and method of analysis.

Chapter four deals with the presentation and analysis of relevant data with the help of various financial and statistical tool and techniques.

Finally, chapter five incorporates summary, conclusion & recommendations of the study which are the important aspects to solve the problems associated to the present analysis and offers recommendation for the improvement in future.

Chapter-II

REVIEW OF LITERATURE

Review of literature is an essential part of research studies. It is a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps the researcher to develop through understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigating problems that have already been definitely answered. (*Pant & Wolf; 2005: 39*)

The research has also reviewed related literatures. Firstly it has reviewed for conceptual development. Then, important finance journals regarding debentures and previous master degree level thesis written on public debt and securities legislations was reviewed. All the reviewed literatures have been presented orderly as follows:-

2.1 CONCEPTUAL FRAMEWORKS

2.1.1- MEANING AND DEFINITION OF PUBLIC AND PRIVATE DEBT

To promote security market in Nepal, some intuitional development efforts have been made. There is not uniform definition regarding debt. However all have central meaning. Generally public debt is bitterly recognized as government Treasury bill. Public debt is sum of loan taken from its own people and foreign countries which should be paid with interest in predetermine time period. Some definitions of public debt are as follows:-

Jame Shuart said that public debt should function as the balance wheel of the economy. Stuarts view is "public borrowing must be adjusted to the conditions of trade at the particular time. Public borrowing is inappropriate as long as circulation is full because then it would raise the rate of interest and have undesirable consequences for commerce.

On the other hand unemployment and a slackening of trade and industry the should absorb this excess and through its expenditure, through it into new channel of circulation thus use of public debt is conceive as the balance wheel in the economy. It keeps resources fully employed and prevents stagnation in a part of economy from having adverse effect else where. In addition, public debt is a necessary instrument of war finance.

Another expert A.H Hansen defined public debt the debt owned by a government to people and intuition with in own boarders (i.e. internal debt) and over the foreign creditor (i.e. external debt)

James bunch man renewed another in the sector of economies says on. The public debt, "the individual is required to meet obligations over a time span that is within this (i.e. government's) own planning horizon.

Private debt is taken by issuing debt instruments like debentures and bonds which is called private debt. Loan taken from financial intuitions and money lenders is known as debt.

Corporate bond is another type of fixed income security which is issued by private investors or by a government. It is a certificate indicating that a corporations has borrowed a certain amount of money from an institutions or an individual and promises to repay it in future under clearly of 10 to 30 years and with par or face value of \$1000. The coupon interest rate on bond represents the percentage of bond per value that will be paid annually, typically in two equal semi-annual installments.

According to Van Horne, "the holders of a company long term debt, of course, creditors, generally they cannot exercise control over the company and do not have a voice in management , if the company violates only of the provisions of the debt contract , then these holders may be able to exert some influence on the direction of the company. Holders of the long term debt do not participate

in the residua earning of the company, instead of their return fixed. This debt instrument has a specific maturity, where as share of common or preferred stock doesn't in liquidation the claim of debenture holders is before the debt instrument. These may be differences in the priority of claim among the various creditors of a company." (*Van Horne; 2000: 509*)

We can see the following general characteristics of debt from the above definitions.

- Debt is obligation of business and organization and government.
- Debt taken by government is public debt.
- Interest is fixed liability
- Debentures more than common and preferred stocks
- Debentures do not participate in voting and management of company.
- Public debt is acquired through internal and external borrowing.

2.1.2-HISTORICAL DEVELOPMENT OF DEBT MARKET IN NEPAL

Government budget was introduced in 1952 for the first time in Nepal and it was a deficit budget. However the system of public debt was introduced in 1961. The main objectives of mobilizing public borrowing were regarded as the people's participation in country's development and persuading the people for savings. So it seems that at that time people and government were not so much concerned about the determination of interest rate of government debt (public debt Act, 1960). The first internal loan collected from Nepal Rastra bank in the form of treasury bills amounting to Rs 7 million at a very nominal rate of interest rate of one percent since then issuance of long term bonds also started in the name of development bonds, national saving certificate special bonds, land compensation bonds, forest compensation bond, non-interest bearing prize bond and citizen investment bonds for long term government raised Rs 137 million in 1963 with a means of development bond and issued public debt

regulation Act 1963. The government also started to borrow by issuing National saving certificates since 1984.

Till 2005 mid July, Nepal government has following liabilities on bond issue (in lakhs) (quarterly economic bulletin, 2005)

- Treasury bills Rs 51382.1
- Development bonds Rs 19999.2
- National saving bond Rs 6576.8
- Special bond Rs 8176.3
- Public saving card Rs 81428.9

The above presented statement of Nepalese debenture market generated from government sectors. So, Nepalese government is more forward in exercising debt important. After establishing the government debt market, all of the sectors realized that there was a need of corporate security market also. As a result to develop corporate securities market in Nepal, "securities marketing center (SMC) was established in 1976 before the establishment of SMC, there were no institutional arrangements to undertake and to manage the new issue of securities initial public offering has to be made on per the provision of companies Act 1936, which was not adequate and relevant. The act had not ever included preference share as corporate security. Only companies' act recognized it as a corporate security 1964.

SMC started secondary trading of securities in 1981, which was restricted to government bonds till 1983, the concept of well-structured secondary market had not involved in Nepal. No separate act existed to regulate the trading of securities the securities exchange act 1983 was enacted in 1983. The Act restricted the exchange of unlisted securities. The SMC was renamed securities exchange center (SEC) in 1964. The SEC was the only institution at that time managing and operating primary and secondary markets of long term government a government securities.

A need to develop different institutional mechanisms relating to securities market was strongly felt to avoid potential conflict of interest between the services provided. The first amendment in the securities exchange act 1983 in 1993 paved the way for the structuring of securities market in Nepal, which led to the establishment of securities board of Nepal (SEBO) in 1993 with a mandate to regulate and develop the securities markets, SEBO started to register securities and grant approval for issuing securities to the public in 1993. The first amendment in the act also led to conversion of SEC into Nepal stock exchange ltd. (NEPSE) in Nepal 1993 with the objective of operating and managing secondary transactions of securities. The initial efforts led to the opening of a full hedged stock exchange in January 13, 1994.

The second amendment in securities exchange act, 1983 was made in 1997. This amendment made provision for registering securities business persons in SEBO. As per provision of the second amendment, SEBO provided licenses to the securities business persons in 1997. The amendment made mandatory provisions fro the listed companies to submit annual and semiannual reports to SEBO. This amendment also required securities businessperson to submit annual reports incorporating the securities transactions carried out by them to SEBO.

Presently there are 27 stockbrokers, 2 securities dealers, 9 issues manage and one stock exchange and 128 listed companies in the Nepalese securities market.

Money and capital market both are in infancy stage in Nepal there is very slow growth rate of long-term debt instrument issue transactions in capital market. Just five private business organizations and Nepal Rastra Bank has issued bond or debenture till 2005. The first instance of bond issue was bottlers Nepal Ltd. It was issued 5 Million 18 percent coupon rate bonds in 1986/87 and then after Jyoti spinning mills Ltd issued 14% 20 Million bond in 1992/93. During 13 years period between 1992/93 and 2004/05 only five listed companies have

issued debentures and bond. However since last year some positive signals can be seen in the Nepalese capital market.

2.1.3. MONEY AND CAPITAL MARKETS

The financial markets are composed at the money markets and capital market. Money markets are the markets for the debt securities that will pay off in the short term (usually less than one year). It also provides working capital for business and government. Capital markets are the markets for the long term debt with a maturity at over one year and for equity shares. (*Ross, Westerfied & Jaffe 1998: 18*)

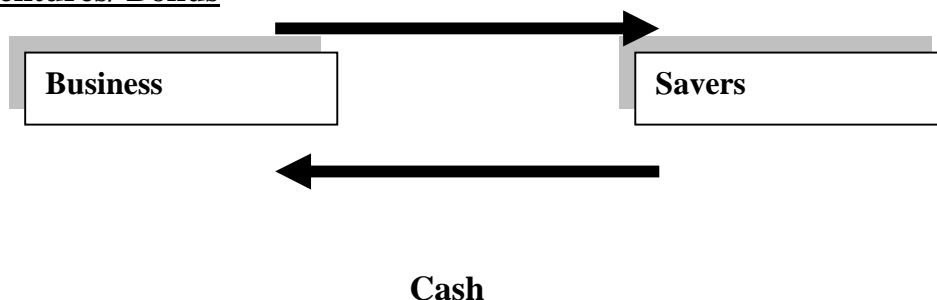
Overall financial market again can be divided into debt market and ownership based securities market. Debt market is such market where debentures and bonds are traded debt market provides debt to demanders from banks, business organization, individuals, government, insurance companies, employee fund etc. In facilitating debt market, there is security board, Nepal stock exchange ltd, brokers, issue managers.

Ownership based security is called equity share and sale and purchase of equity shares take place in ownership security market. Equity share is very popular for investors. It is easily traded in secondary market, Nepal stocks exchange is providing trading facilitating of listed securities in it.

In security market, it is traded security directly and indirectly this procedure can be explained as follows:

A. Direct procedure

Debentures/ Bonds



In direct process, there is no involvement of financial institutions agents and brokers to recall business organization issued debentures or bonds to savers and savers cash to business.

B. Indirect Procedure

In indirect process, there is required some middleman or agents or facilitators to join relation between suppliers and savers.

Business organization and government issue debentures and bonds through financial institutions, brokers and agent etc.

They may be trading of debt through organized and unorganized debt market. In developed countries, debt is mostly traded from organized debt market because there is strong development of financial intuitions and brokerage service at minimum cost price. It is indirect placement, if organization issues comparatively small amount of debt may be subscribed and traded directly.

There are following elements of money and capital market of debt.

Table No. 2.1
Elements of Money Market of Debt

Suppliers	Demanders
<ul style="list-style-type: none"> - Central bank - Commercial Bank - Financial companies - Business organizations - Mutual fund - Informal Institution - Debt Association - Co-operative Association 	<ul style="list-style-type: none"> - Central Bank - Commercial Bank - Financial Companies - Business Organizations - Government Families - Individuals Security Market

Table No. 2.1
Elements of Capital Market of Debt

Suppliers	Demanders
Commercial Banks	Individuals
Development Banks	Families
Provident Fund	Business
Insurance Companies	Government
Investment and Credit assets	
Mutual and credit associations	

Nepal does not have OTC market and it is compulsory of enlist securities in NEPSE because there is no alternatives if any companies do not meet listing criteria, the securities of companies would be de-listed. Besides this, if securities are de-listed, it takes time to re-list the securities and during these periods, securities would loose liquidity.

2.1.4 PRIMARY AND SECONDARY MARKET

Primary market

Markets in which corporations raise a new capital are known primary markets. It deals with those securities which have been made to the public for the public for the first time. The growth of primary market is encouraging since many public companies including joint venture banks have been successful to tap capital through the flotation of securities to the general people. According to Henderson there are following important functions of primary market.

- Organization
- Under valuing
- Distribution

The new issues (capital) in primary market facilitate of raising long term funds and these can be classified as common shares are mostly risky than both bonds

and preference share common stockholder have attraction and investing due to their voting right, enjoying large amount of dividend, to earn capital profit from stock price rise.

However all investors do not attract towards common stock because of uncertain in dividend and refunding of principal at the end while liquidations is proceeded.

I. Preference Share

Preference share are those shares which have fixed dividend and right of acquiring principal before ordinary shares at the time of liquidation. It is hybrid between the bond and common stock because preferred stock has fixed dividend which is similar to bond and payment of principal after bond which likes ordinary shares.

II. Bond

Bond is a fixed income debt security and buys its name it refers to general agreement between loaner and lone bond therefore generally issued for fixed time and with fixed obligation. But bond is considered as passive type of investment alternative. It is because, bonds are held for interest not for capital gain, therefore it is not frequently traded and that is known as "Buy and Hold" strategy.

Features of Bond

- Fixed income security
- It has at least par value of 1000 (or more)
- Once the coupon rate for bond is fixed. It remains constant until the maturity of bond.
- Bond may be having coupon rate, having no coupon rate having fixed maturity, having as fixed maturity and government or corporate.

"Initial issue" and further this voice issues. Initial issues are capital issues offered for the first time by new company. When the existing company raises issues, it is called further issues. The interplay of these functions helps transfer resources from the source of supply to demand.

Secondary markets

Markets in which the existing already outstanding securities are traded among investors are called secondary markets. In other words, a secondary market is the place where already- issued securities are traded. Investors can purchase and sell outstanding securities of companies in secondary market. In growth of primary market there is also contribution of secondary market. Secondary market accelerates the liquidity of securities.

Stock is traded in two different kinds of market: stock exchange and OTC market. New York stock of exchange (NYSE) is one of the preeminent securities exchange in the world. Securities trading in the world, Securities trading in primary and secondary market can be divided as follows.

Share

Capital market refers to the links between lenders and borrowers of fund arranging a fund. Transfer process to seek each other benefit. The lenders and borrower coming together in capital market play effective financial intermediary role to activate both primary and secondary market through the use of various long term capital market instruments like common stock, bonds, preferred stock, convertible issues and many more like that people invest money through primary market and secondary. (*Bhattra; 2000 : 6*)

2.1.5-INSTRUMENTS OF LONG TERM BOND

Sometimes, debentures and bond are taken with same meaning however, it is generally classified as follows:

A. Bond

A bond is secured debentures on which a borrower agrees to make of interest and principal on specific dates to the holder of the bond.

B. Mortgage Bond

The long term debt secured by using the collateral of specific assets like machinery, equipment of issuing company is called mortgage bond. If the company is unable to pay the bond amount, the bondholders may raise their money by selling the machinery.

C. Debentures

A debenture is unsecured bond, which has no specific property on security. Debenture holders are general creditors whose claim is protected by property not otherwise pledged. A firm whose credit position is exceptionally strong can issue debenture it simply does not need specific security.

D. Subordinated Debentures

The term subordinate means "below" or "inferior". If there are subordinated debentures, these debentures have right to get back their principal only after non subordinate debenture in liquidation.

The reasons for the use of subordinated debentures are clear. They offer a tax advantage over preferred stock. Yet they do not restrict the borrow ability obtain senior debt.

E. Income Bonds

Income bonds provide interest only when the firm has sufficient income to cover the interest payments. Thus these securities cannot bankrupt a company, but from an investor's standpoint they are riskier than "regular bonds".

F. Indexed or purchasing power bond

Indexed bonds have their interest rate payment tied to an inflation index, such as the consumer price index, thus protecting the bondholders against inflation.

G. Junk bond

A junk bond has a relatively high risk of default. Junk bonds are riskier than other types of bonds and they pay a high interest rate.

H. Floating rate notes

Floating rate note (FRN) is an important means of raising fund at the time of fluctuating interest rate. Therefore it is used to decrease the risk associated in the change in the market interest rate. The interest rate is adjusted periodically with the change in the market interest rate.

I. Term Loan

A Term loan is a contract under which a borrower agrees to make series of interest and principal payments on specific dates to the lender. Term loans usually are negotiated directly between the borrowing firm and a financial institution generally a bank, an insurance company or a pension bond. (*Weston & Copeland; 1999: 967*)

While making investment decision investor should make proper decision considering debentures advantages and disadvantages. It has following advantages for investors and borrowers.

1. With point of investors

- There is less risk in debentures than preferred stock and common stocks
- Another advantage of debenture is its fixed rate of return. It does not consider whether company condition is good or bad.
- Control right asset at the time of liquidation is another feature of debenture to investors.

2. With point of Borrower

Borrower can also get following important benefits from debenture issue

- No control in management.
- Tax benefit
- Minimum cost of capital
- Profitable and assistance in promoting rate of return on equity.
- Flexibility in capital structure management.

Like statement every coin has two parts. There are some disadvantages of debentures, which can be written down such as

- No right of voting
- No participation in company profitability distribution.
- Repayment of debt after the expiration of maturity period.
- There may not exist market as per expectation and debenture issue may be fixed burden for issue.
- In debenture provision must be followed by issuer who may create difficulty significantly.
- There is a limit on the extent to which funds can be raised through long term debt.

2.1.6 BUYING AND SELLING RULES OF SECURITY

Buying security with view of generating capital profit is very important investing decision. In bear market, securities prices fall down. So that it should buy securities. Bull market refers to that market where security prices maximum occurs. It should sell securities in bull market.

There is also another alternative approach regarding buying and selling securities considering expected and required rate of return. (*Sharpe, Gordon, & Baile,; 1995: 21*)

- When required rate of return is greater than expected rate of return, securities are overpriced. Hence, it should sell

- When required rate of return is less than expected rate of return, securities are under priced. Hence, buying decision of strategy is preferred.

- When required rate of return equals to expect rate of return, there is approximate pricing of securities hence no trading of securities is preferred.

2.1.7 COST OF CAPITAL

Cost of capital is premium for the use of capital in business organization. It is eligibility of users against suppliers of capital is standard of measuring investment project profitability. Hence, project appraisal requires cost of capital.

Cost of capital is recognized rate of different names such as required rate of return, float rate of return, hurdle rate, average cost of fund etc. The average return required by the firm's investors determines how much must be paid to attract funds. It is the firm's average cost of funds, which more commonly is termed the cost of capital. (*Weston & Brigham; 2001: 572*) There are different sources for capital. Among these cost of debt is as follows.

Debt capital

Interest payable on debt capital is cost of debt of debt debenture or bonds may issues

- At par
- At discount
- At premium

Company should incur some expenditure for issuing such as preparation prospectus advertising brokerage costs etc cost of debt increases due to flotation cost

Cost of debt is calculated applying following formula:

$$\text{Cost of debt} = \frac{I}{NP}$$

Where, K_d = cost of debt before tax

I = Interest

NP = Net proceeds amount actually available

Tax saves interest expenditure of issuer. So that cost of debt after tax may be.

$$\text{Cost of debt after tax (Kdt)} = K_d (1-t)$$

Where, t = tax rate

2.1.8 SECURITY EXCHANGE BOARD OF NEPAL (SEBO)

Security board of Nepal (SEBO) was established on May 26 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 base for the healthy development of the capital market. As a part of 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 as an apex regularity body as it widened the horizon of SEBO by bringing market intermediates directly under its jurisdiction and also made it mandatory for the corporate bodies to report to SEBO annually as well as semiannually 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 jurisdiction is yet to be established and clearly recognized.

