

Market Turnover of Nepalese Stock Market

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ABSTRACT

Securities market turnover is one of the major behavioral phenomena of stock market. It always depends on the demand and supply of the securities, so the market turnover assumes a number of trading share units, values of share turnover and percentage share value of stocks. This paper is concerned to analyze the different areas of stock units' turnover and value coverage of stock market. Descriptive research design is applied for analyzing the stock market condition. The coverage of share units and share of value weight is analyzed of Nepal stock exchange market economy.

Keywords: Economy, risk securities, trading, turnover, weight

Introduction

A nation's financial system depends on how active the securities market is. In many developing countries efficient mobilization of funds is made possible due to smooth functioning of the securities market. In our country, capital market is taking sweeping reforms with the passing of new laws and financial ordinance act in addition to the enactment of securities transaction Act. As such, securities market implies to the network of borrowers and lenders of funds within the economy. The general market is a place in which borrowers and lenders are brought together. It is a mechanism for channeling saving to ultimate investors in real assets. It creates opportunities to exchange financial assets (Shrestha, Poudel & Bhandari, 2003). This market may or may not have a precise physical location. At present market, brokers are performing the capital market function through execution of order placed by investors.

The major activity in financial market is the exchange of one financial assets or instrument with another. This is done with the help of market players called financial intermediaries. The major participants of financial market are savers (investors) and borrowers of funds. Directly or indirectly most individuals, business and institutions are involved in the borrowing and lending of funds. They are involved in the purchase and sales securities in the financial market and are supported by mediators and facilitators. Individuals' corporate bodies, non-profit making organization and government are the participants in these transactions of buying and selling of financial assets. Financial securities exist in an economy when the savings perform different functions from that of investment. Suppose saving and investment are equal, there would be no lending, borrowing and financial market. However, in real life situation, it is not possible. Some individuals and firms having saving less than their need for investment in real assets demand funds to meet their deficit from the financial market.

The role of financial markets and financial institutions lie in channeling funds from the saving to users. Financial institutions like commercial banks, insurance companies, finance companies and other surplus units and purchase securities of deficit units. Thus, these institutions provide very important intermediary service by matching the demand for and supply of funds between

savers and users (Chauhan, 2014). Various procedures have to be considered in trading of securities in secondary market. A first step for initial investors to invest in any securities is usually the selection of the best security. Investors have to consider various factors before selecting securities for investment. The mechanisms rely on the mechanics in securities and convey the following of step by step procedures of exchange to guide the investors in making wise investment decision by diverting funds in securities of worthwhile investment merits.

After selecting security, the most crucial stage for investors is the selection of broker. There are numbers of brokers available in the market but the investors have to choose them after memorizing the facts such as commission type of order placed, there-of executing the trade method for paying for the transaction (Abraham & Alsakarn, 2002).

In Nepal, trading in exchanges take place either on the basis of the auction system on a trading floor or broker dealer market. The NEPSE has adopted an auction system of trading securities. It means transactions of securities are conducted on the open auction principle on the trading floor. The bid and offer prices, match contracts between the buying and selling with the lowest offer, will post the price and code number on the selling brokers or between the brokers and dealers, which are concluded on the floor. Nepal stock exchange introduced autonomy in stock exchange floor, at present most of the brokers conduct securities transaction from their own office through computerized trading system.

Securities market turnover is one of the important functions of stock market. Overall stock market performance evaluates the stock turnover and covers the different features of listed companies of securities in exchange market. In Nepal, different functional area like Banks, Insurance Companies, Finance companies, manufacturing and processing, Hotel, Trading, Hydropower, Others, Mutual funds, Preferred stock, Promoter shares are listed and conducted in stock exchange market.

Now days, Nepalese stock market has entered into the new horizon. Its size and market capitalization are growing day by day. New by laws are being established to control stock market price fluctuation, yet the share prices are increased without the increment on such factors. Therefore, there is still lack of appropriate researches to find out the securities turnover in Nepal stock exchange related to banking, insurance, hydropower, finance companies, manufacturing and processing, hotel, trading, others, mutual funds, preferred stock and promoters shares. This research has tried to explore the possible factors, which affect the turnover of shares units and value in the stock market. This study also tries to compare different year's comparative market existence with the help of three years' published data. It is fruitful to the government, Nepal stock exchange Ltd. and forthcoming researchers.

