

5. Capital Market

Primary Market

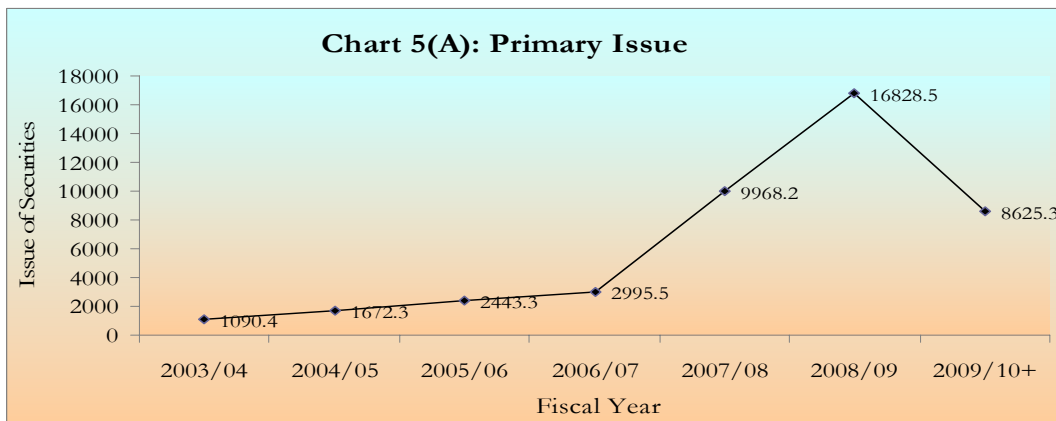
5.1 In the first nine months of the fiscal year 2009/10, 39 companies issued securities and mobilized capital equivalent to Rs. 8,625.3 million. Of the 39 companies, 19 companies issued ordinary shares while 20 companies issued rights shares through the primary security market. This amount at the review period is 17.90 percent higher than the amount mobilized through the issuance of securities in the same period of last year. In the first nine months of the fiscal year 2008/09, 30 companies had mobilized Rs. 7,315.5 million by issuing securities. In the review period, capital was mobilized through security instruments like the sale of Citizen Unit Plan equivalent to Rs. 370.8 million. No debenture and preference shares, however, were issued during this period for capital mobilization.

Table 5 (a): Primary Market Trend

(Rs. in Million)

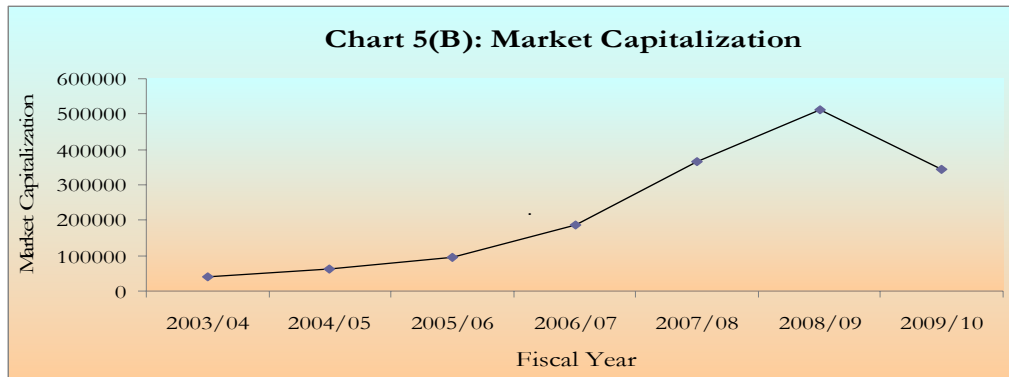
Description		Fiscal Year							
		2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	First 9 Months	
								2008/09	2009/10
1.	Capital Mobilization	1,090.4	1,672.3	2,443.3	2,295.5	9,968.2	16,828.5	7,315.5	8,625.3
a.	Ordinary Shares	657.5	377.5	579.8	380.2	924.8	1,815.7	993.0	2,104.9
b.	Rights Shares	70.0	949.3	2,013.5	1,265.3	6,093.4	14,262.8	5,572.5	6,520.4
c.	Preferential Shares	-	-	-	40.0	-	-	-	-
d.	Debentures	300.0	300.0	850.0	250.0	2,950.0	750.0	750.0	-
e.	Citizen's Unit Plan	1,003.8	1,215.6	1,486.3	1,702.3	980.0	688.9	664.0	378.0
2.	Number of Organized Market Mobilizers	14	14	29	34	64	64	30	39