Objectives

General objectives of SEBO are mentioned here under,

- To promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities.
- To supervise, look after and monitor the activities of the stock exchange and of corporate bodies carrying on securities business.
- To render contribution to the development of capital markets by making securities transactions fair, healthy, efficient and responsible.

Function

The main functions of SEBO are as follows:

- To advise Nepal government on the issues related to the development of capital and the protection the investor's interest.
- To approve stock exchanges for the operations and to oversee them for healthy trading of securities.
- To register and regulate the public issues of securities including the mutual and trust funds.

- To monitor and supervise the securities transactions.
- To conduct researchers and studies along the area of capital market.
- To conduct conferences workshops, seminars and to participate in such programs conducted at regional or international levels and to join the forum and exchange with outside regulars. (*Source: SEBO/N, Annual report*)

2.1.9. TERMS USED IN DEBENTURES AND BOND

Coupon, par value, price and yield like terms are often used in bond market. These terms can be explained as:-

A. Coupon rate

Fixed interest is paid on debenture at certain percentage, which is called coupon rate. Interest is calculated at coupon rate on face value of debentures. Coupon interest is usually paid on annual or semi-annual basis.

B. Par Value

It is the face value of the bond. The amount of face value is repaid after maturity.

C. Price

Price refers the rate at which purchasing and selling securities taken place in the market. Price may be at par or discount or premium.

D. Yield

It is rate of return of bond. Yield is calculated on purchase price or current market price.

2.1.10 TYPES OF GOVERNMENT SECURITY

Government can raise debt from internal and external sources. Internal sources supplies government debt from within country. It is supply of fund from people hand to government hand. Raising internal debt is assumed less risk than raising external debt. Government perceived as strong borrower and all people agree to give loan to government. Government can raised internal debt by issuing different debt instruments. Nepalese government has been exerting following short term and long-term debt instruments.

A. Treasury Bills

It is a short-term government bond, which helps to reduce deficit budget or outstanding obligation. It is normally issued with maturity in 91 days which some matures in 365 days. It is issued on the basis of auction. Individuals and institutions can interest in Treasury bills.

Treasury bills are issued on discount basis. The face value of the Treasury bill is refunded to the holder after its fixed maturity period. It is normally taxable.

We can see Treasury bill most marketability character which can be kept as security and take loan. The holder of Treasury bill can get 90% cash when Treasury bill is used as collateral for taking loans.

Today investors and general people can purchase Treasury bill discount rate of Treasury bill percentage can be calculated as

Discount rate in percentage

$$= \frac{(100 - BP) \times 364 \times 100}{BP \times T}$$

Where,

BP = Bill price or purchase price of T-bill

T = Maturity period of treasury bills

Treasury bills are issued to meet short-term financial requirement of government. New treasury bills replace matured obligation of old treasury bills. Every year, Nepal Government is calling huge amount of treasury bills.

B. Development Bonds

It is one kind of long term government bond. It has normally 5 years maturity period. Both individuals and organizations like treasury bills purchase

development bonds. Development bond can be used as collateral while taking loan, which can provide loan 90 percent of face value. The interest amount will be paid semi-annually and income is taxable.

The main characteristics of development bonds are as follows:

- Can be used as collateral
- Long term government bond
- Provide interest semi-annually
- Taxable on the bond interest

C. National Saving Bonds

It is also a long-term government bond normally issued for 5 years maturity period. Except commercial banks other investors can invest on national saving bonds; it has semi-annual interest payment system. These bonds have tax exemption on interest income these bonds are easily marketable and can use collateral which taking loan.

D. Citizen saving certificate

It is also a long-term bond issued by government citizen saving certificate is issued with 5 years maturity period. (Citizen) it processes almost same characteristics of other long term government bonds. However, it can be used as collateral while borrowing.

E. Special Bonds

Special bonds are issued on special occasions for short time period and it may be issued to person on institution that government has to make payment. Special bond substitutes cash payment. The bond holders can use as collateral. The holders get only 50 percent cash when the special bond is used as collateral. (*Public Debt Newsletter, march/April 2006, Nepal Rastra Bank*)

In developed countries like USA issue different public debt securities such as:-

I. US Treasury Bills

There are short-term securities backed by the full faith and credit of U.S. government. They are auctioned in 3, 6 and 12 month maturities. Treasury bills or T-bills are issued at a discount and pay interest at maturity.

II. U.S Treasury notes and bonds

There are intermediate securities, which carry a stated rate of interest payable semi-annually they are backed by full path and credit of U.S. government. They are auctioned in 2, 3,5,10 and 30 year maturity and also federally taxable but exempt from state and local tax.

III. Zero coupon bonds.

They are issued from government and agency. They are offered at discount; no interest is paid and repaid at face value. After expiration of maturity period.

VI. Mortgage Backed Securities

These securities represent ownership in a pool of a mortgage loans. Backed securities (MBS) make monthly payment of interest and principal and have estimated maturity and payment characteristics. These have government guarantee to timely payment of principal and interest. They have estimated 5to 30 year maturity period.

V. Collateralized Mortgage obligations

They are typically collateralized by mortgage background securities pool derived to provide wider range of maturity and payment features. There are considered monthly payments of principal and interest. These are fully taxable securities.

VI. Asset backed securities

There are structured to provide monthly income and high quality. The are generally rated AAA. These are primarily backed by major bank or store credit cord received and the principal are scheduled to be repaid in one lump sum at maturity. These are expected to mature at 3 to 7 years.

VII. Federal agency securities

These are issued by government sponsored enterprises with credit quality second treasury securities. They are available as discount securities or coupon

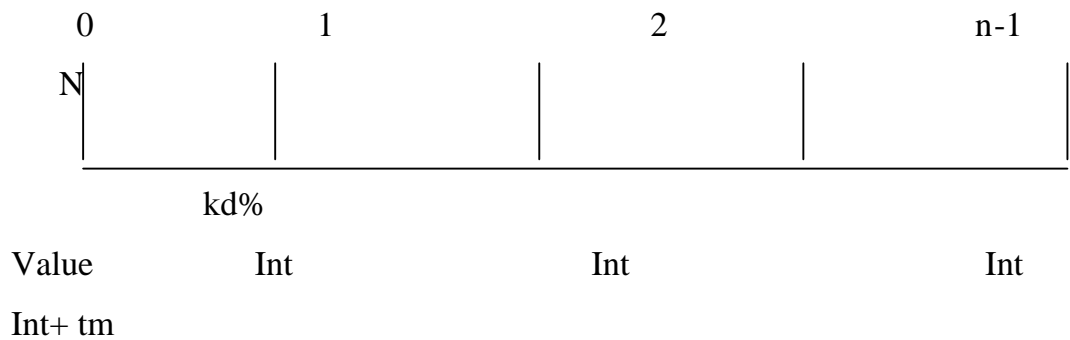
being instruments which pay interest semi-annual. These are also federally taxable and exempt from local and state taxes. (*Ross, Westerfield & Jaffe; 6th edition: 790*)

2.1.11. BOND VALUATION MODEL

Value of bond (Vd) is the present value of all interest receipts and principal pay back after its maturity

A. Basic bond valuation model

Weston and Brigham illustrate value of bond as follows:



Where,

Kd = approximate interest rate bond

N = no of years after the bond is matured

INT= dollars of interest paid each year

M = the par value or face value of the bond, M refers the amount must be paid in maturity.

Valuation of bond can systematically present in equation form

$$\begin{aligned}
 \text{Value of bond (vd)} &= \frac{\text{INT}}{(1+kd)^1} + \frac{\text{INT}}{(1+kd)^2} + \dots + \frac{\text{INT}}{(1+kd)^N} + \frac{\text{M}}{(1+kd)^N} \\
 &= \frac{\text{INT}}{(1+kd)^t} + \frac{\text{M}}{(1+kd)^N}
 \end{aligned}$$

Or

$$V_d = INT (PVIFA @ K_d, N) + M (PVIF @ K_d, N)$$

There are following important features of bond valuation model.

- Whenever the going rate of interest, K_d , is equal to the coupon rate, a bond will sell at its par value.
- When coupon interest rate is fixed. Going rate of interest rise up, bond is valued below its par value. Such bond is sold at discount. So it is called discounted below.
- When coupon interest rate is fixed, going rate of interest falls below and bond is valued above their par value. These bonds are sold at premium, which is called premium bond.
- This, an increase in interest rates will cause the price of an outstanding bond to fall, whereas a decrease in rates will cause it to rise.
- The market value of a bond always will approach its par value as its maturity date approaches, provided the firm doesn't go bankrupt.

B. Finding Bond Yield to maturity

Yield to maturity refers to that market rate of return which equates total present value of future cash inflows of a bond equates total present value of future cash inflows of a bond with current market price of bond. Therefore it is just like IRR in capital budgeting or in simple words it is rate of return earned by a bond but based on market. It can calculate by using bond valuation model.

$$V_d = Int (PVIFA@K_d, N) + M (PVIF@K_d, N)$$

Putting call available values to maturity of bond (K_d)

Putting all available values to maturity of bond (K_d)

$$\text{Approximate yield to maturity} = \text{Int} + \frac{\text{M}-\text{Vd}}{\text{N}} \div \frac{2\text{Vd} + \text{M}}{3}$$

Where,

Int = Annual Amount of coupon interest

M = Par value/Face value/maturity value

Vd = Market value of bond

N = Maturity period

C. Bond valuation with semi-annual compounding

If bonds pay interest semi-annually, it requires modifying bond valuation model. It should divide yield to maturity by 2 and maturity period (N) should multiply by 2 like this way, semi-annually interest should use.

We can calculate value of bond using following modified formula.

$$\text{Vd} = \frac{\text{Int}}{2} [\text{PVIFA} @ \frac{\text{Kd}}{2}, 2\text{N}] + \text{M} [\text{PVIF} @ \frac{\text{Kd}}{2}, 2\text{N}]$$

D. Interest Rate Risk on bond

Interest rate risk refers variability on price of bond as result of fluctuation in market interest rate; price of bond tends to appear following two ways:

- When interest rate increases that declines in price of bond price of bond declining arises losses in the value of bond and such price loss is interest rate price risk. However, reinvestment rate of interest cash flow will be increased.
- Like this way, if interest rate falls below, value of bond is increased.

In contrary to this, re-investment rate falls below with falling in market rate. It offers the profit from increase in market value of bond due to loss of reinvestment rate of return.

Price risk due to change in interest rate and interest rate reinvestment are reversal with each other hence offset the risk of other.

Western and Brigham point out "for bonds with similar coupon this differential sensitivity to change in interest rate always true. The longer the maturity of the bond, there is greater its price change in response to a given change interest rate. Thus, even if the risk of default on two bonds is exactly the same, The one with longer maturity typically is exposed to more price risk from change interest rates." (*Weston, & Brigham, Fugune; 2000 : 284*)

2.1.12 RATIO ANALYSIS

Financial statements are important source of information about overall performance, financial condition and resource utilization of corporation. Profit and loss account, balance sheet and cash flow statement provides business profit expenditure sales, purchase, assets, liabilities, capital, cash acquisition and application etc. important decision cannot be made only observing the financial statements which requires ratio analysis.

Financial statement, which provides information about a firm's position at point in time as well as its operations over some part time, can use ratio analysis. Through ratio analysis it can be determined present actual condition of firms as well as helps in predicting future financial condition. For an investor point, predicting the future financial condition. For an investor point, predicting the future is what financial statement analyst is all about and while from management stands point. Financial statement analysis is useful to anticipate future condition and more important at starting point for planning actions that will influence, the future course of events.

A. Methods of Ratio Analysis

I. Percentage Method

The relationship between two figures is presented in percentage. For example, if total assets of a firm Rs. 20,000 and current assets are Rs. 4,000. This relationship can be presented as current assets as to of total assets. i.e.

Percentage of current assets to total assets.

$$\begin{aligned} &= \frac{\text{Current Assets}}{\text{Total Assets}} \times 100 \\ &= \frac{4,000}{20,000} \times 100 \\ &= 20\% \end{aligned}$$

II. Rate method

According to this method one figure is expressed in terms of the other relative figure. Taking the previous examples where total assets were Rs. 20,000 and current assets were Rs. 400. The relationship between two can be said as current assets to be 0.2 times or 1/5 of total assets i.e. 4000/20000 or total assets to be 5 times of current assets.

III. Ratio Method

The relationship between two figures is presented in ratio, such as in the above examples. The ratio of current assets to total assets can be said to be 4000:20000 or 1:5.

Ratio analysis is important technique, which important may be as follows for concerning parties.

Importance and Advantage of Ratio Analysis

Ratio analysis is the most vital tool of financial analysis. The various groups of users of financial statements having different interests are engaged in analyzing

the financial information. The importance of ratio analysis can be summarized for the various groups interested as under:

a. Short-term creditors

The creditors in the short run- like suppliers of materials, goods and bankers- can determine the firm's ability to meet its current liabilities with the help of liquidity ratios such as quick ratio and current ratio.

b. Long term creditors

The creditors in the long run – like debenture- holders and other lending financial institutions – can determine the firm's long term financial and ultimately survival strength with the help of financial solvency ratios such as debt equity ratio, debt to capital ratio etc. The long-term creditors will seek answers to the following queries: a) What are the various sources of long term finances employed by an enterprise? b) Is there any risk to solvency of the firm due to the employment of excessive long term debts? c) Will the enterprise be able to repay the principal as well as the interest thereon?

c. Management

The management has an important job of managing the different resources available with the enterprise efficiently and effectively. They can determine the operational efficiency with which the firm is utilizing its various assets in initiating sales with the help of effective ratios like, stock turnover ratio, capital employed turnover ratio, assets turnover ratio etc. besides this, the management can use the ratios for forecasting, budgeting the comparative analysis. (The management can carry out comparative analysis and form meaningful judgment about the performance by comparing the actual ratios with the standard ratios, ratios of the previous period, ratios of the industry it belongs and national average.)

d. Investors

The investors can determine the extent of profitability, its earning capacity and the capacity to pay dividends so that they can form judgment whether to hold, sell or purchase the shares and the prospective investor can decide whether or not to buy the shares.

Limitation of Ratio Analysis

1. Ignore qualitative aspects

Although qualitative factors may be more important than the quantitative factors, the ratio analysis ignores the qualitative aspect as it basically a quantitative analysis. For example, while deciding whether to sell goods to a customer on credit or not, the ratio analysis relies on the financial statements submitted by him and his character or intention to pay will not form part of the analysis which, in fact could be the most important factor.

2. False Result

The quality of the ratios depends upon the quality of the accounts on the basis of which these are established. The ratios can only be accurate. If the books of accounts are correctly drawn up, This is because the ratios are based on the information provided by the financial position and profitability will be shown better than what they actually are.

3. Absence of universal standard

No fixed standards can be laid down for ideal ratios. There can not be a single standard ratio which can indicate the true performance of the business at all times and in all circumstances. Every firm has to work in different situations and circumstances.

4. Ignores price-level changes

The comparability of ratios suffers, if the prices of the commodities in two different years are not the same. In reality, prices do not remain the same and ratio analysis does not have an in-built mechanism to adjust the changing prices. A ratio can be accurately interpreted only if the effect of change in prices which may have taken place is adjusted in the figures used in the ratio.

5. Historical Analysis

Ratio analysis is basically historical in nature since the financial statements on the basis of which the ratios re established are historical in nature unless the ratio analysis is based on the projected financial statements prepared to plan in the future.

6. Ratios alone are not adequate

Ratios are only indicators; they cannot be taken as final regarding good or bad financial position of the business. No ratio may be regarded as good or bad, it may be an indication that a firm is weak or strong, but it must never be taken as proof of either one.

It may, therefore, be concluded that ratio analysis, if done mechanically, is not only misleading but also dangerous. It is indeed a double-edged sword which required a great deal of understanding and sensitivity of the management process rather than mechanical skill.

Types of Ratios

1. Liquidity Ratios

These ratios indicate whether the firm would be in a position to meet its short-term obligations in time. These ratios show the short-term solvency of the concern. There are two ratios judging the liquidity of a business concern.

a. Current Ratio

The ratio shows the relationship between current assets and current liabilities.

Current Assets

Current Liabilities

Current Assets = Cash+ bank + Marketable Securities +Sundry Debtors+
Bills Receivable+ Short term loan (given) +Prepaid
Expenses +Account Receivable

Current Liabilities = Bills Payable + Sundry Creditors + Account Payable
+Note payable + Bank Overdraft +Short term loan (taken)
+Advance Received + unclaimed dividend

b. Liquid or quick or Acid test ratio:

The ratio shows the relationship between liquid assets and current liabilities.