Problems and Objectives

The study aims to know, what is the coverage turnover of listed companies in the market's economy? It also aims to explore the securities market turnover in Nepal and tries to examine the market turnover of share units, values and coverage percentage of stocks in stock exchange market.

Data and Methods

The study employs secondary data. Secondary data were collected from the table of Nepal stock exchange limited published. Descriptive research design was used to analyze the securities market turnover in Nepal. There are different functional areas included in securities market turnover, but this study covers only the area which is listed in Nepal stock exchange. These are Banks, Finance companies, Manufacturing and processing, Hotel, Trading, Hydropower, Mutual funds, Preferred stock and promoter shares. The study covers the periods from fiscal year (FY) 2014/15 to fiscal year (FY) 2016/17 i.e. three years. The necessary variables (i.e. share units, share of value and percentage of share value) are taken from the annual reports and tabulated for efficient use. Data analysis is the process of bringing order, structure and meaning to the mass of information collected method is needed for the type of data. So the descriptive research design has been adopted for this purpose here. The study undertake share value and units turnover in stock exchange market.

Discussion and Analysis

Securities market turnover is one of the major phenomena of stock market. It always depends upon the number of transaction of shares, their turnover value and coverage of total market segment. So, the information assumed for this study analyzes the comparative three years average weight of listed companies and comparative study of different companies. The table below is related to stock market present the turnover of shares units and their value in stock market. In the table-1, commercial banks cover higher number of shares trading in FY 2014/15. As the same, they cover higher share of value than other companies. That is the percentage value of shares is higher 45.7% in FY 2014/15. Same as in FY 2015/16 those banks have higher number of shares trading. The value of shares cover higher percentage i.e. 43.2% but the trading value is decreased by 2.5%. This coverage shows that commercial banks lose their market value in FY 2015/16 than FY 2014/15 but in FY 2016/17; the number of shares trading and value of shares is increased up to 46.5% which is 0.8% more than FY 2014/15 and 2.3% more than FY 2015/16.

Development banks cover third position of unit shares trading and market value coverage in FY 2014/15 i.e. 13% but share units trading and value of shares increase up to 15.2% but in FY 2016/17 these numbers and value of shares decrease up to 13.7% which is 0.7% more than FY 2014/15 but 1.5% less than FY 2015/16. So the shares trading of development banks are not constant, these banks are facing unstable shares trading in different years. Insurance companies cover second position of unit shares trading and sales value in the stock market. In FY 2014/15 total 13.7% market segment is covered by insurance companies but in FY 2015/16 their coverage is increased up to 23.8% which is 10.1% more than FY 2014/15. In FY 2016/17, insurance company's coverage is increased up to 24.8% which is 1% more than FY 2015/16 and 11.1% more than FY 2014/15.

Manufacturing and processing companies cover very nominal part of market. They cover 0.3% in FY 2014/15 but decrease up to 0.1% in FY 2015/16. However, improves in FY 2016/17 up to 0.2% which is 0.1% less than FY 2014/2015 and 0.1% more than FY 2015/16. Finance companies cover 2.5% market weight in FY 2014/15 and increase in 2015/16 up to 2.8% but in FY 2016/17 market coverage is decreased to 2.7% which is less than FY 2015/16.

Hotels cover 1.6% total weight of shares trading in FY 2014/15 which is decreased to 0.7% in FY 2015/16 but little bit improves in 2016/17 of which coverage increase to 0.8%. The coverage percentage is less than in FY 2014/15 and coverage more than 2015/16. Trading companies are not influence existence in stock market because of shares trading of these companies is very low weight in total stock market.