Source: Securities Board of Nepal



Secondary Market

5.2 Additional 11 companies have been enlisted in Nepal Stock Exchange Limited (NEPSE) and two companies merged in one in the first nine months of fiscal year 2008/09. With this, the total number of companies listed with NEPSE has reached 169. The total number of companies listed with NEPSE in the same period of the previous fiscal year 2008/09 was 157. The total number of listed companies at the end of the fiscal year 2008/09 was 159. Likewise, the total number of listed Development Bonds in the review period has reached 15 with the listing of two new additional Development Bonds. By the end of the first nine months of the fiscal year 2009/10, market capitalization of security decreased by 18.2 percent reaching Rs. 344,450.8 million, as compared to the same period of previous fiscal year 2008/09. The total value of market capitalization by the end of first nine months of the previous fiscal year 2008/09 was Rs. 421,159.1 million. The value of market capitalization, which was Rs. 512,939.0 million in the end of the fiscal year 2008/09 has been continuously decreasing.



5.3 Altogether, 20,599,760 units of shares worth Rs. 9,862.1 million were traded in the first nine months of the current fiscal year 2009/10 as compared to 22,106,570 units worth Rs. 16,982.9 million traded in the same period of the previous fiscal year, which is a steep decline of 41.9 percent in the stock trading during this period. Both the transaction value and the amount of the share transactions in the review period has been less as compared to the transactions carried out in the same period of the previous fiscal year.

5.4 The paid-up value of listed shares rose by 35.8 percent reaching Rs. 74,266 million in the first nine months of the current fiscal year as compared to Rs. 54,681 million in the corresponding period of the previous fiscal year.

- 5.5 The number of share transactions conducted in the first nine months of the current fiscal year 2009/10 increased from 151,942 to 163,439 shares, which is a growth of 7.6 percent from the same period of the previous fiscal year.

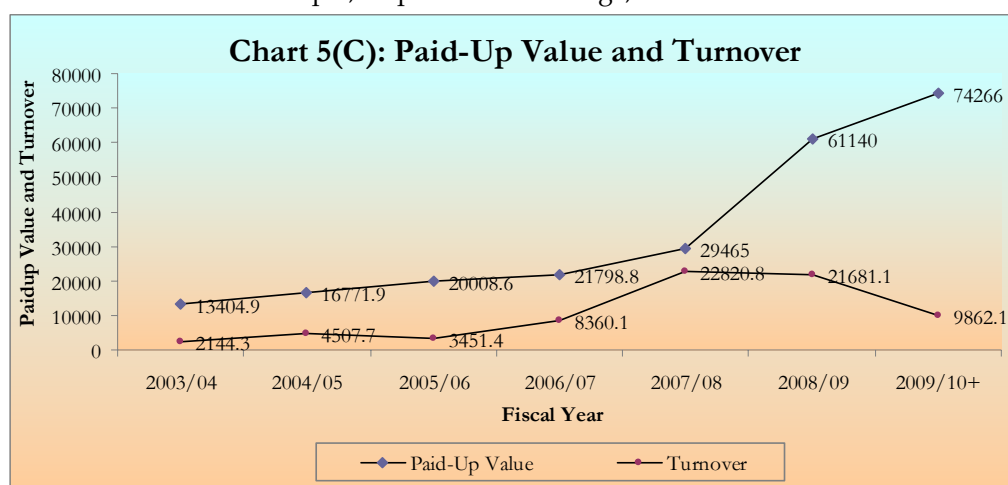
Table 5(b): Secondary Market Trend

(Rs. in Million)

