



Study on Performance of Nepal Stock Exchange-NEPSE

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ABSTRACT :

A study investigated how ease of use, investor behaviour, and regulatory actions affect the performance of the Nepal Stock Exchange (NEPSE). The study found that a user-friendly stock market with informed investors and strong regulatory bodies leads to a thriving NEPSE.

The research identified areas for improvement in NEPSE's website, IPO/FPO application process, and broker services. However, it found that investors are increasingly making informed decisions and regulators are taking positive steps. The study concludes that further development efforts by regulators can unlock NEPSE's full growth potential.

List of Acronyms :

NEPSE	Nepal Stock Exchange
GDP	Gross Domestic Product
EPS	Earnings Per Share
PE	Price to Earnings ratio
PB	Price to Book ratio
SEBON	Securities Exchange Board of Nepal
NRB	Nepal Rastra Bank
IPO	Initial Public Offering
FPO	Further Public Offering
CDS	Central Depository System
ASBA	Applications Supported by Blocked Amount
ROE	Return on Equity
BOD	Board of Directors
SEBO	The Security Exchange Board
DPS	Dividend Per Share
SPSS	Statistical Package for the Social Sciences
RWS	Remote Work Station

Chapter 1: Introduction

Background of Research

We do know that investment in stock market is subject to both the market and unsystematic risks. We do see heavy fluctuations in stock prices of companies may be over short or long period of time. However, it is also the mechanism through which one party involved in stock transaction gains and other loses. It is also quite clear that the fluctuation in stock prices is just the result of price mechanism, followed by demand and supply of shares of particular company. Demand and supply of shares is further influenced by Fundamental and Technical analysis. Here, Fundamental analysis creates a matter of great concern because the fundamental analysis of particular company can be connected to the analysis of overall stock market. Investors feel secured to invest in shares of companies if the overall stock market is stable and new policies for the development of stock market is implemented. Similarly, sentiment of investors gets badly affected if no proper developmental activities are carried out to protect the interest of investors. As a result, investors start to main a distance from the stock market(Shahi et al., 2020). When we look at the overall trend of international markets like New York stock exchange (NYSE), Tokyo stock exchange (TSE), NASDAQ, Bombay stock exchange etc. we can find that the development of stock market is not the process of a single day. A lot of activities favorable to protect the interest of investors were carried out to grow as the top stock markets of world with market capitalization over trillions of dollars. Similarly, this research will make a detailed analysis of existing trends in NEPSE, ease of activities that comes in front of investors while conducting investment transactions, the behavior the investors show while making investment decision that can be related to availability of information and awareness and development actions carried out by regulators for the welfare of investors and stock market as a whole (Qiu et al., 2020). The research will also find out the investor's perception about future of NEPSE and expected actions to be taken that will be beneficial for the growth of stock market. Basically, the research will assess the current situation and performance of NEPSE in the light of availability of information, ease and marketability, investment behavior shown by investors while making investment decision, and current and expected development actions of the regulators.

Problem Statement

Nepal's stock market (NEPSE) suffers from several problems that hinder its growth and stability. These include lack of transparency, limited reach outside Kathmandu, imbalance between demand and supply, low investor awareness, limited representation of key sectors, slow transaction processes, website issues, and misleading information circulating online. These factors discourage wider participation and create market volatility, ultimately hindering the positive impact NEPSE could have on the Nepalese economy.

Objectives of Project

The study serves following objectives:

1. To find out the situation of information availability and the problems faced by investors while conduction investment transactions
2. To evaluate the recent actions taken by SEBON to develop the stock market
3. To analyze the behavior shown by investors while making investment decision

Chapter2: Literature Review

- **Koirala and Bajracharya (2022)** found that the Nepalese stock market suffered after 2000 due to weak corporate governance, loose regulations, and lack of transparency.
- **Pokharel (2021)** identified the Nepalese stock market as underdeveloped, illiquid, and inefficient, dominated by commercial banks and finance companies.
- **Adhikari (2020)** explored investor behaviour in Nepal, finding a mix of financial and social motivations for investing, alongside behavioural biases like overconfidence and herding.
- **Akhtar and Ahmed (2023)** studied Bangladeshi investors, revealing their focus on capital gains and their use of accounting information and recommendations from brokers and family when making investment decisions.
- **Dahal (2022)** highlighted insufficient regulations, information asymmetry, and dominance by a few large investors as major problems in the Nepalese stock market.
- **Gurung (2020)** analysed historical data to show a lack of synchronization between performance indicators in the Nepalese securities market, suggesting poor and unstable performance.

Chapter 3: Methodology

3.1. Research Overview

The research is focused on different variables whose current situation can be linked to determine the current performance of NEPSE as well as its prospects. In order to understand their situation, the data was collected from individual investors who are involved in both primary and secondary market to invest in shares as well as from the students of finance, who don't have experience in share market however, however they are following the trend and behavior of NEPSE. The data has been collected by online distribution of questionnaire in different face book forums, as well as by visiting stock broker firm. To understand the present as well as expected situation of variables, mean and mode was found out from the response of respondents. Similarly, correlation analysis was conducted to find out the relation between respondent's perceptions of different sub-variables. Finally, multiple regression analysis was conducted to find out the impact of future favorable situations and expected actions of regulators on future expected NEPSE index.