Quick or Liquid Assets

Current Liabilities

Liquid Assets = Current Assets – Prepaid Expenses – Inventory/Stock

2. Capital Structure or Leverage Ratio

This ratio shows whether the firm is financially sound or solvent as far as its long term obligations are concerned. These measure the business's ability to pay the interest regularly and to repay the principal on the due dates. There are four ratios to judge the long term solvency of the concern.

a. Debt Equity Ratio

b. Debt to total capital ratio

a. Debt Equity Ratio

This ratio shows a relationship between total debts and shareholder's funds.

$$\equiv \frac{\text{Long term Debt}}{\text{Shareholders or owners fund/Equity}}$$

Or

$$= \frac{\text{Total Debt}}{\text{Shareholders fund}}$$

Long term Debt = Debenture + Loan from Banks & Other financial institutions
+ Mortgage Loan + Public Deposits

Shareholders Fund = Share Capital + Retained Earning + General Reserve+
sinking fund + Capital Reserve + Share premium +
Debenture premium – Fictitious Assets (Accumulated loss,
Discount on issue of shares and debentures, Deferred
Revenue expenditure etc.)

b. Debt to total capital Ratio

This ratio shows the relationship between total debt and total capital.

$$= \frac{\text{Total debt}}{\text{Total Capital}}$$

Total Debt = long term debt + Current Liabilities

Total Capital = Long term debt + share holder fund + current liabilities

3. Activity or Turnover or Velocities Ratios

These ratios measure the effectiveness with which a firm uses its available resources. These are also called turnover ratios since they indicate the efficiency with which the resources are being converted into turnover (Sales)

- a. Inventory or stock turnover ratio
- b. Debtors turnover ratio
- c. Average collection period of debt
- d. Fixed Assets turnover ratio
- e. Total assets turnover ratio
- f. Capital employed turnover ratio

(a) Inventory turnover ratio

This ratio shows the relationship between costs of good sold and average inventory.

$$= \frac{\text{Cost of good sold}}{\text{Average Stock}}$$
$$= \frac{\text{Sales-Gross Profit}}{\text{Average Stock}}$$

$$\text{Average Stock} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}$$

(b) Debtors Turnover Ratio

This ratio shows the relationship between net credit sales and average debtors.

$$\frac{\text{Credit Sales}}{\text{Debtors}}$$

(c) Average Collection period

This ratio shows the relationship between account receivable and credit sales.

$$= \frac{\text{Debtors} \times \text{No. of days in a year}}{\text{Credit Sales}}$$

(d) Fixed assets turnover ratio

This ratio shows the relationship between costs of good sold and average inventory.

$$= \frac{\text{Net Sales}}{\text{Fixed Assets}}$$

(e) Total Assets turnover ratio

This ratio shows the relationship between net sales and total assets.

$$= \frac{\text{Net Sales}}{\text{Total Assets}}$$

(f) Capital Employed turnover ratio

This ratio shows the relationship between sales and capital employed.

$$= \frac{\text{Net Sales}}{\text{Capital employed}}$$

$$\text{Capital Employed} = \text{Total Assets} - \text{Current liabilities}$$

4. Profitability Ratio

Profitability is an indication of the efficiency with which the operations of the business are carried on. Profitability ratios measure managements overall effectiveness as shown by the returns generated on sales and investment.

(a) Gross profit margin or Ratio

(b) Net Profit margin

(c) Return on Assets

(d) Return on shareholders Equity or fund

(a) Gross Profit Margin

This ratio shows a relationship between gross profit to net sales and it's generally expressed in percentage.

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

Sales

Where,

$$\text{Gross profit} = \text{Sales} - \text{Cost of good sold}$$

(b) Net profit Margin

This ratio established a relationship between net profits to net sales and is generally expressed in percentage.

$$\frac{\text{Net Profit}}{\text{Sales}} \times 100$$

Sales

(c) Return on Assets

This ratio established a relationship between net profit and total assets.

$$\frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Total Assets

OR

$$\frac{\text{Net profit} + \text{Interest}}{\text{Total Assets}} \times 100$$

Total Assets

(d) Return on shareholders equity or fund

This ratio established a relationship between net profit to shareholders equity or fund.

$$= \frac{\text{Net profit (after tax)}}{\text{Shareholders equity or fund}} \times 100$$

Shareholders equity or fund

2.2-REVIEW OF FINANCE JOURNALS

In absence of sufficient publication regarding private and public debt market in Nepal, study of finance journals published from abroad about debt management would help to understand present debt market of Nepal and comparing international debt market with Nepalese debt market to identify problem & and prospect. It also helps in recumbently appropriate measures to overcome present problems.

Some important reviewed finance journals are as follows.

2.2.1. IS CONVERTIBLE DEBT SUBSTITUTE FOR STRAIGHT DEBT OR FOR COMMON EQUITY?

It is classified into straight debt and convertible debentures. Different studies have been already conducted why business organization issue convertible debentures. Convertible debentures are issued giving an option to convert convertible debentures in to stock after certain time period. There has been pointed out in financial journal written by Craig M. Lewis Richard J. Rogaiski and James K Seward that convertible debenture issued specially considering following costs

- To mitigate the cost of bondholders/stockholders agency conflicts.
- To reduce the cost of adverse selection.

Several theoretical explanations have proposed to explain the use of convertible debt and reaction to that security other choice. Substitution of convertible debt for straight debt reduces the agency costs that are caused by bondholder and stockholder conflict of interest. This theory is known as the risk shifting. All equity capital structure would eliminate this agency costs. However, it increased to other inefficiencies for e.g. foregone interest tax shields or excessive managerial discretion costs may outweigh the benefits of reduction the risk shifting problem.

According to the writers "The substitution of high risk or low risk operating and investment policies transfers wealth to shareholders from creditors. If the wealth transfer is large enough, shareholders may even support the adoption of negative net present value projects. The preference of risky straight debt can these create investment incentive problems."

Given demonstrated in 1984 that inclusion of conversion privileges could mitigate the distortion any investment incentives created by risky straight. If there is conversion feature of bond, it saves earning going out as payment of principal of straight debt. This, residual claim alters the incentive to over invest in risky projects. Hence, convertible debt contract in investment incentive itself.

Therefore, the risk shifting hypothesis predicts that convertible bonds are a substitute for straight debt and that the substitution of convertible debt most likely to occur in firms facing significant risk incentive problems. Consequently, convertible debt issues are expected to differ from these firms primarily in their ability to increase the risk of their investment opportunities.

The writers about convertible bond choice give numbers of valuable insights such as

- Convertible bond issue is delay equity financing.
- Firms with debt capacity, valuable investment opportunities and risk seeking can substitute convertible debt or straight debt.
- Convertible bond significantly reduces cost of agency conflict arise between common stockholders and straight bond holders.
- Cost of adverse choice can be avoided by financing from convertible bond issue.
- Convertible bond issue avoids investment incentive problems.

- Convertible bond issue equilibrium between opportunity cost foregone of agency cost due to complete equity financing and cost over turn due to complete equity financing as result of inefficiency.
- Convertible bond is weapon of 'backdoor equity' and "Risk shifting"
- Important financial distress cost i.e. insolvency cost may be protected due to convertible bond issue.

The next quantity theorists, long-term debt has less money than does short term debt has less money than does short term debt. If the money ness of the country is financial holdings is required by debt lengthening, there will be less incentive to spend on real assets or goods of all short under this approach. The effects of changes in the liquidity structure of financial assets are diffused among all types of spending, with no particular attention being paid to long-term investment of interest rates.

The writer had tested to know whether maturity structure of debt contributes significantly or not in the determination of the level of spending. Assumers were searched from the regression analysis and simultaneous equation system. The regressions indicate that lengthening the degree requires spending. Another experiment had achieved result of increase in maturity period increases in spread between short term and long term rate.

At last, the author says, "Debt policy that attempts to minimize interest cost to the tax payer can judged appropriately only in terms of the simultaneous contribution, it makes toward the difficulty of attaining stabilization objectives." Major conclusions of this article are as follows.

- Maturity of public debt should manipulate considering broad economic growth.
- Theory of debt management says, "Changing long-term debt in for short term debt promotes great liquidity of market which promotes aggregate demand.

- Keynesian views that long-term investment should increase for economic stability where long-term interest rate impacts in spending decisions. Increase in long-term interest is not good for economic stability.
- Short-term debt has more money ness than long-term debt. So that debt lengthening is reduction of money ness of community and less inventive for spending real of community and less inventive for spending real assets. Hence, caution should pay to increase of money ness of the economy for its stability and growth as per quality theory of Hypothesis. (*Lewis, Craig m, Rogalski, James K. Autumn 1999 Finance Journal Vol-28*)

2.2.2-DEBT MANAGEMENT FOR ECONOMIC STABILITY

This is dissertation prepared by Robert Hanery Scoft Making considerable efforts to know "Debt management for economic stability" The study emphasized on short term and long term debt study to know which is most prominent for economic development, growth and stability.

The writer commenced his writing from definition of debt management. According to him "Debt management is to be control by treasury or Federal Reserve authorities over the maturity mix of existing marketable debt in the hand of the public."Maturity structure of the national debt should be manipulated by the authorities to aid in attaining. The broad economic objectives of growth, fully employment price stability and balance of payments equilibrium. Indeed because of size of the national debt in relation to the volume of other financial claims and liquidity base of intervals, corporation and financial instructions, the debt policy that is neutral with respect to economic activating.

Mr. Scott states the country liquidity can be promoted by converting long term debt into equal value short term debt. Hence conversion of long term debt into short term debt effects in liquidity. Since long term debt affects in liquidity, it also affects in spending decisions. Liquidity of assets will increase in aggregate

demand. Theory of debt management prescribed in debt lengthening in inflationary behind and shortening in period of recession.

There are following two theories for the deciding short term and long term debt implication in economic liquidity and stability

- a. Keynesian view
- b. Quantity theory view

According to Keynesian theorists, main economic liquidity reason is variation arise in long term investment. When long term investment rate is elastic and moves interest rate is elastic and movement of long-term interest rate in influence in spending. The patter of higher long-term interest rates and lower short term rate results from selling more long term debt and retiring short term debt will have dampening effect. This testing showed lengthening debt reduces spending and longer maturity period raises interest rate.

Maturity period or short-term and long-term debt should manage or control systematically for economic stability. (*Scolt, Robert Haney 1962, Finance Journal Vol XVII*)

2.4-REVIEW OF SECURITIES LAWS AND ACTS

There is some legislation regarding primary market of securities, which should be followed by companies, which are going to issue securities. Bureaucratic procedures of securities issue directed and control by legislation of securities. Important legislative provisions of securities have been in security exchange act, 1983; securities exchange regulation, 1983 membership of stock exchange and transaction bye laws, 1997, securities allotment guidelines, 1994 securities registration and issue approval guidelines. Like this way, special acts such as insurance act, respective sectors intuitions or companies should follow commercial bank act, finance company act etc.

Important legislative provisions made regarding securities market are such as:-

A. Securities Registration and issue approval guidelines, 2000 SEBO pre-permission and listing requires public issues which should be taken applying for this with containing detail information demanded by securities registration and issue approval guidelines, 2000. It should include following details in application.

- Objectives of public issues and should mention about the application of such raised fund.
- Production and service market detail.
- Description about if company is operating under foreign investment and management.
- Projected company three years net worth, profit and loss A/c balance sheet, name, address, qualification and experience for person's shows prepares statements.
- Name, address, qualification, experience of persons who prepares prospectus.
- Description of capital before and after securities issue.
- Information of capital before and after securities issue.
- Information of company act 2063, provision No. 20 debentures are issued.
- Information which help people rational investment decision.
- Impact of following risks in operations and management of company.
- Risk of shortage of finance.
- Material shortage risk.
- Production and market risks.
- Delaying in project completion and cost over run risk.
- Foreign currency rate fluctuation risk.
- Obstacles and result of legal procedure and registration requirement.
- Risk due to rationalization and globalization.
- Risk of government policies change.

Other Risks

- Points of deed if company if operated in foreign investment and management.
- Convertible debentures ratio of conversion with shares and time.
- Information if conversion of debentures and preferred stock in equity changes in board of directors in company.
- Provision of restriction in applying more than one application by one person.
- Photocopy of minor birth of date in case applying in the name of minors.
- Explanation about the objectives of debentures issue, face value of debentures application, maturity period of debentures interest rate, time and method of interest payment in prospectus.
- Explanation about debentures holders right on organization assets as first right person should mention.
- Debt and capital ratio during debentures maturity period should not exceed 70:30. If it exceeds should explain bases or points to prove its rationality.
- Commitment of debenture redemption reserve fund if redeemable debentures are issued.
- Par value of security i.e. share price Rs. 100, debentures Rs. 1000, mutual saving Rs. 10.
- Information about human resource.
- Statement of creditors.
- Name, address and qualification of company secretary.
- Auditor name, address and qualification.
- Agreement made with issue manager of company.
- Agreement of under writing if any.
- Bases of certifying projected financial statements.
- Agreement of under writing if any.
- Bases of certifying projected financial statements.
- Agreement of loan with-blanks and finance companies.

- Detail of assets and liabilities at time of conversion of private limited company into public limited company.
- Commitment and remarks of experts and professional on projected income statement prepared by companies or organization.
- Reasons of deviation of profit if projected profit is greater than 20 percent of last 5 years actual profit.

B. Security Exchange Regulation Act 1994

It has been issued under security exchange act, 1983. There are following provisions in this regulation.

- Details of memorandum, article of association and prospectus of the company.
- Acts and rules under which is formulated.
- Detail and current and fixed assets.
- Amount, par value, number, type and special provisions of issuing security.
- Reasons of debentures issues, rationality, board of director's decision and application of fund.
- Other condition and facilities of security issue.
- Reason of change in price of two time issued securities.
- Types, number, amount and transaction of last three years if previous issued securities.
- Issue manager of security and underwriting of securities.
- Provision of representation in board of directors for equity shares.
- Provision about distribution of profit.
- Three year audited and three year projected income statement and balance sheet.
- Name address, duties and responsibilities of directors, managers and chief officers.
- Name, cast, address, qualification of person who prepares memorandum and article of association.

- Number of institutional investors and their representation in board of directors.
- Other detail asked by SEBO.

C. Company Act, 2006(2063)

There are following important provisions regarding securities issue in company act, 2006.

- Company's objectives and important points stated in memorandum article of association should mention in prospectus. It should also mention place to acquire memorandum and article of association.
- Minimum numbers of shares to hold to board of directors and salary allowance or remuneration provider them
- Promoter's remuneration and rewards.
- Provision about bonus shares.
- Provisions should be mentioned if there is secured for shareholder, employees or other.
- Introduction of directors.
- Reasons of issuing securities in premium.
- Provision of general shareholders representation in board of directors.
- Minimum shares to be subscribed and amount payable on application.
- Reasons, redemptions and debentures outstanding if debentures are issued.
- Description of assets vendor's name, if assets are purchased from securities. It should explain weather can or cannot be paid by shares and debentures.
- Brokerage commission on shares and debentures.
- Expenditures required for company and three year company projected income statement.
- Potential economic risk to desired future course of action.
- Net worth after reducing all liabilities.
- Time of publishing information of share allotment.
- Trustee commission if trustee provided.

- Company balance sheet, profit and loss account, place and time of inspection.
- Description and brokerage commission if securities are under written.
- Preference shareholders right an descriptions
- Other necessary descriptions.

2.5 REVIEW OF RELATED STUDIES

It has been reviewed different thesis, research report and dissertation prepared by master degree and other students but among these most of the studies is related only government securities. No any study was found related with corporate debt securities.

Acharya (1968) conducted a case study on public debt in Nepal includes the features. Problems and patterns of internal public debt. His study found that the public debt is popular because of payment debt through the issue of fresh debt securities. Due to popularity of purchasing bonds through people, in public debt. He further added investors have full trust on government and subscription of government bond is higher than the bond issued by other non-government institutions.

Poudel (2000)A thesis "A study on government securities practices in Nepal" has been written by Ram Prasad Poudel in course of his MBS study. Mr Poudel through his thesis has expressed positive view toward public debt. Very cautiously recommendations have been made regarding rising and use of public debt. Public debt especially internal borrowing is required to meet deficit budget. Since internal borrowing being less inflationary it is better than borrowing from commercial banks.

In context of slow growth of economy of the country, it is required to intensify which also requires private sector and government sector investor. However, if public debt is expended on unproductive sources may call included in the Mr. Poudel research are as follows:

Object of the study are as follows

To evaluate existing debentures market of Nepal.

To examine the potentiality in growth of debentures market.

To identify existing problems of debentures market growth.

To provide recommendation for systematic growth in Nepalese debentures market.

Finding of the study

- The government has an adopted budgetary system in the name of development functions. Treasury bills, development bonds, national saving bonds and special bonds are debt borrowing instrument in Nepal. Nepal has been suffering capital shortage since the first budget speech of Nepal.
- Nepal has been suffering capital shortage since the first budget speech of Nepal.
- The government has been following liberal policy in the many of collecting funds. The main objective of internal borrowing to collect idle funds from people. This increasing trend of borrowing has created significant impact of economy for future generation.
- Enormously increases magnitude of public debt is becoming a great challenge for the nation.
- The borrowing policy has creating problems of increasing indebt ness and higher government interest rate so that it should allocate more amounts for interest service motive.

Mainali (2003) had undertaken a study on problem prospects debenture market growth in Nepal using both primary data as well as secondary data. From the discussion with investors he has found that investors prefer liquidity, marketability and other facilities in his study he has no found that Nepalese general investors are not so much interested in investing debentures or bonds and he suggested that government has responsibilities in promoting desirable activities and restricting undesirable. Since debenture market development being vital need of a country. Nepalese government show involve in this

direction and he also emphasized that the municipal bond issuing authorities should be given to local states by passing necessary laws regarding thesis and existing inappropriate provision must be reviewed and new required provisions should be act and local authorities right relating to municipal mind issue showed be formulated.

Bhattarai (2002) has studied on problem and prospects of debt security market in Nepal by using both primary and secondary data. He has found that investor given first priority for invest in common stock and corporate debt gets the priority of third which indicates that corporate debt securities are relatively less important for investment in comparison to common stock and government securities. He has found that the existing rules and regulations for the growth ness of Nepalese debt market are insufficient and trend of interest rate of deposit on commercial bank is decreased every year, so he has suggested that to bring new rules and regulations to fulfill the insufficiency of it and he also suggested to the depositors to their on government securities.

2.6 RESEARCH GAP

Sufficient research has not been made on this topic. Previous research was conducted regarding systems and topic. Previous research was conducted regarding systems and procedures of public debt. Absence of sufficient research on problems and prospects identification to promote debenture market, the researcher felt research gap and conducted research on this topic. Public debt procedures study made by previous researchers has not pointed out problems and prospects of public debentures too. So that this research covers all private and public debenture market and attempts have been made to overtake research gap remained in previous research.