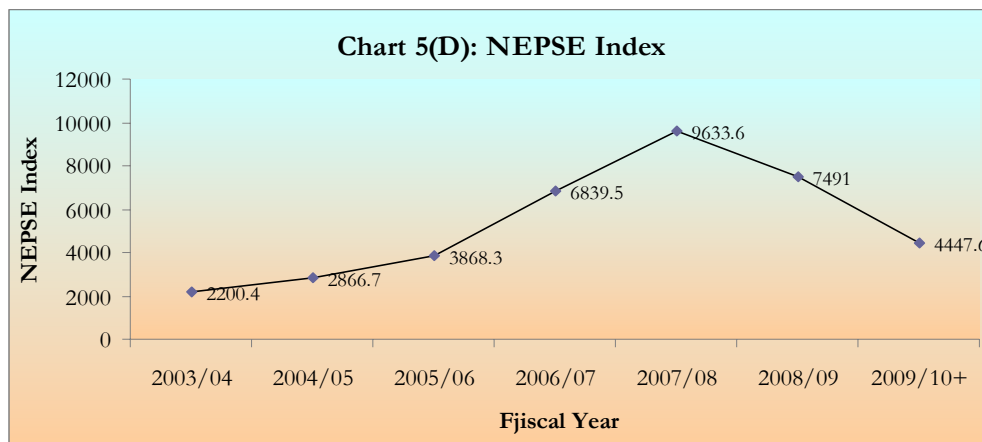
Description	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	First 9 months	
							2008/09	2009/10
Securities Transaction Amount	2,144.30	4507.70	3451.40	8360.10	22,820.80	21,681.10	16,982.90	9,862.10
No. of Securities transactions ('000)	6,468.00	18,434.00	12,222.00	18,147.00	28,599.77	30,547.17	22,106.57	20,599.76
No. of Transactions	85,533.0	106,246	97,374	120,510	150,800	209,091	151,942	163,439
Market Capitalization	41,424.8	61,365.9	96,813.7	186,301.3	366,247.5	512,939.0	421,159.1	344,450.8
Percentage of Market Capitalization transactions	5.18	7.34	3.56	4.48	6.23	4.23	4.03	2.84
Market Capitalization/GDP (percent)	7.72	10.41	14.80	25.60	44.90	51.74	42.48	29.12
Paid up price of listed Securities	13,404.9	16,771.9	20,008.6	21,798.8	29,465.0	61,140.0	54,681.0	74,266.0
Number of Listed Organized Institutions	114	125	135	135	142	159	157	169
Type of Securities Transaction (Script Traded)	92	102	110	116	136	170	164	179
NEPSE Index (Points)	222.04	286.67	386.86	683.95	963.36	749.10	661.27	444.76

Base year 1993, Points 100

Source: Securities Board of Nepal, Nepal Stock Exchange, and CBS.



- 5.6 During the first nine months of the current fiscal year, NEPSE index stood at 444.76 points with a steep fall of 216.5 points from the previous fiscal year. The NEPSE index was 661.3 points at the first nine months of FY 2008/09.



Securities Board of Nepal (SEBON)

- 5.7 Securities Board of Nepal, during the review period, completed a number of activities under the Establishment of Securities Data Management System Project with the International Development Association (IDA) grant. The following are the major activities completed: (i) high level training to the Board staff on data management system; (ii) procurement and installation of computer and other information technology related equipment; preparation of various modules on the information flow system, and preparation and set up the data bank. Experimentation and improvisation of developed electronic data flow modules have also been completed under this project. The Board implemented project is awarded with the Certificate of Excellence for making valuable contribution to the country's economic and governance reforms.
- 5.8 SEBON, during the review period, has brought the Procurement Regulation of Securities Board of Nepal, 2009 and SEBON Financial Administration Regulation, 2009 into effect from 17 September 2009. Enforcement of these regulations is expected to improve internal governance and transparency in the Board's operations.