3.2. Recent Growth of NEPSE

The Nepalese stock market addressed a rapid growth in the fiscal year 2073. The index increased to 1881.45 from 1200 level hitting all time high. There were various reasons for this growth, the excess of liquidity in the market made it desirable for banks to offer margin loan which was invested in share market leading to increase in demand for securities. Similarly, the growing number of financial literacy institutions and financial seminars created awareness among young people, therefore there was mass entry of young investors in the market. The developmental actions taken by the regulators were also significant. The implementation of CDS and dematerialization of shares made the share investment process very easy and quick, as before the dematerialization investors were forced to wait in queue for long hours to obtain physical share certificates whether it is IPO allotment, right share or bonus shares. Even during ownership transfer, the investors would wait for months and in some cases even for year. The dematerialization has made it easy for investors as they don't need any physical certificate, instead their share ownership information is maintained in computerized form and the shares related transaction is completed within few days. Moreover, the other significant actions taken by regulators like reduction of brokerage commission rate, increase of trading hour, implementation of ASBA to help investors apply in IPO and FPO also helped in the development of share market and improving the performance of NEPSE.

3.3. Prospects of Stock market in Nepal

Stock market is in growing phase in Nepal. Lots of development activities are being carried out and also planned for the development of stock market. Activities like online trading, introduction of market maker, broker license to banks etc. will play a significant role to improve the performance of NEPSE in upcoming days. Similarly, growing financial literacy and investor's awareness will make it possible for huge number of new investors to enter the share market. Moreover, the real and manufacturing sectors which contribute to GDP are also expected to be listed in NEPSE, which will enhance the volume of the market.

3.4. Data Source

There was limitation of time and finance while collecting the data. Therefore, limited numbers of samples were targeted who are investing and following the share market. Out of 150 responses, 132 were complete, flawless and eligible to provide quality results. The remaining responses were incomplete to be used in this research work. The respondents involved in this research were very positive to give their response as they also wanted to find out future prospects of NEPSE.

Table3.4.: Category of Research respondents

Category	Number of Participants
Students	32
Brokers	4
Investors	96

3.5. Analysis Tool

The data collected through questionnaire was processed and analyzed using Statistical Package for the Social Sciences (SPSS) software. Different tools like mean, mode, diagrammatic presentation, Correlation and multiple regressions were used to reach the findings of research.

Chapter 4: Results :

4.1. Demographics

Table 4.1.: Demographic Summary of Responses

	Frequency	Percent
Age		
below 20	36	27.3
20-30	61	46.2
30-40	29	22
above 40	6	4.5
Total	132	100
Gender		
Male	98	74.2
Female	34	25.8
Total	132	100
Marital status		
Single	85	64.4
Married	47	35.6
Total	132	100
Education		
10th pass	17	12.9
12th pass	37	28
bachelors pass	61	46.2
masters pass	12	9.1
Illiterate	5	3.8
Total	132	100
Experience		
Years		
0	24	18.2
1	47	35.6
2	29	22
3	12	9.1
4	5	3.8
5	6	4.5
6	3	2.3
7	2	1.5
8	2	1.5
9	2	1.5
Total	132	100

4.2. Data Analysis

Mean and Mode analysis

Table 4.2.1: Mean and Mode analysis

	Mean	Mode
Availability of information, ease and marketability		
The number of brokers and issue manager available are satisfactory	3.2045	4
The trading system and website of NEPSE is satisfactory	3.5606	4

Sectors listed in NEPSE fairly represent the Economy	3.4773	4
Current NEPSE index and market capitalization is fair enough	3.197	4
Applying and being allotted in IPO, FPO, right shares, and auction is a simple and short process	3.8864	4
Service provided by brokers and issue manager is satisfactory	3.303	4
Online media provides true information regarding stock market	3.5758	4
Investment behavior of investors		
I prefer right shares while choosing a company to invest in	2.9015	2
I invest in shares with the motive of capital gain	2.1061	2
I invest in a company with the motive of gaining dividend	2.0682	2
I analyze financial position of a company before investing	1.9015	1
I invest in a company following the posts in face book groups and forums	3.6364	4
I ask my friend before buying and selling shares	2.8636	2
I consider political and economic scenario while making investment decision	2.1591	2
I become panic and start selling when the index starts to fall	3.4015	4
I hold my shares until my expected target is met	1.9848	2
I never buy that share which has resulted me loss in the past	3.4015	4
I make a portfolio in order to minimize risk	1.9167	2
Actions of regulators		
There is growing awareness among investors about how to make investment decision	2.4848	2
The number of investors in increasing rapidly	1.9773	2
Liquidity and interest rate will become stable within few months	2.5985	2
NEPSE index will have touched 4000 level within the end of 2024	2.5682	3
Actions taken by SEBON and NEPSE is enough for the development of share market	3.6667	4
Trading system and website of NEPSE will be improved	2.3409	2
The real sector which represents the GDP will be listed in NEPSE	3.0985	3
People in villages and remote areas will have access to share market	2.7803	2