CHAPTER III

RESEARCH METHDODOLOGY

3.1. INTRODUCTION

This chapter describes the methodology employed in this study. Research methodology is a way to systematically solve the research problem. In other words, research methodology describes the methods and process applied in entire aspect of the study. This chapter includes research design, nature of data, data gathering procedure, population and sample, period covered, graph, testing of hypothesis, methods of data analysis.

3.2. RESEARCH DESIGN

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. According to wolf and pant, "Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variations."

3.3. NATURE AND SOURCES OF DATA

The data in this study is dependent on both primary and secondary data. Primary data has been collected during the study and conversation with key information's whenever they were to find out the problems of debentures market growth questionnaire and unobstructed interview has been conducted with respective persons. The main sources of the primary data are as follows:

- Listed company
- Broker/Issues manager
- Individual investor
- Other experts.

To examine the trend and ownership patterns and for interest ration analysis secondary data are also used. The main sources of secondary data are as follows:

- Various quarterly economic bulletins published by NRB
- Various economic report
- Economic survey
- Various statistical year books and other publication of department of statistics.
- Various annual report of securities board, Nepal.
- Prospects of HBL, EBL, NIBL and NRB.
- Various publications of NEPSE.

Descriptive and analytical research design would be applied.

3.4. PERIOD COVERED

This study is related to five years financial data of debenture issue. Nepal Rastra Bank issues debenture in the form of bonds. In commercial bank, Himalayan Bank Ltd issued debenture at first and then Nepal Investments Bank Ltd. There it will provide valuable inputs for the drawing overall picture and status of Nepalese debenture market.

3.5 POPULATIONS AND SAMPLE

From the title of the study, it is obviously clear that the research covers a huge area. Since debentures issued by only five corporations as well as Nepal Rastra Bank, so complete population has been taken in study.

Altogether, 9 companies as well as NRB are issued debentures. In which debenture of Shree Ram Sugar Mills, Bottlers Nepal Ltd, Jyoti spinning mills have been already matured. So total population are only seven companies.

The table clearly described total population and samples and percentage of samples as follows:

Table no. 3.1

Total population and samples

S.No.	Debenture Issued Companies	Target Population	Target Sample	Percentage of Samples
1	Manufacturing and processing Co.	3(matured)	—	—
2	Commercial Banks	6(unmatured)	3	50%
3	NRB	1	1	100%
	Total	7	4	57.14%

3.6 RESEARCH VARIABLES

The researcher has emphasized some specific research variable such as rules and regulation of corporate debentures market, investor's attitude, information dissemination, primary and secondary markets are important research variables.

3.7 GRAPH

Graph helps to show the general trend of the relation in respect of the time periods for the analysis years. Every common way of presenting data for two variables, which have relationship, is in a figure or chart or graph. It works best when the data is continuous. A figure is used to show the change of a dependent in variable relation to place the independent variable along X-axis and dependent variable along Y-axis.

3.8 TESTING OF HYPOTHESIS

Hypothesis is usually considered as the principal instrument in research. It can also be considered as suggested solution of the research problems. Its main function is to suggests and observations with the available data, decision makers. It may not be proved absolutely but in practice it is accepted, if it has with stood a critical testing. Usually the statistical hypothesis is tested at 1%,

5% and 10% level of significance. Thus, the significant test will be conducted in analysis of data. (*C. R Kothari 2002, P 223*)

For testing of hypothesis, the chi-square of hypothesis is useful to examine the problem and prospects of debentures market growth with special references to HBL, EBL, NIBL and NRB.

With the available data some hypothesis are tested and given the decision accordingly. It may not be proved absolutely but in practice. It is accepted if it is has stood with a critical testing.

While examines the hypothesis by the chi-square test, the expected frequencies are calculate by applying the following formula.

$$E = \frac{RT \times CT}{N}$$

Where,

RT = Row Total

CT = Column Total

N = No. of observations

Calculated value of χ^2 are calculated by using following formula

$$\chi^2 = \frac{(O-E)^2}{E}$$

Where,

O = Observed frequency

E = Expected Frequency

3.9 DATA PROCESSING AND ANALYSIS

Data was processed and tabulated as per requirement. It has systematically represented in diagrams. Ratios are calculated and χ^2 has been tested Regression analysis and co-relation coefficient has been calculated to identify the relationship between deficit budget and public debentures issues.

Regression analysis is a mathematical measure of average relationship between two or more variables in terms of original units of data. There are two types of

variables in regression analysis dependent variable and independent variable. The variable whose value is influenced or is to be predicted is called dependent variable whereas the variable which influences the value or is used for prediction is called independent variable. Thus regression analysis studies the statistical relationship between the variables. The main objectives of regression analysis are predicted or estimate the value of dependent variable corresponding to a given value of independent variables.

Equations of Lines of Regression

Regression lines expressed in terms of mathematical relations are known as regression equations.

Regression equations of Y on X

It is the line which gives the best estimates for the values of Y for any specified values of X.

Regression equation of Y on X is given by

$$Y = a + bx$$

Where,

Y = Dependent variable

X = Independent variable

a = intercept of the line

b = slope of the line (it measures the rate of relationship)

The values of the constants a and b can be determined by solving two normal equations:

$$\sum Y = na + b \sum X$$

$$\sum xy = a \sum x + b \sum x^2$$

Correlation coefficient measures the degree of relationship between two or more characteristics of a population or a sample. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. Correlation coefficient (r) is calculated by:-

$$r = \frac{n \sum xy - \sum x \cdot \sum y}{$$

$$[n \sum x^2 - (\sum x)^2]^{1/2} [n \sum y^2 - (\sum y)^2]^{1/2} \text{ (Chaudhary; 2005 : 406)}$$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 ANALYSIS OF CORPORATE DEBENTURES MARKET

4.1.1-CHANGING TREND OF CORPORATE DEBT SECURITIES

In Nepalese context, the corporate bodies have issued various kinds of securities like ordinary shares, right shares, preference share, debenture, mutual fund raise capital. Out of them debenture/bond is a kind of securities used by some companies Himalayan bank ltd, Nepal Investment Bank Ltd and Everest bank Ltd have issued debentures. Besides them Shree Ram Sugar Mills, bank of Kathmandu, Bottlers Nepal Ltd, Nepal Industrial and commercial bank Ltd, Nepal SBI bank Ltd have also issued debentures. The debenture of Bottlers Nepal ltd has already been matured as well as the debenture of Shree Ram Sugar mill has been converted into shares before the observed period here.

In manufacturing sector, at 1st Shree Ram Sugar Mills had issued debentures amounting Rs. 93 Million in fiscal year 1997/98 which had 14% coupon rate and convertible nature.

Then in banking sector, at 1st in fiscal year 2001/02 has issued Himalayan bond has issued (Rs. 300 Million) "Himalayan Bank 2066." amounting Rs. 360 million which has semiannual 8.5 percent coupon rate with par value Rs. 1000, unsecured nature and 7 years maturity period.

Nearly one and half year (i.e. in F/Y 2003/04) after Himalayan bond another Nepali Bank, Nepal Investment Bank Ltd. (NIB) has issued Rs. 300 million " Nepal Investment Bank Bond 2010 " which has 7.5 percent semiannual coupon interest rate, unsecured nature and 7year maturity period. In 2nd time, in fiscal year 2005/06, NIBL has issued Rs. 250 million bonds. Besides them, it has issued right shares in two times.

After the investment bank bond issued, Everest bank has issued 300 million bonds, which has 6 percent semiannually coupon rate, with par value Rs. 1000, unsecured nature and 7 years maturity period. Besides them it has also issued ordinary right shares and preference shares. Finally till the report bank of Kathmandu Ltd, Nepal Industrial and commercial Bank Ltd has issued debentures.

Portion of Amount of debenture issued by the corporate bodies. Out of total amount of securities issued from fiscal year 1993/1994 to 2006/07 is as follows:

Table No.4.1
Amount of debenture issued by the corporate bodies of total
amount of securities issued (1994/95 to 2006 /07)

Fiscal Year	Total No. of Issues	No of debentures issues	Total amount of insurance (Rs. in million)	Cumulative amount of total issued (Rs. in million)	Amount of debt issues	Cumulative amount of debt issue	Percentage of debt on total issue of security
1994/95	17	-	344.40	344.40	-	-	-
1995/ 96	12	-	254.21	598.61	-	-	-
1996/97	12	-	293.74	892.25	-	-	-
1997/98	5	-	332.10	1224.55	-	-	-
1998/99	12	1	462.26	1686.91	93	93	5.513
1999/00	5	-	258.00	1944.91	-	93	4.782
2000/01	9	-	630.31	2575.22	-	93	3.61
2001/02	9	-	717.20	3292.42	-	93	2.82
2002/03	16	1	1555.11	4847.53	360	453	9.345
2003/04	17	-	853.83	5701.36	-	453	7.95
2004/05	16	1	1547.79	7249.15	300	753	10.39
2005/06	12	1	1270.31	8519.46	300	1053	18.36
2006/07	34	4	2547.87	11067.33	850	1903	17.19
	176		11067.33		1903		

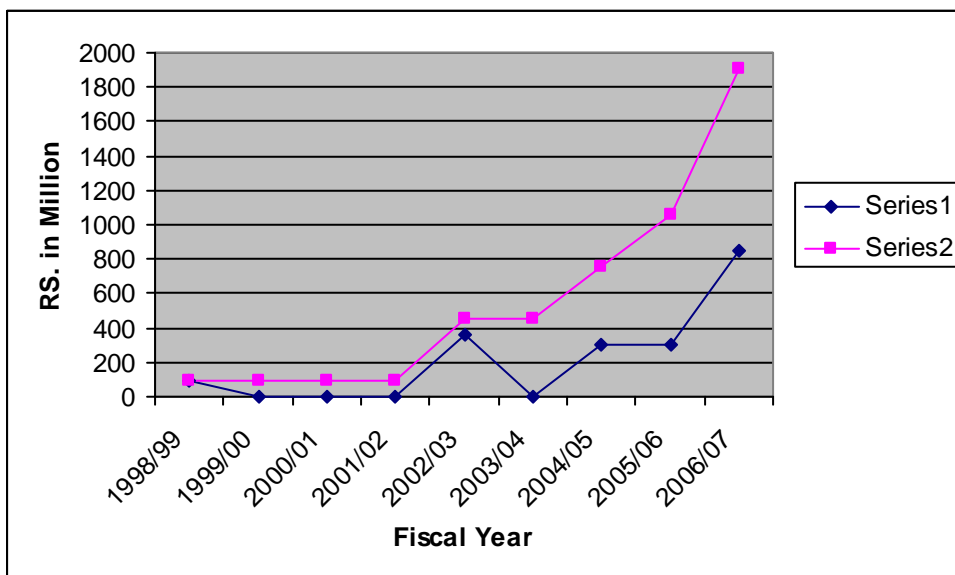
(Sources: SEBO/N Annual Report)

The no. of debenture issued was only 7. At this time, Nepal Investment Bank Ltd. issued debentures at two times in fiscal year 2003/04 and 2005/06. During the observed periods, total amount of debentures issued are only 1093 millions out of those, 93 million were issued on fiscal year 1998/99, which was 5.51% of the total issued of the securities at that time. The total number of securities

were increased every year then after also, but there is no any debentures issued till the fiscal year 2001/02 and the percentage of debentures on total securities issued was decreased 2.83% in fiscal year 2001/02. But last year i.e. fiscal year 2005/06 and 2006/07 the trend of debentures issued is increasing which has covered 12.255 and 17.19 as well as 4.835 percent of total securities issued.

The following figure clearly shows that the cumulative amount of debenture issued in different year in comparison with cumulative amount of total issued.

Fig.4.1
Changing Trend of debenture issue



There was 93 million issued in fiscal year 1998/99 and till the year 2002/03 there was not any issued of debenture so the curve of debenture issued is straight line in these years. In fiscal year 2002/03 another 360 million amounted debenture has issued by Himalayan bank and then after in fiscal year 2004/05 and 2005/06 another two Nepali bank: Nepal Investment Bank and Everest Bank Ltd. has issued debenture amounted in Rs 300 million each. At last in fiscal year again once a time NIBL has issued Rs 250 million amounted debenture and besides these Bank of Kathmandu. Nepal industrial & commercial bank ltd & Nepal SBI bank ltd have issue Rs. 200, & Rs. 200

million amounted debenture, this trend shows that in last year the percentage or amount of debenture issue is increasing trend.

Table No. 4.2

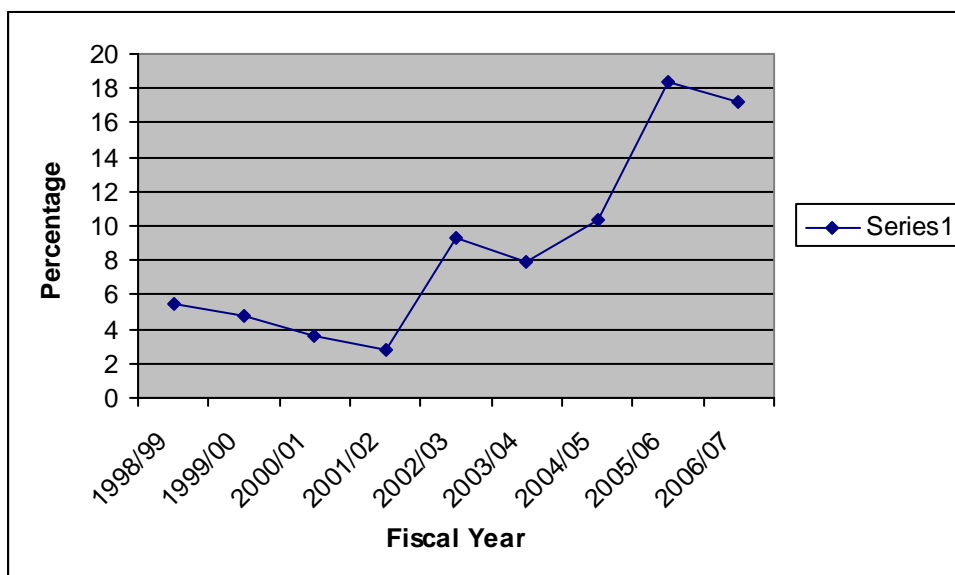
Debenture issued by HBL, NIBL & EBL

	2001/02	2002/03	2003/04	2004/2005	2005/06
HBL		1			
NIBL			1		
EBL				1	

The percentage of debenture issued in different year can be shown the following trend line.

Figure 4.2

Percentage Covered by debenture in different year



Since, fiscal year 1994/97, there was not any debenture issued so, in these years the percentage of debenture issued. in fiscal year 199/98, shree ram sugar mill issued debenture issued debenture which covered 5.53% of total issued and then after 3 year it was decreasing trend because no one could issue debenture /bond during in that period . but in fiscal year, 2002/03 another Nepali bank

called Himalayan bank issued debenture, then this trend is still increasing till the observed period because the flow of debenture issued is rapidly grown up.

The corporate firm issues various kinds of securities to called funds. During the observation period from fiscal year 1994/95 to 2006/07 there are 186 securities were issued out of them only 7 are debenture (i.e. NIBL issued debenture 2 time) the percentage of debenture on total issued of securities was zero at the first four year. It was 5.53 of total issued other the issuance of debenture by Shree Ram sugar mill and reached 16.26 on the final year of observation. For this, it is clearly shown that in the recent years, the issuance of debenture is increased and from this trend the researcher can expect that it will increase in coming year. Thus it also indicates the bright prospects of the corporate debt market of Nepal.

4.1.2-DEBENTURE FLOTATION IN CAPITAL MARKET

Firms of companies which desire to issue public securities should prepare as per company act 2006 and should take necessary approval from Nepal government industry, commerce and supplies and company securities to make effective communication and co-ordination.

During the past 13 years , sebo/n approved a total 186 public issues amount Rs 1176.56 million and the board also approved two indirect vehicles i.e. mutual fund and citizen unit scheme. The numbers of issue till 2006/07 were as follows.

Table no. 4.3
Industries and instrument wise issue approval

S.N	Sector	No. of issues	Investment	No. of issues
1.	Bank	46	Ordinary shares	114
2.	Finance	83	Right shares	147
3.	Insurance	12	Preferences share	4
4.	Manufacturing &	22	Debenture	8
5.	process	1	Mutual fund	3
6.	Trading	3		
7.	Hotel	2		
8.	Mutual fund	5		
	Others			
	Total	176	Total	176

(Sources SEBO/N annual report 2006/07)

Fiscal year 2006/7 was appeared most considerable year regarding debenture market development especially from private business organizations. In fiscal year, 20056/07 security board of Nepal reviewed prospect of 34 organized institutions where there were 13 banks, 19 finances, 1 Hotel and one insurance company. Most of securities were ordinary share and right share. However there was also reviewed prospectus of debentures prepared by following organizations.

Name of organization	Amount (Rs.)
- Nepal Investment Bank Ltd.	
Rs.250,000,000	
- Bank of Kathmandu Ltd.	Rs.200,000,000
- Nepal Industrial and Commercial Bank Ltd.	Rs.200,000,000
- Nepal SBI Bank Ltd	
Rs.200,000,000	

It should take positively debentures prospectus prepared by two above organizations worth rs. 850 million and those were issued to the public also, which helped in strengthening Nepalese debentures market more.

SEBO/N had approved worth Rs. 2547.87 million public securities demanded by private organized imitations out of which 280 million was "Nepal Investment Bank Ltd" debentures (which was issued in second time by NIBL).

In fiscal year 2005/06, out of securities approval for public flotation, following amount of ordinary share, right share and debentures were issued and traded in the market.