Box-5 (a): Nepal Securities Data Management System (SDMS)

The Nepal Securities Data Management System Project, Nepal (SDMSN) executed under the Financial Sector Reform Program of the Government of Nepal with the objective of enhancing monitoring and supervision capacity of the Security Board of Nepal (SEBON) has been completed by the end of review period. The project has

developed two websites i.e., www.sebon.gov.np and www.sedfar.gov.np on behalf of SEBON, established Security related Central Data Bank by including all the securities market related data, procured information technology related high standard computer and other accessories. Likewise, the project developed various modules with regard to electronic data flows, made necessary arrangements for the power back up, Electronic Attendance System, effective and efficient networking system within SEBON, provided high level training on data management to its entire staff, and currently, the project is carrying out testing of the developed electronic data flow modules. Effective utilization of the SDMS, the share Issuers, listed companies, share traders, and security exchange market will be able to disseminate information related to security acts and rules through electronic system through the effective implementation of Data Management System of Nepal developed by the project. This will also help e-governance of the country by increasing the accessibility of general investors to the share market related data. It will be easier for the Board to have prompt review and analysis of the information and data received and to monitor whether the information and data are disseminated according to the Acts and Rules due to the effective adoption of Nepal Securities Data Management System.

- 5.9 The SEBON, during the review period, has issued capital mobilization permits to 39 companies subsequent to registration of shares worth Rs. 8,625.3 million. The board, during the review period, has registered bonus shares worth Rs. 3,032,847,700 of 23 companies. In addition, the Board has renewed licenses of Nepal Stock Exchange, 23 share brokers and 15 Merchant bankers during the review period.

Box-5 (b): Central Depository System of Securities

Central Depository System of Shares is a high-level technology for keeping records of shares, protecting them and returning ownership rights of the shares issued in the share market by taking the ownership from the shareholders. Central Depository System of Security also carries out functions like registering and documenting the rights of shareholders of the concerned companies, limiting the share numbers within the authorized numbers and clearing and settlement of share transactions. The Central Depository System with complete service provision will enhance the level of confidence of investors by keeping records of rights ownership; protecting the ownership right of the shareholders; transferring the ownership rights and making payments; making utilization of the developed share instruments and creating equal competitive environment to increasing number of participants for trading shares.

The Central Depository System will also facilitate in making the capital market more liquid, attracting foreign investors, and complying with the International Standards by creating conducive environment for efficient and risk-free transactions of shares.

Establishment and operation of a Central Depository System has become imperative also from the perspective of the necessity of making effective and efficient arrangement for the current partially mechanized share transactions system into the fully mechanized system so that the secondary market could be opened for foreign institutional investors and NRN as well.

- 5.10 Of the total 169 listed companies, 125 companies have submitted annual financial report to the SEBON during the review period.
- 5.11 The Committee for establishment of the Central Depository System in the Convernorship of the SEBON Chairman has initiated the work towards that direction. In the process, Agreement is signed with the Central Depository System Limited of India to provide technical support for the establishment of such system based on the understanding reached with the Government of India that it will provide financial support of Rs. 147.2 million for this purpose.

Box-5 (c): Future Programs for Share Market Regulatory Provision and Infrastructure Development

The SEBON has set the future programs with a view to improve the regulatory provisions and development of infrastructure as well as Improve institutional structure of the board, Make necessary arrangement of required skilled human resource, Develop and implement electronic data flow system in share markets, Formulate and implement Master Plan for Capital Market, Grant authority to open new Stock Exchange to make the share transaction related services investment-friendly throughout the country, Provide group investment scheme operation license through necessary regulatory provisions in order to avail efficient investment services to small and new entrant investors by attracting institutional investors in the share market, Issue Central Depository System Operating Licenses with the arrangement of necessary regulatory provisions on the establishment and operation of Central Depository System to make the processes prompt and efficient for transfer, clearance, and settlements of shares, Establish and operate Investors Security Fund, Make a robust arrangement for review the share market related data and information flow, Make institutional arrangement for share market related trainings; and Conduct study/researches on various topics and subjects with regard to capital markets.