Table 1: Securities Market Turnover (Annual)

Fiscal Year	2014/2015			2015/2016			2016/2017		
	Share Units ('000)	Value (Rs million)	% Share of Value	Share Units ('000)	Value (Rs million)	% Share of Value	Share Units ('000)	Value (Rs million)	% Share of Value
Particulars	1	2	3	4	5	6	7	8	9
Commercial Banks	56708	29865	45.7	95924	70772	43.2	137144	95220	46.5
Development Banks#	23635	8517	13	38028	24944	15.2	38049	28125	13.7
Insurance Companies	7048	8949	13.7	25728	38985	23.8	28137	50817	24.8
Finance Companies	6043.9	1602	2.5	12649	4579	2.8	11213	5595.1	2.7
Manufacturing and Processing	78.4	185.4	0.3	23.5	232.1	0.1	794.18	396.27	0.2
Hotel	2079.9	1063	1.6	3208.2	1116.4	0.7	4112.6	1592.5	0.8
Trading	32.8	16.5	0	27.4	14.1	0	20.06	4.89	0
Hydropower	11086	6687	10.2	24954	10186	6.2	17919	7697.8	3.8
Others	773.8	481.5	0.7	1531	914.3	0.6	6824.9	2717.8	1.3
Mutual Fund	27354	384.7	0.6	80331	1113.7	0.7	125489	1886.9	0.9
Preferred Stock	30.8	29.3	0	52.9	78.2	0	36.09	52.19	0
Promoter Share	24849	7552	11.6	19565	11024	6.7	22860	10681	5.2
Total	159718	65332	100	302021	163958	100	392598	204787	100

Including Class "D" Bank and Financial Institutions

Source: Nepal Stock Exchange Limited

Hydropower companies cover 10.2% weight of total shares trading of stock market in FY 2014/15. But in FY 2015/16 their coverage percentage decreases to 6.2% which is 4% less than FY 2014/15. In FY 2016/17, Hydropower companies lose their market coverage to 3.8% which is 6.4% less than FY 2014/15 and 2.4% less than FY 2015/16. The companies are listed but not specified existence in trading on stock market. These companies cover 0.7% market coverage in FY 2015/16 and a bit improve in FY 2016/17 to 1.3% which is 0.6% more than in FY 2014/15 and 0.7% more than FY 2016/17. Mutual fund companies cover 0.6% total market weight in FY 2014/15 and it increases to 0.7% in FY 2015/16 which is 0.01% more than FY 2014/15. These companies' market coverage also increase in FY 2016/17 which cover 0.9% of total market trading weight, which is 0.03% more than in FY 2014/15 and 0.02% more than in FY 2016/17.

Preferred stocks do negligible market coverage of total trading weight of stocks. But these shares also fail to cover proper existence of total trading coverage. Preferred stocks do not have existence in trading stock market. Promoter shares cover 11.6% total trading value of shares in FY 2014/15, these shares fail to maintain last FY performance in stock market. In FY 2015/16 covers only 6.7% of total trading value of share which is 3.9% less than in FY 2014/15. These shares fail to maintain past performance in FY 2015/16. In FY 2015/16 these shares cover only 5.2% trading value of total weight of share market. From among these different functional areas of market existence, commercial banks cover the highest percentage of market weight. These companies cover 45.7% in FY 2014/15, 43.2% in FY 2015/16 and 46.5% in FY 2016/17. Insurance companies cover second position in FY 2014/15, FY 2015/16 and FY 2016/17 in the percentage of 13.7%, 23.8% and 24.8% respectively. Development banks cover third position of total market weight; these companies recover 13%, 15.2% and 13.7% market weight in FY 2014/15, 2015/16 and 2016/17 respectively. Promoter's shares cover fourth position of different areas of market. These companies cover 11.6% in FY 2014/15, 6.7% in FY 2015/16 and 5.2% in FY 2016/17. Hydropower companies cover 10.2% in FY 2014/15, in FY 2015/16 and 3.8% in FY 2016/17. Other companies seen to fail maintain proper trading of their shares in stock market. These companies cover not more than 2.5% market weight of total shares trading.

Conclusion

In conclusion, market turnover of the stock market is covered by certain companies. These companies always maintain higher market weight of total share trading in the stock market. Commercial banks, Insurance companies, Development banks, promoter shares and Hydropower companies cover about more than 90% weight of shares trading of Nepal stock exchange. But other six companies' market coverage is less than 10% of total market trading weight. So, the market turnover represents those limited companies which cover huge weight of total value of shares trading. This study concludes that the portfolio of different companies is not idle so that the risk diversification is not possible in Nepalese stock market.

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