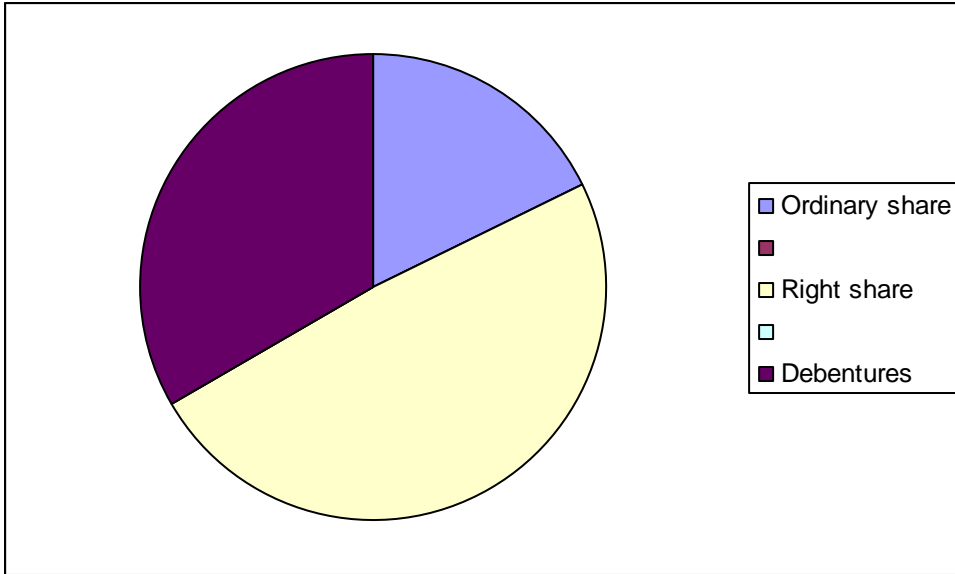
Instrument wise public securities issued were as follows:

Table No. 4.4
Securities Approval Position

S.N	Security	Number	Rs.(In million)	Percentage
1.	Ordinary share	16	456.42	17.91
2.	Right share	14	1242.45	48.73
3.	Debentures	4	850	33.36
	Total	34	2547.87	100

(Source: SEBO/N annual report 2006/07)

The percentage that covered from different securities can be presented in the pie d diagram also.



Above diagram also indicate that in fiscal year 2006/07, the percentage of debenture that covered in capital markets was greater than ordinary shares, which indicate that debenture is also a good source of financing instrument.

Nepalese debenture market can be analyzed on the basis of public issues approved from fiscal year 1994/95 to 2006/07 by presently pie diagram.

Fig 4.4

Instrument wise Security Approval position in FY 1994/95 to 2006/07

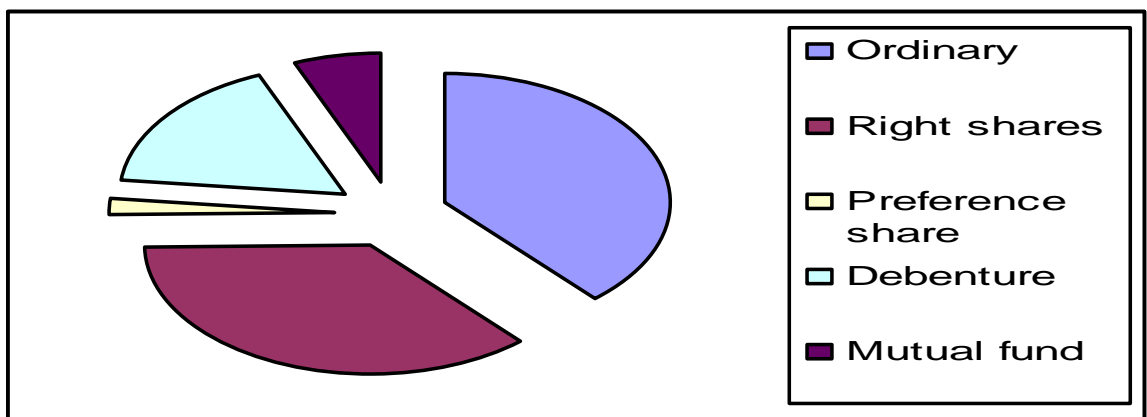


Table no. 4.5

Comparative instrument wise securities approval

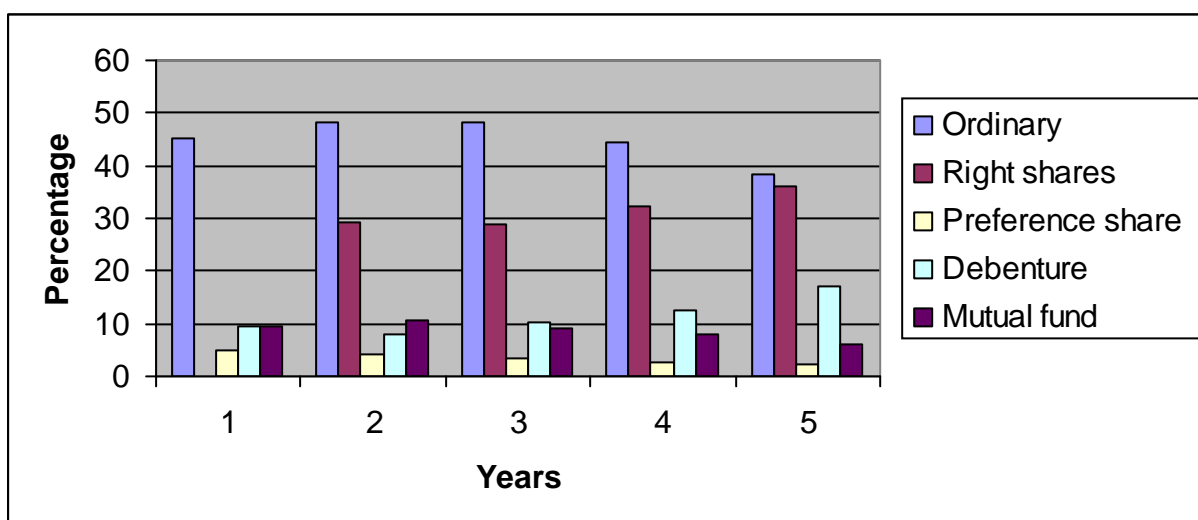
S.N	Securities	2002	2003	2004	2005	2006
1.	Ordinary	45.20	48.10	48.25	44.58	38.44
2.	Right shares	30..99	29.19	28.89	32.144	36.19
3.	Preference share	4.88	4.15	3.26	2.78	2.14
4.	Debenture	9.34	7.95	10.36	12.26	17.20
5.	Mutual fund	9.59	10.61	9.21	7.84	6.03
	Total	100	100	100	100	100

(Source: SEBON/N annual report 2006/07)

The instrument wise securities approval can be present also in the diagram.

Fig. 4.5

Comparative Instrument wise security Approval



Debenture approval has increased rapidly in fiscal year 2003/04 in comparison to 2002/03 and f.y 2004/05 in comparison to f.y 2003/04 and fiscal year 2005/06 in comparison to f.y 2004/05 which was increased by 2.41, 2 and 4.84

percent respectively. Debentures approval exceeded preference share and mutual fund. Important previous year shares of ordinary and right shares by debentures.

It can conclude about debenture flotation in Nepalese debt market that debentures floatation initiated by shree ram sugar mill ltd. 1997/98 played significant role in private or corporate debenture market debenture market development in Nepal. After four year interval

Himalaya Everest bank, Bank of Kathmandu, Nepal industrial and commercial bank ltd, Nepal SBI bank ltd. therefore these practices have been made in Nepal. Public debenture approval position was 3rd which was greater than preference share and mutual fund till the observed period in the total capital market was increasing. All of these things indicated prospects of the corporate debt market in Nepal.

4.1.3 DEBT RATIO ANALYSIS

Debt to total asset ratio of HBL, NIBL and EBL have been analyzed with debentures issuing organizations Debt to total assets ratio of HBL, NIBL and EBL is computed from fiscal year 2002/2003 to 2006/2007 using their published statements which are as follows:

Table No. 4. 6
Debt to Total Assets Ratio Of
HBL, NIBL, EBL
(2002/03 to 2006/07)

Commercial bank	2002/03 (2002)	2003/04 (2003)	2004/05 (2004)	2005/06 (2005)	2006/07 (2006)
HBL	95.84%	95.45%	94.65%	94.46%	93.20%
NIBL	89.48%	92.93%	94.50%	92.45%	92.75%
EBL	91.96%	92.29%	92.92%	93.47%	93.25%

(Sources: Balance sheet of HBL, NIBL & EBL)

From above table, it can see that the debt to total asset ratio of HBL is greater than other two commercial banks (i.e. NIBL & HBL) which was 95.84%, 95.45%, 94.65%, 94.46% and 93.20% in year 2002, 2003, 2004, 2005 & 2006 respectively.

Another the debt to total assets ratio of NIBL was 89.48%, 92.93%, 92.5%, 92.45% and 92.75% for year 2002, 2003, 2004, 2005,2006 respectively. Similarly the debt to total assets ratio of EBL was 91.96%, 92.29%, 92.92%, 93.47%, 93.25% for year 2002, 2003, 2004, 2005, 2006 respectively.

The debt ratio analysis can't provide reliable base to say debenture issuing organization have greater debt ratio. It can say that the debt ratio of commercial banks have generally greater than other organizations.

4.1.4 CORPORATE DISCLOSURE AND DEBENTURE MARKET

A good disclosure practice to essential to bring transparency in the security market, Inadequate disclosure practices and poor transparency discourage potential investors from investing in the securities market. In order to secure investor's confidence and commitment a flow of information is a must as investors can make informed decisions investors not only help to establish price of securities but also help to attract additional investors in the market (Adhikari, 2005:19)

Securities market needs good corporate disclosure through financial statement, annual reports and annual general meeting (AGM). If there is not good corporate disclosure prospective investors in primary as well as secondary market can not receive good knowledge about corporate sectors past, present and future financial solvency and profitability. They feel problem in making investment decision until they are not aware in this matter negative thought may come due to poor financial disclosure.

Under the provisions of present securities legislation listed companies are required to provide price sensitive information immediately to their investors and the NEPSE. After the second amendment in securities exchange act 1963, the listed companies should submit their annual report along with financial statement of SEBO/N with-in 4months after the expiration of the financial year and half yearly to 60 days after expiration of 6 months period. SEBO/N is continuously informing the listed companies through regular correspondence and public notice by the end of year 2005/06 out of 135 listed companies, 93 companies have submitted their annual reports of financial statement to SEBO/N.

The status of disclosure made by different sector in the fiscal year 2006/07 was as follows:

Table No. 4.7
Sector wise Information Disclosure

S. N.	Sectors	No. of companies	No. of Companies	Percent
1.	Bank	23	19	82.61
2.	Finance Companies	50	43	86
3.	Insurance Companies	15	10	66.67
4.	Hotel	4	4	100
5.	Manufacturing & Processing	29	12	41.38
6.	Trading	8	3	37.75
7.	Others	6	2	33.33
		135	93	68.89

(Source: Annual Report SEBO/N, 2006/07)

It can see that information disclosure of hotel was complete and highest (i.e.100%).Finance companies overall finance disclosure was second rank and

the financial disclosure of trading and other companies was lowest (i.e. 37.75 % & 33.33%). Overall information disclosure of corporate sector (i.e. listed only) 68.89 percent out of 135 companies held their annual general meeting which were 51.11 percent of the total companies. All these shows that information disclosure and AGM were least and poor in Nepalese capital market.

The above analysis shows that there is serious shock to debenture market growth in Nepal due to poor corporate information disclosure. Poor disclosure practice increases diverts investment to other unproductive areas such as gold, saving deposit, land and discretionary items. So Information disclosure is one of the measure things to invert in any securities.

4.1.5 COMPANIES WISE ISSUE APPROVAL

Capital market in Nepal is very underdeveloped debt capital and corporate bond market is almost non-existent secondary market is also infant stage. Although 135 company's shares are listed, stock trading centers on the stock of financial institutions only (nepse trading report 2005/06) only seven corporate firm stocks are traded in a day. It is generally recognized that the capital markets are not yet effective vehicles for mobilizing long-term capital in Nepal.

Among the 135 listed companies [Himalayan bank ltd, Nepal investment bank] only seven corporation have issued debenture in different years. The first issuance of shree ram sugar mill ltd. Bond and then Himalayan banks, Nepal investment bank, Everest bank, Nepal industrial and commercial bank ltd and Nepal SBI bank ltd issued debentures in Nepalese capital market. Among then the issued amount of HBL debenture, NIBL debenture and EBL debenture is as follows.

Table no. 4.8

Companies wise issue approval

S. N	Name of the corporation	Issued through shares	Issue through debenture	Total issue	Debenture percentage
1.	Himalayan bank ltd	-	360	360	1.00
2.	Nepal investment bank ltd	352.54	550	902.54	60.94
3.	Everest bank ltd	295.20	300	592.10	50.40

(Source: SEBO/N annual report 2006/07)

(Note: shares include ordinary share, rights and reference share)

The above table should that the companies which are issued debentures to fulfill their financial requirement, are above 50% of total issued. This seems that debenture is also important or main sources of financing. Company can earn a good profit, from debenture finding rather than equity financing, which examples are Himalayan bank ltd, Nepal investment bank ltd & Everest bank ltd.

4.1.6-INTEREST RATE ANALYSIS

Usually, government issues four types of securities. The interest rates are different in these securities depending up the nature of securities. The bond with short maturity has less interest rate than securities with long maturity periods. Nepal Rastra Bank's refinance rate and interest rate on various kind of deposit of commercial banks are given as follows:

Table no-4.9
Structure of interest rates (in percent)

	Mid July				
	2002	2003	2004	2005	2006
<u>Government securities</u>					
Treasury bills	3.78	2.98	1.47	3.94	3.25
National saving certificates	8.0-13.25	7.0-13.0	6.5-13.0	6.5-13.0	6.5-8.5
development bond	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0
<u>Commercial banks</u>					
<u>Deposits rates</u>					
saving deposits	2.5-6.25	2.5-6.0	2.0-5.0	1.75-5.0	2.0-5.0
time deposits (2years & above)	3.25-8.0	3.25-7.5	3.0-6.0	2.5-6.05	2.5-6.4
<u>Lending rates</u>					
Industry	7.0-14.5	8.5-14.0	8.5-13.5	8.25-13.5	8.0-13.5
Agriculture	12.0-14.0	10.5-14.5	10.5-13.0	10.0-13.0	9.5-13.0
Export bill	6.5-12.0	4.0-12.5	4.0-11.5	4.0-12.0	5.0-11.5
Commercial loans	7.0-16.0	7.5-16.0	9.0-14.5	8.0-14.0	8.0-14.0
Overdrafts	11.0-17.0	10.0-17.0	10.0-16.0	5.0-14.5	6.5-14.5

(Source: Macroeconomic Indicator of Nepal 2007)

Nepal Rastra bank has been publishing interest rate per annum on different government debt securities and borrowing and lending rate of commercial banks. The published interest rates since 2002 mid July to mid July 2006 have been issued in analysis. Interest rates on Treasury bill were 3.78 percent in mid July 2002 and then it had decreased for few years i.e. in mid July 2003 2.98 percent and in mid July 2004 1.47. Then after it has slightly increased to 3.25 in mid July 2007..

National saving certificates, which have highest coupon interest in government debentures had generally stable interest rate in range 6.5 to 8.5 percent. In national saving certificates, interest rate is less volatile. There are two types of national saving certificate i.e. stock and promissory notes. Because Nepalese general people and organized sector also prefer to invest on it.

Development bonds open for all sectors, banking as well as others have seemed some volatility in interest rates from fiscal year 2002 to 2006, the yield rate or interest rate is 3 to 8 percent range.

Nepal Rastra Bank, as institution of controller of demand and supply of liquidity, has been decreasing its refinance rate which promotes liquidity of market as commercial banks being demanded discounting loan more. Now such refinance rate is 2.0 to 3.5 percent. Refinance rate for foreign currency loan is the lowest.

Because of economic depression of the country, of market interest of commercial bank deposit and ending rate both have found generally declining trend. After the moist activities growth and charging rules and regulation policy of government in short period, Nepalese industrial growth and charging rules and regulation policy of government in short period, Nepalese industrial growth was badly injured. As a result of this, falling in lending rate and borrowing is decreasing. The highest rate of borrowing on time deposit was 8 percent in year 2002 mid July but after the observation of year 2006 mid July it was 2.5 to 6.4. However falling rate on saving deposit was some gentle. Hence highest rate of 2 years and above time deposit was some gentle. Hence highest rate of 2 years and above time deposit from mid July 2002 to mid July 2006 was 8.0 to 6.4 percent which is significant for investors, as well as organizations which can issue debenture.

According to time structure and use of debt (i.e. industry, agriculture, export,

overdraft and commercial loan) there are multiple interest rates of commercial banks to business society. Interest rate is changed on the basis of demand and supply of fund in Nepalese financial market too. However, lending rates were falling due to economic depression. Interest rate is mid July 20-06 was 8.0-13.5 percent for industrial loan, 9.5-13 percent for industrial loan, 5-11.5 percent for export bills, 8.0-14.0 percent for commercial loan and 6.5-14.5 percent for overdraft.

From above interest rate analysis it can conclude that there are significant prospect of corporate sectors debenture flotation in debt securities market because there was highest government debenture interest rate 8.5 percent and time deposit rate more than 2 years generally 6 percent whole borrowing rate of industrial loan 8 to 13.5 percent. So that, private business organization can issue debentures in the Nepalese debt market because investors who deposit in commercial bank at 2-6 percent time deposit 2 or above year can purchase and invest on private debenture and bonds. Insurance companies and provident fund huge long term fund can also be invested on secured private bonds because fixed deposit may be less productive for them than investment on debentures or bonds.

4.1.7-PRIMARY AND SECONDARY MARKET OF DEBENTURE

One question was asked with brokers, NEPSE, SEBO and listed companies to understand problems of primary sector debentures. All brokers and NEPSE/SEBO officers had responded that there are problems in secondary market of debentures on question asked whether there are problems or not in secondary market of debentures. According to brokers, NEPSE/SEBO officers and listed companies, there is problem of listing of debentures and lack of interest on debentures investors. Because of this type of problem, till now only 7 companies issued debentures. Like this way, respondents pointed out that selling of debentures is more painful problem than purchasing debentures. All

brokers NEPSE/SEBO officers and listed companies with whom questions were asked problems of selling of debentures in primary as well as secondary market. It concludes on the basis of above sample analysis that there do exist problems in primary and secondary of private debentures. Lack of existence of private debentures secondary market in fiscal year 2001/02 even after flotation of debentures by Himalayan Bank Ltd shows its problems.