Nepal Stock Exchange Limited (NEPSE)

- 5.12 The NEPSE, in the first nine months of the fiscal year 2009/10, deposited revenue of Rs. 227,137,367 collected as capital gains tax from share transactions. The capital gains tax collected in the review period of the fiscal year 2009/10 slumped by 66.5 percent as compared to the same period of previous fiscal year whereby

NEPSE had collected capital gains tax of Rs. 678,079,227 through share transactions.

- 5.13 In the review period, NEPSE has provided secondary market transactions facility by enlisting 11 more companies.
- 5.14 In the first nine months of the fiscal year 2009/10, NEPSE made necessary arrangement for conducting share transactions in major cities of Biratnagar, Pokhara and Narayangargh through expansion of the Kathmandu centered brokers' services. Share transactions are more likely to rise with the share trading facility extended beyond Kathmandu valley as it will facilitate entry of new investors in the share market.
- 5.15 As per the provision of the Security Listing By-Laws 1997, 94 companies among the total number of listed companies are classified as Category 'A' by the first nine months of the current fiscal year 2009/10. As compared to the previous fiscal year, 16 more companies are classified as Category 'A' during the review period of the current fiscal year.

The Share Traders

- 5.16 By the end of first nine months of the current fiscal year 2009/10, the number of share brokers stood at 23, merchant bankers 16 and 7 issue managers for the government treasury bonds. Such numbers were 23 for share brokers, 15 for merchant bankers and 7 for issue managers for the government treasury bonds in the corresponding period of the previous fiscal year. In other words, the later period saw only one more merchant banker.

Mutual Fund Plan

- 5.17 Trading of units is being carried out through NCM Mutual Fund, the only company enlisted in NEPSE for the purpose. Trading of units issued through the. By the end of first nine months of the fiscal year 2009/10, the Net Asset Value of the Fund stood at 377,147,225 with per unit Net Asset Value of Rs. 37.71. Per unit secondary market per unit transaction value during the review period stood at Rs. 28. The total value of the NCM Mutual fund at the end of first nine months of the previous fiscal year was 476.630 million with per unit Net Value of Rs. 48.
- 5.18 By the end of nine months of the current fiscal year, Citizens Unitary Plan equivalent to net worth Rs. 378.0 million is introduced in the market, which is less by 43.1 percent introduced in the market in the corresponding period of the previous fiscal year.

Citizens Investment Trust

- 5.19 The Citizens Investment Trust (CIT), in addition to funds collected through the Citizens Unitary Plan together with other plans including the Employees Saving Increment Approved Retirement Fund, Gratuity Fund Scheme, Investor Accounts Scheme, Insurance Fund Scheme added 4,650.4 million in first nine months of the current fiscal year. By the end of first nine months of the current fiscal year, such funds reached Rs. 18,850.4 million from the corresponding period of the previous year's Rs. 14,200 million. Of the collected amount, 2 percent is in Citizens Unitary Plan, 61.08 percent in Employees Savings Increment Approved Retirement Fund, 16.55 in Gratuity Fund Scheme, 5.09 percent in Investor Accounts Scheme and 14.5 percent in Insurance Fund Scheme. The total fund accumulated through aforementioned schemes was Rs. 14.2 billion in the first nine months of the previous fiscal year.
- 5.20 CIT invested additional Rs. 4,040.2 million in the review period making its total investment portfolio of Rs. 18,051.0 million by first nine months of the current fiscal year.
- 5.21 CIT, in its review period, has issued primary shares worth Rs. 300 million and right shares worth Rs. 512.2 million and provided share registrar service equivalent to Rs. 2.296 billion.
- 5.22 Investment portfolio of CIT in the past was limited to fixed deposits, government shares and housing loans in the previous years. As per the policy to diversify its investment portfolio during the review period has decided to invest Rs. 2.0 billion in Upper Tamakoshi Hydropower Project. The Fund has decided to invest in infrastructure development and long-term profit yielding investments in future.