There is positive response and agreement shown by the investors for existing regulations and expected actions of the regulators for many cases as shown by mean score between 1 and 2.7, and mode of 2 in many sub-variables. However, investors disagree that the existing actions of regulators are enough for development of share market as shown by the mode of 4 and mean score of 3.6. It shows that, the current actions of regulators are positive for the development for share market and also investors expect that the regulators will take positive actions in future too for development of NEPSE, however, the current actions though being positive are not enough. Some more new developmental should be taken by the regulators to improve overall performance of NEPSE.

Correlation Analysis

Table 4.2.2.: Correlation between financial analysis and following online posts

		Correlations		
			I analyze financial position of a company before investing	I invest in a company following the posts in face book groups and forums
Spearman's rho	I analyze financial position of a company before investing	Correlation Coefficient	1.000	-.134
		Sig. (2-tailed)		.125
		N	132	132
	I invest in a company following the posts in face book groups and forums	Correlation Coefficient	-.134	1.000
		Sig. (2-tailed)	.125	
		N	132	132

Above in the table 4.2.2., correlation analysis between using financial analysis for taking investment decision and following online posts and news to take investment decision is shown. The correlation coefficient of -0.134, shows very mild negative correlation between them. The value can be interpreted as, few numbers of investors who use financial analysis don't follow online news and advice to make investment decision. Majority of investors who make financial analysis for investment decision may or may not follow online news and advice.

Influence of different variables on expectation of NEPSE index**Table 4.2.3.: Multiple Regression Analysis**

	Un standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.565	.457		3.421	.001
Trading system and website of NEPSE will be improved	.385	.111	.300	3.476	.001
The real sector which represents the GDP will be listed in NEPSE	-.196	.103	-.169	-1.914	.058
People in villages and remote areas will have access to share market	.145	.074	.168	1.967	.051
Liquidity and interest rate will become stable within few months	.178	.104	.142	1.711	.090
The number of investors in increasing rapidly	-.209	.086	-.210	-2.448	.016
There is growing awareness among investors about how to make investment decision	.104	.083	.105	1.249	.214

a. Dependent Variable: NEPSE index will have touched 4000 level within the end of 2024

In the above table, only the variables a, c, d, and f have positive significant influence on the investor's expectation of whether the index will touch 4000 level within end of 2024. The independent variables listed in table are considered as positive factors for the growth of share market and rise of NEPSE index. However, the real sector being listed in NEPSE and rising number of investors don't show a positive influence on investor's expectation of whether the index will touch 4000 level within 2024. The most important finding is when investors have positive expectations of trading system and website of NEPSE being improved, people in remote area having access to share market, interest rate being stable within few months, growing awareness among investors, and then they also have positive expectation for NEPSE index to touch 4000 level within end of 2024.

Hypothesis Result

H0: There is no significant difference in response of respondents for action of regulators and investment behavior of investors.

H1: There is significant difference in response of respondents for action of regulators and investment behavior of investors.

	Investment behaviour of investors	Actions of regulator
Mean	2.6297375	2.6894
Variance	0.439840483	0.260584711
Observations	8	8
Pearson Correlation	0.521768691	
Hypothesized Mean Difference	0	
df	7	
t Stat	-0.286415471	
P(T<=t) one-tail	0.391425688	
t Critical one-tail	1.894578605	
P(T<=t) two-tail	0.782851375	
t Critical two-tail	2.364624252	

Result:

Since the absolute value of the calculated T value (0.2864) is less than the critical T value for both one-tailed (1.8945) and two tailed (2.3646) tests, we fail to reject the null hypothesis.

Therefore, we can conclude that there is no significant difference in response of respondents for action of regulators and behavior of investors. It further means that both the investment behavior of investors and action of regulators are related to each other.

Chapter 5: Summary, Discussion and Implication :

This research analyzes the performance of the Nepalese Stock Exchange (NEPSE) based on 26 variables. The study identifies a lack of information availability, difficult investment transactions, and irrational investor behavior as major hindrances. However, there are positive signs: investor behavior is becoming more rational, and regulators are taking steps to improve the market.

The research also finds a negative correlation between financial analysis and following online media for investment decisions. Educated investors tend to hold shares for the long term based on their analysis.

The study concludes that the research achieves its objectives. The findings can help investors understand the current state and future prospects of the NEPSE, allowing them to make informed investment decisions.

The report acknowledges remaining issues such as complex procedures, limited geographic reach, and a lack of manufacturing companies listed on the exchange. However, positive actions by regulators, like reducing brokerage commissions and allowing branch expansion, are noted. The study concludes that further development efforts by regulators, including online trading and stricter regulations against fake news, can unlock NEPSE's full growth potential.

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