4.1.8 HYPOTHESIS TESTING

A. Sufficiency of Legislation Regarding Debentures Market

One question was asked i.e. "Are present securities laws sufficient?" to stock brokers, NEPSE officer and listed companies. Most of respondents answered as insufficient in present securities and other acts which influence in Nepalese debentures and other securities market. 20 percent of stockbrokers replied present securities laws sufficient while 80 percent answered insufficiency. Like this way, 37.5 percent NEPSE/SEBO officers and 25 percent listed companies expressed their satisfaction on present act relating to debentures and bonds, 62.5 percent NEPSE/SEBO officers and 75 percent listed companies responded as insufficiency of present debentures and bonds legislation. Aggregate 75.50 percent responses were as insufficiency in present debenture market laws while 24.5% accepted sufficiency at present legislations of debentures market. The analysis of samples shows there is not sufficiency of legislation relating debentures market. The fact was tested through χ^2 tests. Since null hypothesis being accepted, it can conclude that there is not significant different in responses of brokers NEPSE officers and listed companies. According to respondent act, lack of adequate trust act, conflict in company act and act issued by SEBO.

B. Preference on choice of securities

Ordinary shares, debentures and preference shares are option of choice to investors in investing securities. It has been based a question to understand

whether there is preference on particular security to brokers, issue manager, NEPSE/SEBO officers, listed companies and general investors. Majority of respondents were expressed their preference on ordinary shares and least on preference shares. 78.50 percent responses were received in favour of ordinary shares, 17.70 percent in favour of debentures and 3.80 percent in ordinary shares are significantly popular and well accepted than preference share and debentures, which we should take positively by for the growth of debentures market in Nepal.

χ^2 was tested to measure the responses validity for generalization. Since null hypothesis being accepted, there is not significant difference in opinions of respondents. Hence, ordinary shares are most accepted in Nepalese securities market.

C. Preference on choice of issuing company

It was tested one hypothesis, χ^2 to generalize investors' preference to debenture issuing companies. Debentures may be issued by commercial banks, finance companies, hotel manufacturing and trading companies etc. However all may not be well and equally accepted.

It was asked a question regarding issuing companies' preference to brokers NEPSE/SEBO officers, listed companies and general individual investors. 67.9 percent were received in favour of commercial banks while 25 percent preference received in favour of finance companies and 7.1 percent in other. (i.e. hotels, manufacturing and processing company etc.)The responses indicate commercial banks are most preferred debenture issuing companies and finance companies are second. Hotels, manufacturing and processing debentures are least preferred.

While testing hypothesis is null hypothesis is accepted which indicates there is not significant different in opinion of individual investors responses made. So that it is generalized that commercial banks are most preferred debentures issuing companies. As for examples, besides shree Ram Sugar mills ltd all of

debenture issued companies are commercial banks.

D. Political Instability and debentures market

Political instability and debentures market political stability generally requires all sectors systematic development debentures market may not be exception of this fact. One hypothesis was tested and most of respondents agreed with fact political instability relation with slow growth in Nepalese debenture market. 92.1 percent responded that Nepalese percent political instability is responsible in slow growth of Nepalese debentures and bonds market and only 7.9 percent responded relevancy of it in this regard.

While testing χ^2 , calculated value of χ^2 and tabulated value of χ^2 where received 0.088 and 5.99 respectively null hypotheses accepted. Since null hypotheses being accepted, there is not significant different in opinions made by brokers, NEPSE/SEBO officers and listed companies. Show that, political instability is problem of Nepalese debentures market.

E. Dominant prospect of Debentures Issue

Ascertainment of prospect of debentures flotation being significant of this study supportive hypothesis regarding prospect of debentures tested. While testing χ^2 calculated value of χ^2 received 0.41 and tabulated χ^2 received 9.488. Hence null hypothesis accepted. Respondents were responded their opinions regarding three opinions additional capital supply, tax advantage and high subscription. Most of them have responded additional capital supply tax advantage as chief prospect of debentures flotation of additional capital supply as most important prospect and 17.6 percent responses were received infavou8r of tax saving prospect. However, there was no any response in favour of high subscription prospect. 25 percent responses from listed companies received in favour of tax saving prospects, which some show some awareness of listing companies with b benefits of debenture issue.

The acceptance of null hypothesis also shows that there is not significant different in opinions regarding debentures market prospect. So that, it can

generalize that additional capital supply is most important prospect of debentures out of tax saving prospect and high subscription

F. Disclosure of price sensitive Information

A question was asked with the brokers, issue managers, NEPSE/SEBO officers, listed companies and individual investors about price sensitive information disclosure. Majority of respondents were expressed their preferences on insufficient price sensitive information disclosure i.e. 73.33 percent responses were received in against adequate price sensitive information disclosed by listed companies.

Only 26.67 percent responses were received in favour of information disclosed by such companies. Respondents expressed problem of holding delay AGM and difficulty in participation AGM. However, all sectors information disclosure is not poor. The response against by sensitive information disclosure was so much high due to poor manufacturing and processing sector information disclosure.

χ^2 test was preceded which satisfied null hypothesis. Hence there is a significant different opinion regarding price sensitive information disclosed. It can generalize the fact there is poor price sensitive information disclosure in Nepal.

4.2 ANALYSES OF PUBLIC DEBENTURES MARKETS

4.2.1 ANNUAL DEFICIT BUDGET AND FLOATATION OF PUBLIC DEBENTURES

Nepal government has been issuing debentures annually as per requirement. Nepal government proposes amount of internal debt to be raised and issue debenture through Nepal rastra bank (NRB). Government debentures of bonds

are issued for commercial banks, finance companies and general people, NRB and others, which are as follows.

- Development bonds
- National savings certificate
- Citizen savings certificate
- Special bonds

Government debentures and bonds for last five year (i.e. from 2002/03 to 2006/07) are as follows

Table no .4.10
Government debenture and bond outstanding
(From 2002/03 to 2006/7)

(Rs in million)

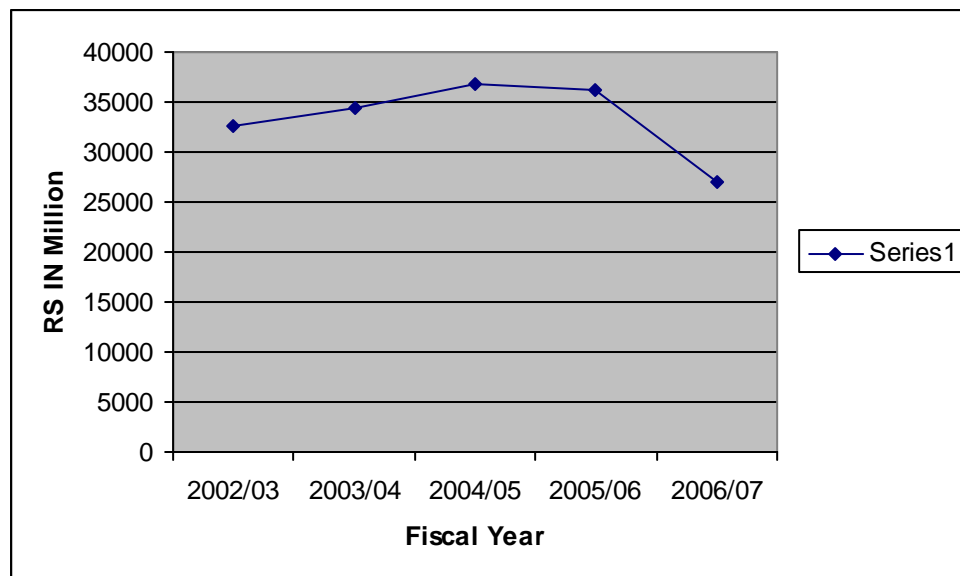
Year	Development	National Savings Certificates	Citizen savings certificate	Special Bonds	Total
2002/03 (i.e 2002)	11090.70	11536.10	628.10	9259.30	32514.20
2003/04 (2003)	13090.70	10659.90	931.10	9621.70	34303.40
2004/05 (2004)	17549.20	9029.80	1178.90	8946.20	36704.10
2005/06 (2005)	19999.20	6576.80	1428.90	8176.30	36181.20
2006/2007 (2006)	17959.20	3876.80	1678.90	3469.80	26984.70

(Source: Nepal Rastra Bank, quarterly economic bulletin, 2006-2007)

The growth of government public debentures or bonds outstanding can be shown in graph in such way:

Graph 4.1

Government development outstanding



Development bonds

Government outstanding of development bond was Rs 11090.70 million in 2002, and then there is increasing in increasing development bonds till 2005. In 2006, total amount of development bond was 17959.20 which were slightly less than 2005.

National savings certificate (NSB)

National savings certificate reached to 3876.80 million in 2006.

Citizen savings certificate (CSC)

Citizen savings certificate is issued except for banking sector. It is recent practice of NRB for the properly utilization of scattered fund in non-organized sector. CSC was floated worth Rs 628.10 million in year 2002 and reached Rs 1678.9 million in fiscal year 2006/07.

Special bond (SB)

Special bond (SB) is in special causes such as either to creditors of government or NRB when overdraft excess over prescribed limit (i.e. 5 percent of government total revenue of previous year.)

Special bonds issued in different interest rates for different persons or parties. Special (outstanding) bond outstanding was continuously increasing till the observed year 2002. In 2002, there was special bond outstanding Rs 9259.3 million while it reached to Rs 9621.70 million in 2003. Then after it decreased and Rs 3469.8 million remained outstanding in 2006.

Deficit budget is such budget where government purposes more expenditure than proposed revenue generation. In other words, expenditure is greater than revenue collection in deficit budget.

There is continuously government expenditure increasing in development works as well as in regular activities. It is considered that sincerely expenditure of expenditure budget in development work would promote gross domestic production, national income and employment opportunities in the country. Deficit budget was adopted by the proper utilization of ideal resources which can't completely use by balance or surplus budget.

Nepal government expenditure in both development and regular is increasing. As a result, there is increasing, deficit, budget amount too.

If we analyze the amount of deficit budget, there was Rs 18,340.10 million in 2002, then decrease in year 2003 and 2004 i.e. Rs 12,577.0 million and Rs 12,662.8 million. Similarly, the increase in deficit budget in year 2005 and 2006 was Rs 14,295.40 million and Rs 19,596.20 million respectively. Hence deficit budget was decreased in 2 years and increased in 3 years within last 5 years. However, the increase or growth rate was higher than the falling or decreasing rate.

.4.2.1 REGRESSION AND CORRELATION CO-EFFICIENT ANALYSIS

The analysis of regression and correlation coefficient of public debentures flotation and deficit budget refers deficit budget growth is development of public debentures market. The regression (of public) equation of public debentures (Y) on deficit budget (X) = $49296.65 - 1.03x$ shows that every Rs 1 decreases in deficit budget is fulfilled Rs 1.03 from public debentures. Like this way, there was tested correlation between public debentures and deficit budget and correlation coefficient was found $- 0.861$. Since debentures would be increased or decreased in opposite direction with increase or decrease in deficit budget. Hence deficit budget growth has negative influence in public debenture market growth in Nepal.

4.2.2 PRIMARY AND SECONDARY MARKET OF PUBLIC DEBENTURES

A. Primary market of debentures.

There was not nay institution or individual's leadership in ownership of public debentures. The analysis of public debentures possession, It can seen dominant position of certain institutional investors or individuals or certain instrument NRB and commercial banks were not interested significantly. Individuals had major share on national savings certificates. Commercial bank is minor and other institutional investor had better ownership position. Since citizen savings certificate being issued individual, they had ownership on it and NRB from secondary market operation. NRB was major owner of special bonds and commercial banks and other investors had few amount of ownership. Dependency in ownership structure was also changing frequently.

Government debentures are perceived very popular in Nepalese debt securities market. They were pronounced not any problem of public debentures subscription in primary market. It means primary market of debentures is very

strong. Excess liquidity can easily absorb by flotation of public debentures in primary market.

There was not any institution or person's leadership in ownership of public debentures. In ownership of development bond commercial banks leadership was slightly increased since 2002 to 2005 then decreased in year 2006. In 2002, commercial bank had Rs 5426.6 million while government Rs 3468.2 million. In 2006, commercial banks had Rs 6271 million development bond and NRB Rs 1518.60 million others had rest.

2006 total ownership in public debentures can be calculated as follows:

Nepal rastra bank = Rs 1839.9 million

Commercial banks = Rs 17929.2 million

Percent of ownership are 6.82%, 26.74%, and 66.44% this figure can be presented in angular pie diagram as follows:

Figure No. 4.6

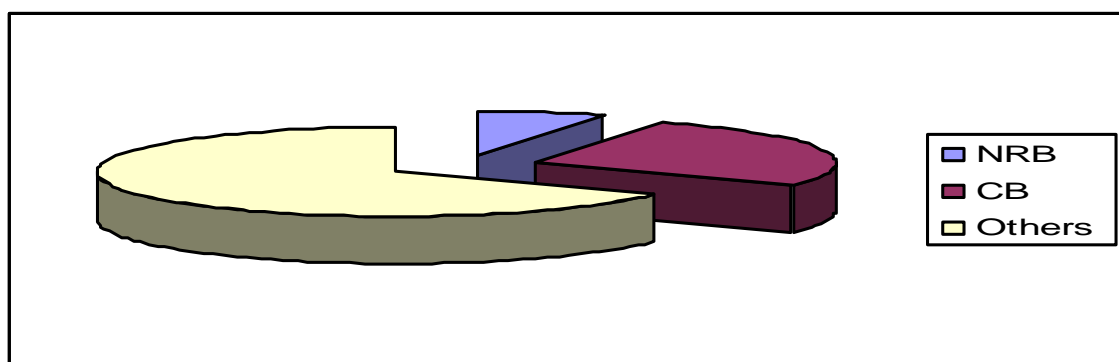


Table No. 10

Items	% of ownership	Angle in degree
NRB	6.82%	$6.82 \times 3.60^\circ = 24.552^\circ$
CB	26.74%	$26.74 \times 3.6^\circ = 96.246^\circ$
Others	66.44%	$66.44 \times 3.6^\circ = 239.184^\circ$

Today, individual investors have earning positive attitude government and bonds. National saving certificate issued in 1988 providing at 13 percent interest has well accepted by general people. Citizen savings certificate floated in fiscal year in fiscal year 2001/02 for the first time instrument is new used by NRB, which can purchase by general people and can be used as collateral to take loan. It was floated with the objective of properly utilizing the saving laying idle in nor banking sector. General people can purchase citizen savings certificate only which can be used as collateral to take loan from financial instructions. Total amount of issued citizen savings certificate was Rs 628.1 million in 20014/02 fiscal year.

In fiscal year 2006/07 Rs. 15750.40 million internet debts inducing overdraft was proposed budget, development bonds issued worth Rs 750 million. Citizen savings certificate Rs 250 million while such debentures were issued in 2006/07 worth. It can conclude from the analysis of government and NRB debentures primary market of these securities has good prospect and not facing significant problems in floatation. Under subscription by private sectors would be taken by NRB himself. So that, Nepal government can acquires required debt to meet deficit budget. There is increasing government total liability on long term debentures due to increasing deficit budget correlation co-efficiency being -0.86 between deficit budget and government debenture issue.

B. Secondary Market of Debentures

Market makers trade secondary market of government debentures. Development bonds national savings certificate, citizen saving certificate and special bonds can easily traded in secondary market. These were 36 market makers and were 8 outstanding Kathmandu valley in 30 February, 2007. Government debentures easily can be traded in secondary market and these debentures are assumed liquid nearly bank deposit. Market makers enjoy services commission rates as follows:

Face value of commission rate

Transaction (In Percent)

Less than 1 Lakh	0.50
Above 1 Lakh to 5 Lakh	0.40
Above 5 Lakh to 10 Lakh	0.30
Above 10 Lakh to 50 Lakh	0.20
Above 50 Lakh	0.10

Commission is charged both in purchasing and selling of debentures by market makers.

Listed companies, general individual investors and debentures brokers did not pronounce problems regarding primary and secondary market of public debentures significantly. 18 listed companies out of 21 mentioned no any problems while 3 and expressed problems. Problems had expressed by insurance and finance companies and expressed problems were few chances of investing on high yield citizen saving certificates. Like this way, individuals had not so any complains regarding problems on public debentures neither in primary nor secondary market. There are not problems in debentures in secondary market according to brokers. However, one broker said that there are problems in primary and secondary market of debenture on the basis of samples analysis.

4.3 MAJOR FINDINGS

After analysis of research variables relating debenture, important findings relating to problems and prospects of debentures have been obtained. Questionnaires responded by brokers, issue managers. NEPSE/SEBO officers, listed companies and individual investors have analyzed through chi-square test and other statistical tools. Findings have presented dividing two parts into problems and prospects.

Identified problems and prospects are underlined systematically as follows:

A. problems findings

1. This chapter 4 analyses identified important problems, which are restricting in growth of Nepalese debentures and bonds market problems have presented on the basis of chi-square test (χ^2), questionnaires and the telephone Responses as well as mutual discussion with respective fields experts.
2. The existing legislative provisions regarding debentures market are insufficient. Investor interest protection act, trust act, listing provisions of debenture in NEPSE is insufficient. Like this way, provisions for promoting price sensitive information disclosure are also insufficient present securities legislation.
3. Investors have more preference (i.e. 78.5 percent) to ordinary shares. Like this way, brokers and listed companies majority preferences are also significantly high in favor of existing time has felt one problem in growth of Nepalese debentures market.
4. There is not good attitude towards debenture yet in Nepalese debentures market. Lack of investor's positive attitude in debentures has obliged companies to issue ordinary and right shares more.
5. Political instability is also significantly suffering Nepalese debentures market growth. If political stability exists in country, sense of certainty would be promoted and demand as well as supply will be improved. So that overall industrial environment would be promoted. As result of this (overall) debentures market also would grow more rapidly. Political instability in form domestic war, emergency declaration, strike, lock-out etc. like activities is creating problems in debentures, market growth directly and indirectly.

6. Information disclosure of trading and others organization is not good. Price sensitive information disclosure growth rate is also not good. Price sensitive information disclosure growth rate is also not satisfactory. Respondents were not satisfied with present information disclosure and hypothesis test (i.e. chi square test) also agreed the statement. Nepalese debentures market growth and indirect problem is being poor price sensitive information disclosure.
7. Inventories particular preference on debentures issuing companies is also being another serious problem in growth of Nepalese debentures market. Investors have more preference to commercial banks and poor preference on hotel, manufacturing and trading and hotel etc. Arising investor's preference on manufacturing and trading companies is problem of Nepalese debenture market. For example, till now besides Shree Ram Sugar mills all commercial banks issued debentures.
8. NEPSE and SEBO have weak and ineffective working system. NEPSE is being trading place of limited listed shares. Present trading of securities in based on traditional method. There is not trading of securities in NEPSE is based on traditional method. There is not trading of securities by computerized system. SEBO is not able to monitor Nepalese capital market so it indicates that poor infrastructure is one of the major issues of debenture market.
9. The majority of respondents opinion is that lack of investor's awareness towards debt securities is the main factor that the Nepalese corporate debt market cannot growth smoothly. Also a major portion of them gives their opinion that limited supply of quality debt market cannot growth smoothly. So it indicates that to develop investor's awareness towards debt securities and to encourage the companies for supplying quality bonds is another major issue of corporate debt market in Nepal.

10. There is lack of research and development activation even at minimum required level. Problems identification and their solution are being late.

B. prospects findings

Some hypothesis tested to obtain prospects and these have generalized. Moreover review of literatures also provided the researcher an important clue to write down Nepalese debentures market prospects. Like this way, prospects have recommended on the basis of analysis of questionnaire responses.

Important prospects identified are listed below.

1. Prospect of debenture and is in capital supply. Debentures and bonds are these instruments, which can be used to inflow long term capital. Since these instruments are used in supplying capital significantly, debentures market growth prospect in Nepal also shown positive.

2. Debentures and bonds are issued to meet important deficit budget of government of debentures. Analysis of government deficit budget of dentures market growth that there was correlation. So that there is appeared debentures market growth prospect as result of annually growing government deficit budget and meeting budget for public debentures issue.

3. About 18 percent had expressed tax saving as most important benefit flotation. Nepalese private organizations have shown some awareness to some extent. Tax rebate on interest income also shown good prospect of debentures market growth in Nepal, government use to give tax-exemption on public debentures income, which significantly attracted general people to invest on debentures. The fact illustrates prospect of debentures market growth.

4. Most of listed companies responded that they are not issuing debentures. Most of them found no interest on debentures issues as well as investment. 90 percent respondents had no any plan on issuing debentures, which shows not so much prospect of fast growth in Nepalese debentures market immediately.

5. Primary and secondary markets of public debentures have no any problems of selling or purchasing in secondary market due to extremely liquidity of such debentures.

6. Easily and smoothly operating primary and secondary market of public debentures indicates significant prospect of private sectors debentures market too if problems are cured in time.

7. Review of literature shows that debentures have least cost, value can be maximized. Deferred equity financing project may be launched etc. Nepalese debentures companies like Himalayan bank Ltd, Everest bank Ltd, Nepal investment bank Ltd may be benefited like foreign private companies are enjoying benefits of debentures, which also shows prospect of Nepalese debentures, market growth too.

8. Instrument wise public securities issued were 17.9 percent ordinary shares, 48.73 percent right shares and 33.36 percent debentures in fiscal year 2006/07 where debentures position was 2nd. Security approval position of debentures was least till 2000/01 fiscal years and reached 3rd position in fiscal year 2006/07. The trend of debentures market growth through private sector too shows significant growth prospect.

CHAPTER – FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The research completely concentrates around problems and prospect of debentures or bonds market growth of Nepal. The researcher has prepared research plan reviewed literatures and analyzed data using different statistical methods to reach up to summary and recommendations.

5.1 SUMMARY

In the growth of economic development of a country, Capital market is extremely necessary and lack of proper development of capital market cannot pump necessary fund to industrialization process.

Debt securities market is an important part of the capital market of the nation so to develop the capital market it is also essential to develop the debt securities market. The history of our debt market is very short and it is at initial stage of development. The development of the debt market started since the enforcement of public debt act 1960. on the other hand since the enactment of securities exchange act 1993, debt securities market was started but till the observations period only few exercise of issuance of corporate debt securities and held. Through the contribution of debt market to fulfill the requirement of capital market is done to some extent but is not sufficient, which is due to the fact that the lack of proper exercises of various debt instruments.

It has been separately analyzed public and private debentures market. Total 79 samples were drawn from different strata for the purpose of study. Stratified, random and judgmental method of sampling was used. The questionnaires contain 14 different questions relating to Nepalese private and public debentures market. Questionnaires were distributed to all members of debentures market society such as brokers, issue manager, NEPSE/SEBO officers, listed companies and individual investors, most of individual investors

were on debentures. The personal interviews were also conducted to support the data. The data obtained from questionnaires were analyzed using percent method, ratio and chi –square. Like this way other important statistical analysis such as regression and correlation analysis were also made.

All research output has been organized in five chapters.

The researcher has found many in Nepalese debentures and bond market growth in Nepal. There are many problems such as insufficient legislative provisions regarding Nepalese debentures market, political instability, poor price sensitive information disclosure, investors more preference on ordinary shares. Like this way, there is problem of high preferences of investors on commercial banks (like, HBL, NIBL, EBL) debentures issue. Investors have not significant positive attitude towards debentures and debentures are still being new security for Nepalese investors. Nepalese debentures market has found suffering from uncertainty of subscription and there is lack of market makers in creation of debentures market. There are bureaucratic procedures as well as lack of cooperation and proper coordination among control mechanism. NEPSE is running through the same traditional method and lack of sophistication in it activities. NEPSE has lack of computer relation in purchasing and selling of debentures and completely relay on open-cry system, which may be problem of tomorrow secondary market of debentures too.

There are not only problems in Nepalese debentures market. The research has found many prospects of debenture market growth, which can improve preset conditions of debentures market. Additional capital supply, tax saving of debentures, government tax rebate on debentures interest income, means of meeting deficit budget, growth annually in public debentures outstanding, increase in debentures issue approvals market growth. Debentures approval position is growing and there are not significant problems in primary and secondary market of public debentures, which are also indication of Nepalese

debentures market growth prospect. Thus, there are both problems and prospect in existing Nepalese debentures market.

Government debt securities market is slightly at maturely stage as compared with corporate debt securities market.

5.2 CONCLUSIONS

Nepalese debentures market is still in initial stage or under developed stage. There are many problems, which are restricting its growth prospects. Legislative inadequacies, political instability, lack of stability manufacturing and trading sectors are very serious problems of existing Nepalese debentures market. The study found Nepalese general investors are not so much interested on investing debentures or bonds. Government and commercial banks debentures market is comparatively better position than private manufacturing debentures market.

There exist prospects of Nepalese debentures market growth too. Nepalese debentures market is better position than preferred stock market. If problems are cared in time, its growth prospect is widely felt by the researcher. Nepalese public debentures market is comparatively better than private debentures market. So that, emphasis should be given in the development of private sector debentures market for the growth of overall debentures markets of Nepal.

5.3 RECOMMENDATIONS

The research has obtained many problems in Nepalese debentures market growth important growth in existing market possible until problems are not solved. There are scattered problems in all areas and overall important systems of debentures market are sick, lazy, traditional and less effective. Government, general individuals, brokers, NEPSE, SEBON/N, investment bankers, industrial and trading companies, financial institutions all corporation and sincerely participations need in improvement of present status of Nepalese debentures market. There in not making significant roles that must be done by

government, NEPSE, SEBO/N, NRB and issuing companies of debentures. Legislative inadequacy should not exist longer.

The researcher desires to give suggestion to government, general individual investors, public ltd. Company & institutional mechanism. More over recommendations have been given to make existing inadequate legislation to make adequate. It is given following suggestion to escape problems obtained in research and smoothly growth in Nepalese debenture market.

A. *To the government*

Government has responsibilities in promoting desirable activities and restricting undesirable. Since debentures market development being vital need of a country, Nepalese government should also involve in this direction, Nepalese government must do following activities for debentures market reform and growth.

1. Tax rebate had promoted American bond market. Nepal government used to give tax exemption in debentures income. It should be provided tax rebates more on individual and institutional investors on debentures interest income to promote debentures market.
2. Investors interest protection act should be issued, implementation and monitoring should make efficient and effective regarding debentures market.
3. Political stability should be maintained and security should be provided in country' security and credit rating agency should be established.

B. *To the general investor*

Individual investors and institutional investors are two kinds of investors in the market. In the present debentures market, it has found lack of confidence and positive attitude towards debentures to investors. It is given following suggestion to investors.

1. It should change in existing perception and attitude on debentures. Investors should extend their present investment by properly analyzing risk and return on debentures or bonds.

2. Investors should call investors protections act and they should enforce debentures issuing companies to enlist debentures in NEPSE timely.
3. They should make investment decision analyzing profitability of company, return, risk, liquidity of security. Investors should participate in AGM and should collect information of capital market.
4. All manufacturing and trading companies may not be weak. So that, they should identify strong companies and their debentures issue should take positively.
5. Investors should expend their some times in study about debentures and bonds. In adequacy of laws should be opposed.

C. To the public limited company

Public limited companies are important stakeholders of debentures market growth, which should issue debentures or bonds because of no growth potentiality of debentures markets if they do not issue debentures. The researcher gives following suggestions to public limited companies to over run existing debentures market problems:

1. Issued debentures should list in NEPSE and requires following rules and regulations provided by NEPSE in secondary market operation of debentures.
2. The financial conditions and future plan should bring out.
3. It should give priority in secured debentures issue. Systematic accounting system should completely disclose.
4. Minimum number of debentures to be subscribed rate should be reduced. So that poor people may also subscribe.
5. Capital structure should make dynamic. Research and development on debentures and bonds should be promoted and financial performance of manufacturing sector should be improved.

In adequate legislation and conflicting control mechanism should be opposed.

E. To the Institutional Mechanism

There has been making some directory, controlling and promoting mechanism of securities market which also looks after Nepalese debentures market. There

is NRB, NEPSE, SEBO/N, ROC etc as institutional; mechanism arrangement made by government. It is given following suggestion to these institutional governments. It is given following by suggestion to these institutional mechanism.

Nepal Rastra Bank should encourage in debentures and bonds flotation while meeting capital adequacy problem. It should direct towards dynamic capital structure.

Security Board of Nepal (SEBO/N) should co-operate NEPSE. Procedure of reviewing debentures prospect and issue approval should be quick. SEBO/N should add additional provisions that help to protect investor's interest. Information disclosure activities of listed companies should be strictly regulated and should improve existing information disclosure SEBO/N should organize conference to discuss about problems and prospect of debentures market. Auditing and accounting system should be strictly reviewed and reward and punishment should provide. SEBO/N should link with other international securities board and should lunch reform activities absorbing their activities.

1. NEPSE is running through traditional method and it should open on line trading system. Listing process of securities. Listing process of securities should be simplified.

2. Company Register Office (ROC) should be transparent and open with modern technology. Bureaucratic procedures must be quick and prospects should be approved strictly reviewing all economic and technical aspect of company.

3. To Securities Legislation

Existing inappropriate provision must be removed and new required provisions should be introduced. New laws relating to investors interest protection, trust act and local authorities right relating to municipal bond issue should be formulated immediately.

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Appendix-1

Questionnaire

Dear respondent

I have been writing thesis on problems and prospects of debentures market of Nepal in partial fulfillment of the requirement of Master of Business Studies (M.B.S.). I hope this methodology (questionnaire) be an effective to find out the problems and prospects of debentures market growth, by using the statistical tool chi- square (χ^2) test of hypothesis based on various categories of samples and their attitude to debenture.

I have needed your response on questions asked you. I have sent you some questions regarding debenture market hoping your timely response. Your co-operation has great value for me.

Thank You
Manish Raj Poudel
Researcher
MBS Final year

Instructions: - Please tick (✓) in appropriate place and put your views in open views in open ended questions:

Name:

.....
.....

Listed Company:

.....
.....

Broker and issue Manager:

.....
.....

Individual Investors:

.....
.....

NEPSE/SEBO officers:

.....
.....

Q.N.1 In Your Opinion, Are present debentures market laws sufficient?

- a) Sufficient []
- b) Insufficient []

Q.N.2 In your opinion, which security issue do you prefer most?

- a) Debenture []
- b) Ordinary Shares []
- c) Preference Shares []

Q.N.3. In your opinion, what sector's debenture issue do you prefer most?

- a) Commercial Bank []
- b) Finance Companies []
- c) Manufacturing Companies []
- d) Insurance []
- e) Hotel []
- f) Others []

Q.N.4 In political instability relevant with debenture market growth?

- a) Yes []
- b) No []

Q.N.5 Which is most dominant prospect of debenture issue?

- a) Additional Capital Supply []
- b) Tax advantage []
- c) High Subscription []

Q.N.6 Is there price sensitive information disclosure sufficient?

- a) Sufficient []
- b) Insufficient []

Q.N.7 Does debenture issue helps in maximize shareholders rate of return?

Please tick on the most important one.

- a) Tax saving []
- b) Lower Interest rate []
- c) Less flotation cost []

Q.N.8 Is stock issue easier than debenture issue?

- a)Yes []
- b)No []

Q.N.9 Are you issuing debenture?

- a) Yes []
- b) No []

Q.N.10 Why did your invest on debenture?

- a) Seeing invested by others. []
- b) Due to friends and family suggestion []
- c) Being profitable []

Q.N.11 Are there problems in corporate debenture secondary market?

a) Yes []

b) No []

If yes, what are the problems in debenture secondary market?

(.....

.....

.....

.....)

Q.N.12 Which problem of debentures is more painful?

a) Problems of purchasing []

b) Problems of selling []

Q.N.13 Are there problems in primary and secondary market of public debentures?

a) Yes []

b) No []

Q.N.14 Is there sufficient research and development activities for Nepalese debentures market growth in Nepal?

a) Sufficient []

b) Insufficient []

Appendix – II

Tabulation of responses to field survey based on questionnaire:-

S.N.	Options	Brokers & Market Makers	NEPSE & SEBO	Listed Companies	Individual Investors	Total
1.	a.	20 (80)	5 (62.5)	15 (75)		40 (75.5)
	b.	5 (20)	3 (37.5)	5 (25)		13 (24.5)
	Total	25 (100)	8 (100)	20 (100)		53 (100)
2.	a.	5 (20)	2 (25)	4 (20)	3 (11.5)	14 (17.7)
	b.	20 (80)	6 (75)	14 (70)	22 (84.6)	62 (78.5)
	c.	0 (0.00)	0 (0.00)	2 (10)	1 (3.9)	3 (3.8)
	Total	25 (100)	8 (100)	20 (100)	26 (100)	79 (100)
3.	a.	20 (71.43)	2 (25)	16 (80)		38 (67.9)
	b.	6 (21.43)	5 (62.5)	3 (15)		14 (20)
	c.	2 (7.14)	1 (42.5)	1 (15)		4 (7.1)
	Total	28 (100)	8 (100)	20 (100)		56 (100)
4.	a.	23 (92)	10 (100)	25 (89.3)		58 (92.1)
	b.	2 (2)	0 (0.00)	3 (10.7)		5 (7.9)
	Total	25 (100)	10 (100)	28 (100)		63 (100)
5.	a.	21 (91.3)	6 (75)	15 (75)		42 (82.4)
	b.	2 (8.7)	2 (25)	5 (25)		9 (17.6)
	c.	0 (0.00)	0 (0.00)	0 (0.00)		0 (0.00)
	Total	23 (100)	8 (100)	20 (100)		51 (100)
6.	a.	1 (4.7)	0	5 (33.3)	10 (62.5)	16 (26.67)
	b.	20 (95.3)	8 (100)	10 (66.7)	6 (37.5)	44 (73.33)

	Total	21 (100)	8 (100)	15 (100)	16 (100)	60 (100)
7.	a.	16 (66.7)	2 (25)	14 (70)		32 (61.5)
	b.	8 (33.3)	6 (75)	6 (30)		20 (38.5)
	c.	0 (0.00)	0 (0.00)	0 (0.00)		0 (0.00)
	Total	24 (100)	8 (100)	20 (100)		52 (100)
8.	a.	15 (75)	5 (62.5)	20 (80)		40 (75.5)
	b.	5 (25)	3 (37.5)	5 (20)		13 (24.5)
	Total	20 (100)	8 (100)	25 (100)		53 (100)
9.	a.			2 (10)		2 (10)
	b.			18 (90)		18 (90)
	Total			20 (100)		20 (100)
10.	a.				1 (4)	1 (4)
	b.				6 (24)	6 (24)
	c.				18 (72)	18 (72)
	total				25 (100)	25 (100)
11.	a.	25 (100)	8 (100)	20 (100)		53 (100)
	b.	0 (0.00)	0 (0.00)	0 (0.00)		0 (0.00)
	Total	25 (100)	8 (100)	20 (100)		53 (100)
12.	a.	5 (20)	0 (0.00)	2 (10)		7 (13.73)
	b.	20 (80)	6 (100)	18 (90)		44 (86.27)
	Total	25 (100)	6 (100)	20 (100)		51 (100)
13.	a.	0 (0.00)	0 (0.00)	0 (0.00)		0 (0.00)
	b.	20 (100)	10 (100)	20 (100)		50 (100)

	Total	20 (100)	10 (100)	20 (100)		50 (100)
14.	a.	0 (0.00)	0 (0.00)	0 (0.00)		0 (0.00)
	b.	20 (100)	10 (100)	25 (100)		55 (100)
	Total	20 (100)	10 (100)	25 (100)		55 (100)

Source: Based on information contained in questionnaires.

Note:- 1. S.N indicates question number refers to questionnaire and option indicates the choices specified in the each question.

C. Figures in brackets indicate percentage of total responses

Appendix-III

Question: - 1

Null hypothesis (Ho): There is not sufficient legislation provision regarding debentures market.

Alternative hypothesis (H1): There is sufficient legislation provision regarding debentures market.

Test Statistic under Ho

$$\chi^2 = \sum (O-E)^2/E$$

Where,

O = Observed Frequency

E = Expected Frequency = RT X CT/ N

RT= Row Total

CT= Column Total

N = Total no of observations-

Calculation of χ^2

O	E	O-E	(O-E) ² /E
20	18.868	1.132	0.068
5	6.038	-1.038	0.178
15	15.094	-0.094	0.001
5	6.132	-1.132	0.208
3	1.962		
5	4.906	1.132	0.186
8	6.868		
			$\sum (O-E)^2/E = 0.641$

Calculated $\chi^2 = \sum (O-E)^2/E = 0.641$

Degree of freedom = (r-1) (c-1) = (2-1) (3-1) = 2

Tabulated $\chi^2 = 5.991$

Conclusion: - Since the tabulated value of χ^2 is greater than calculated χ^2 , so null hypothesis is accepted which means there is not sufficient legislation provision regarding debentures market.

Question 2

Null Hypothesis (Ho):- There is no significant different opinion of expected and observed samples regarding choice of securities.

Alternatives Hypothesis (H1):- There is significant different in opinions of expected and observed samples regarding choice of securities.

Test Statistic under Ho

$$\chi^2 = \sum (O-E)^2/E$$

Calculation of χ^2

O	E	(O-E)	(O-E) ² /E
5	4.43		
2	1.42	0	0
4	3.54		
3	4.61		
20	19.62	0.38	0.007
6	6.28	-0.28	0.012
14	15.70	-1.7	0.184
22	20.41		
0	0.95		
0	0.30	1.59	0.108
	23.41		
2	0.76		

1	0.99		
			$(O-E)^2/E=0.311$

$$\begin{aligned} \text{Calculated } \chi^2 &= (O-E)^2/E \\ &= 0.311 \end{aligned}$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (3-1)(4-1) = 6 \end{aligned}$$

$$\text{Tabulated } \chi^2_{0.05,6} = 12.592$$

Conclusion: - Since tabulated value of χ^2 is greater than calculated value of χ^2 , null hypothesis is accepted, which means there is no significant different opinion of expected and observed samples regarding choice of securities.

Question 3

Null Hypothesis (H₀):- There is not significant different in observed and expected samples regarding choice of securities issuing company.

Alternative Hypothesis (H₁):- There is significant different in observed and expected samples regarding choice of securities.

Test Statistics under (H₀):- $(O-E)^2/E$

Calculation of χ^2

O	E	O-E	$(O-E)^2/E$
20	19	1	0.052
2	5.43	-3.4	2.141
16	13.57	2.43	0.435

6	7	-1	0.14
5 ←	2 ←		
3	5		
2	2	11	0.083
12 ←	0.57 ←	1	
1	1.43		
			$(O-E)^2/E =$ 2.851

Calculated $\chi^2 = 2.851$

Degree of freedom = $(r-1)(c-1) = 4$

Tab $\chi^2_{0.05,4} = 9.488$

Conclusion: - Since calculated χ^2 is less than tabulated χ^2 , null hypothesis is accepted, which means there is no significant different in observed and expected samples regarding choice of securities issuing company.

Question 4

Null Hypothesis (Ho):- There is not significant different between observed and expected opinion regarding political instability in debenture market growth.

Alternative Hypothesis (H1):- There is significant different between observed and expected opinion regarding political instability in debenture market growth.

Test statistic under (Ho) = $(O-E)^2/E$

Calculation of χ^2

O	E	O-E	(O-E) ² /E
23	23.016	-0.016	0.00001
10	9.206	0.794	0.0684
25	25.778		
2	1.984	-0.778	0.01967
	30.778		
0	0.794		
3	2.122		
			(O-E) ² /E =0.08807

Calculated Value of $\chi^2 = (O-E)^2/E = .08807$

Degree of freedom = $(r-1)(c-1) = (2-1)(3-1) = 2$

Tab $\chi^2_{0.05,2} = 5.991$

Conclusion:- Since calculated χ^2 is less than tabulated χ^2 , null hypothesis is accepted, which means there is no significant different between observed and expected opinion regarding political instability in debenture market growth.

Question 5

Null Hypothesis (Ho):- There is not significant different between observed and expected opinion regarding dominant prospect of debenture issue.

Alternative Hypothesis (H1):- There is significant different between observed and expected opinion regarding dominant prospect of debenture issue.

Test statistic under Ho = $(O-E)^2/E$

Calculation of χ^2

O	E	O-E	(O-E) ² /E
---	---	-----	-----------------------

21		18.941		2.059	0.224
6		6.588		-0.588	0.052
15		16.471		-1.471	0.131
2	←	4.059	←		
2		1.418			
5	9	3.529	9.006	-0.006	0.000004
0		0			
0		0			
0	←	0	←		
				(O-E) ² /E	= 0.407004

Calculated Value of $\chi^2 = (O-E)^2/E = 0.407$

Degree of freedom = $(r-1)(c-1) = (3-1)(3-1) = 4$

Tab $\chi^2_{0.05, 2} = 5.991$

Conclusion: - Since calculated χ^2 are less than tabulated χ^2 , null hypothesis is accepted, which means there is not significant different between observed and expected opinion regarding dominant prospect of debenture issue.

Question 6

Null Hypothesis (Ho) :- There is not significant different opinions of expected and observed opinion regarding price sensitive information disclosure.

Alternatives Hypothesis (H1):- There is significant different in opinions of expected and observed opinion regarding price sensitive information disclosure.

Test statistic under Ho = $(O-E)^2/E$

Calculation of χ^2

O	E	O-E	(O-E) ² /E
1	5.6		
0	2.133	0	0
5	4		
10	4.267		
20	15.4	4.6	1.374
8	5.867	2.133	0.756
10	11	-1	0.091
6	11.733	-5.733	2.801
		(O-E) ² /E	= 5.022

Calculated Value of $\chi^2 = (O-E)^2/E = 5.022$

Degree of freedom = (r-1) (c-1) = (2-1) (4-1) = 3

Tab $\chi^2_{0.05, 2} = 5.991$

Conclusion: - Since calculated χ^2 are less than tabulated χ^2 , null hypothesis is accepted, which means there is not significant different opinions of expected and observed opinion regarding price sensitive information disclosure.

Appendix – IV

Regression and correlation co-efficient calculation

(Rs in Million)

Fiscal year	X	Y	XY	X ²	Y ²
2002/03	18340.10	32514.20	596,313,679.40	336,359,268	1057,173,202
2003/04	12,577.0	34303.40	431,433,861.80	158,180,929	1176,723,252
2004/05	12662.80	36704.10	464,776,677.50	160,346,503.80	1,347,190,957
2005/06	14295.40	36181.20	517,224,726.50	204,358,461.20	1,309,079,233
2006/07	19596.20	26984.70	528,797,578.10	384,011,054.40	728,174,034.10
Total	X=77,471.5	Y=166687.6	XY=2,538,546,523	X ² =1243,256,216	Y ² =5,618,340,678

The regression equation of public government debenture on deficit budget is

$$Y = a + bx \dots \dots \dots (i)$$

Where a and b are constant

The normal equations are

$$Y = na + b \sum X$$

$$\sum XY = a \sum X + b \sum X^2$$

Substitution the values

$$166687.6 = 5a + 77471.5b \dots (ii)$$

$$2538546523 = 77471.5a + 1,243,256,216b \dots (iii)$$

Dividing eq (iii) by 77471.5 and multiplying by 5 & subtracting eq (ii) from eq (iii)

$$163837.45 = 5a + 80,239.58b$$

$$166687.60 = 5a + 77471.5b$$

$$-2850.15 = 2768.09$$

$$b = 2850.15 / 2768.08$$

$$= -1.03$$

Put the value of b in eq (ii), we get

$$166687.5 = 5a + 77471.5 b$$

$$166687.6 = 5a + 77471.5 * (-1.03)$$

$$5a = 246483.25$$

$$a = 246483.25 / 5$$

$$a = 49296.65$$

Now substituting a and b values in eq (i), we get regression equation of government debenture an deficit budget

$$Y = 49296.65 - 1.03 x$$

Again correlation coefficient (r) can be calculated as follows:

We have,

$$r = \frac{n \sum XY - (\sum X)(\sum Y)}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$\frac{n \sum XY - (\sum X)(\sum Y)}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 * 2538546523 - 77471.5 * 166687.6}{\sqrt{5 * 1243256216 - (774715)^2} \sqrt{5 * 5618340678 - (1666876)^2}}$$

$$= \frac{-220,805,788.4}{14644.04 * 17519.91}$$

$$= -0.861$$

$$= -0.861$$

$$= -0.861$$

Appendix – V
Issue Approved at a Glance (Instrument wise)
(Fiscal year 1993/94 to 2005/06)

(Rs in Million)

Fiscal Year	Equity share		Rights share		Preference share		Debenture		Mutual fund		Additional sale	Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.		No.	Amt.
1994/95	14	227.90	-	-	2	16.50	-	-	1	100	-	17	344.40
1995/96	11	204.21	-	-	-	-	-	-	1	50	-	12	254.21
1996/97	10	224.74	2	-	-	-	-	-	-	-	-	12	293.74
1997/98	2	57	3	69.00	-	-	-	-	-	-	-	5	332.10
1998/99	8	119.40	3	275.20	-	-	1	93	-	-	-	12	462.26
1999/00	3	148.00	1	249.56	1	80.00	-	-	-	-	93.25*	5	258.00
2000/01	6	412.46	3	30.00	-	-	-	-	-	-	82.91*	9	630.31
2001/02	6	268.50	3	124.60	-	-	1	-	-	-	138.48*	9	717.20
2002/03	10	528.76	4	365.79	1	140	-	360	1	100	40.09*	16	1555.11
2003/04	12	551.50	4	387.87	-	-	-	-	-	-	62.87*	17	853.83
2004/05	11	755	4	162.14	-	-	1	300	-	-	-	16	1547.79
2005/06	5	300.89	6	429.92	-	-	1	300	-	-	-	12	1270.31
2006/07	16	456.42	14	669.42	-	-	4	850	-	-	-	34	2547.87

(Sources: SEBO)

*only the current as per the renewed issue approved is included

Issue Approved at a Glance (Sector wise)

Fiscal Year	Bank	Finance Company	Insurance company	Manufacturing & Processing Company	Trading company	Hotel	Other Company	Citizen Unit Scheme	Total
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Fiscal year 1994/95 to 2006/07 (Rs in Million)

	No	Amt	No	A	No	Amt	N	Amt.	No	Amt	No	A	N	A	e	No	Amt
	.	.	.	mt	.	.	o.		.		.	mt	o	mt	(Ad	.	.
				ditional											sale		
)													
1994/95	1	36.00	4	115.80	2	36.00	7	104.20	-	-	-	-	3	-	-	17	344.40
1995/96	2	72.00	4	104.25	2	24.00	4	53.96	-	-	-	-	-	-	-	12	254.41
1996/97	-	-	8	95.12	-	-	4	198.62	-	-	-	-	-	-	-	12	293.74
1997/98	-	45.00	2	32.00	1	30.00	1	225.20	-	-	-	-	-	-	-	5	332.10
1998/99	1	241.95	6	50.50	1	20.00	3	146.90	1	3.01	-	-	-	-	-	12	462.26
1999/00	1	-	2	38.00	1	20.00	-	-	-	-	2	20.00	-	-	-	5	258.00
2000/	-	175.	5	11	1	10.2	-	-	-	-	1	15	1	89	93.	9	630.

01		00		2. 16		0						0. 00		.6 0	25*		31
2001/ 02	1	551. 21	5	83 .0 8	-	-	-	-	-	-	-	-	-	-	82. 91*	9	717. 20
2002/ 03	4	989. 17	8	20 4	1	50.0 0	1	173. 46	-	-	-	-	-	-	138 .48 *	16	155 5.11
2003/ 04	6	454. 74	11	28 9	2	70.0 0	-	-	-	-	-	-	-	-	40. 09*	17	853. 83
2004/ 05	4	117 8.92	8	16 6	-	-	-	-	-	-	-	-	1	14 0	62. 87*	16	154 7.79
2005/ 06	7	909. 70	5	12 3. 20	-	-	-	-	-	-	-	-	1	23 7. 41	-	12	127 0.31
2006/ 07	6	161 0.42	19	46 6	1	25	-	-	-	-	1	44 6. 45	-	-	-	34	254 7.87

*Only the amount as per the renewed issue approved is included.

Structure of Interest Rates

(Percent per annum)

	Mid July				
	2002	2003	2004	2005	2006

Nepal Rastra Bank	5.5	5.5	5.5	5.5	6.25
Bank Rate	2.0 – 5.5	2.0-5.5	2.0-5.5	2.0-3.5	2.0-3.5
Refinance Rate					
Government Securities					
Treasury Bills (91 days)	3.78	2.98	1.47	3.94	3.25
National Saving certificates	8.0-13.25	7.0-13.0	6.5-13.0	6.5-13.0	6.5-8.5
Development Bonds	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0	3.0-8.0
Interest Bank Rate	1.96	4.50	0.71	4.71	2.13
Deposit Rate					
Savings Deposits	2.5-6.25	2.5-6.0	2.0-5.0	1.75-5.0	2.0-5.0
Time Deposits					
1 month	2.0-4.5	-	2.0-3.5	1.75-3.5	1.5-3.5
3 months	2.5-2.5	2.0-5.0	2.0-4.0	1.5-4.0	1.5-4.0
6 months	2.5-6.0	2.5-6.0	2.0-4.5	2.5-4.5	1.75-4.0
1 year	3.5-7.0	3.0-7.0	2.75-5.75	2.15-5.0	2.15-5.0

2 Year and Above	3.25-8.0	3.25-7.5	3.0-6.0	2.5-6.05	2.5-6.4
Lending Rates					
Industry	7.0-14.5	8.5-14.0	8.5-13.5	8.25-13.5	8.0-13.5
Agriculture	12.0-14.0	10.5-14.5	10.5-13.0	10.0-13.5	9.5-13.0
Export Bills	6.5-12.0	4.0-12.5	4.0-11.5	4.0-12.0	5.0-11.5
Commercial Loans	7.0-16.0	7.5- 16.0	9.0-14.5	8.0-14.0	8.0-14.0
Overdrafts	11.0-17.0	10.0-7.0	10.0-16.0	5.0-14.5	6.5-14.5
Cash Reserve Ratio(CRR)	6.0	6.0	6.0	5.0	5.0
With NRB Cash in Vault	3.0	2.0	-	-	-
1 weighted average discount rate					
2 CRR is applied in commercial banks total domestic deposit					

(Source:- Macroeconomic indicator of Nepal
2006/07)

APPENDIX VI

Debt to total Assets Ratio = Total debt/ Total Assets

For Himalayan Bank Limited (HBL)

Year 2002

$$= \frac{53,40,13,018 + 18,61,93,75,076 + 5,55,76,127 + 60,53,54,765}{20,67,24,33,854}$$

= 95.84%

Year 2003

$$= \frac{64,58,39,709 + 21,00,73,79,489 + 4,67,27,205 + 59,21,44,522}{23,35,52,23,128}$$

= 95.45%

Year 2004

$$= \frac{65,90,05,881 + 22,01,03,32,984 + 22,01,03,32,984 + 6,43,81,663 + 70,41,38,106}{24,76,20,24,991}$$

= 94.65%

Year 2005

$$= \frac{50,60,48,286 + 24,81,40,11,984 + 683,99,189 + 91,44,88,735}{27,84,46,94,655}$$

= 94.46%

Year 2006

$$= \frac{50,46,24,897 + 26,49,08,51,640 + 7,35,77,730 + 38,67,50,763}{29,46,03,89,672}$$

= 93.20%

For Nepal Investment Bank Limited (NIBL)

Year 2002

$$= \frac{9,85,00,000 + 4,17,47,62,439 + 68,22,583 + 17,03,36,199}{4,97,38,90,169}$$
$$= 89.48\%$$

Year 2003

$$= \frac{68,29,000 + 7,92,27,66,420 + 316,33,746 + 41,44,77,711}{9,01,42,49,584}$$
$$= 92.93\%$$

Year 2004

$$= \frac{36,15,00,000 + 11,52,46,79,645 + 5,78,36,396 + 58,24,32,258}{13,25,54,96,016}$$
$$= 94.50\%$$

Year 2005

$$= \frac{35,00,00,000 + 14,25,45,73,663 + 1,50,08,198 + 47,43,08,843}{16,27,40,63,706}$$
$$= 92.45\%$$

Year 2006

$$= \frac{55,00,00,000 + 18,92,73,05,794 + 1,88,20,120 + 28,76,26,214}{21,33,01,37,542}$$
$$= 92.75\%$$

For Everest Bank Limited

Year 2002

$$= \frac{8,17,67,000 + 5,46,66,09,805 + 21,28,745 + 52,57,55,309}{6,60,71,70,724}$$

$$= 91.96\%$$

Year 2003

$$= \frac{6,69,49,63,060 + 2,21,01,054 + 72,23,20,310}{8,05,22,09,125}$$

$$= 92.29\%$$

Year 2004

$$= \frac{8,06,39,02,086 + 2,20,27,038 + 84,23,23,194}{9,60,85,70,861}$$

$$= 92.92\%$$

Year 2005

$$= \frac{30,00,00,000 + 10,09,76,90,989 + 177,77,860 + 60,70,39,795}{15,95,92,84,687}$$

$$= 93.25\%$$

Where,

Total debt = Loans + Bank deposits + Accounts payable + other liabilities