

**Beating NEPSE: Why the Index Keeps Winning**8<sup>th</sup> May 2026**NEPSE's Six Years — The Index Doubled. Did Your Portfolio?**

The NEPSE Index has more than doubled over the past six full years, climbing from 1,362 at the close of FY 2076-77 to 2,794 by the end of FY 2081-82 — a compounded annual return north of 15%, outpacing every major asset class available to the Nepali retail investor. And it did so through cycles of liquidity easing and tightening, a sharp liquidity crunch, and multiple shifts in the monetary regime: a generous payoff for the volatility investors took on.

Strip out the broader index, and the math turns awkward. Investors holding commercial bank equities would have compounded at just shy of 6% over the same window — even underperforming fixed deposits at the very same banks, and without any of the volatility. The same is true for life insurance stocks, which have sub-par annual returns over the same period.

At the other end, the “Hotels & Tourism” sub-index outpaced the broader market, compounding at over 36%. Worth flagging on “Trading”: the sub-index's 36.5% CAGR is largely an artifact of a government-driven capital revaluation at Bishal Bazar Company Ltd. (BBC) — net of that one event, the returns tend to mislead. “Finance” and “Hydropower” followed close behind, with annual returns of 31.5% and 30.4%, respectively.

	<i>19-20</i>	<i>24-25</i>	
<b>Sub-Index</b>	<b>76-77</b>	<b>81-82</b>	<b>5-yr CAGR</b>
Commercial Banks	1,153	1,517	5.6%
Development Banks	1,711	5,942	28.3%
Finance	655	2,571	31.5%
Hotels & Tourism	1,468	6,948	36.5%
Hydropower	966	3,647	30.4%
Investment	-	113	-
Life Insurance	8,087	13,276	10.4%
Manufacturing	2,702	7,356	22.2%
Microfinance	2,439	5,210	16.4%
Non-Life Insurance	6,245	12,736	15.3%
Others	769	2,353	25.1%
Trading	876	4,148	36.5%
<b>NEPSE Index</b>	<b>1,362</b>	<b>2,795</b>	<b>15.45%</b>

Table 1: Sectoral Performance &amp; CAGR of NEPSE



The shift in market composition tells the story more clearly than the returns do. Commercial Banks, once roughly half of NEPSE by capitalization, now account for closer to a quarter, while Hydropower's weight has nearly tripled — from 5.4% to over 15%, and Hotels & Tourism more than doubled — from 1.1% to 2.7% in the same period. Trading's dramatic composition jump in FY 81-82 connects back to the BBC revaluation, a one-off artificial event.

Crucially, commercial banks didn't shrink; the market grew around them. The count of listed companies expanded from 212 to 272 over the six-year window<sup>1</sup>, with most of the new listings coming from Hydropower, Hotels & Tourism, and Life Insurance sectors. It is capital meeting productivity at scale — capitalism working as intended.

Sector	76-77	77-78	78-79	79-80	80-81	81-82
<b>Commercial Banks</b>	48.5%	37.7%	36.7%	30.9%	26.5%	25.1%
<b>Hydropower</b>	5.4%	8.4%	11.0%	13.2%	15.1%	15.3%
<b>Others</b>	11.3%	8.9%	8.5%	8.4%	9.2%	9.8%
<b>Life Insurance</b>	8.9%	8.6%	7.4%	8.5%	9.1%	8.8%
<b>Microfinance</b>	9.3%	9.5%	11.6%	9.9%	10.1%	8.5%
<b>Investment</b>	-	8.1%	6.9%	7.1%	7.3%	7.7%
<b>Manufacturing</b>	3.7%	3.7%	4.3%	4.4%	6.4%	5.4%
<b>Non-Life Insurance</b>	6.2%	6.7%	5.3%	6.9%	5.9%	5.3%
<b>Trading</b>	0.3%	0.5%	0.4%	0.5%	0.5%	5.0%
<b>Development Banks</b>	4.2%	4.2%	4.5%	4.7%	4.6%	4.7%
<b>Hotels &amp; Tourism</b>	1.1%	1.5%	1.6%	3.4%	2.8%	2.7%
<b>Finance</b>	1.2%	2.1%	1.8%	2.0%	2.4%	1.8%

Table 2: Sectoral Composition of NEPSE Market Cap, FY 2076-77 to 2081-82

## Nepal's IPO Narrative

In most markets, IPOs are a coin flip — unproven businesses, stretched valuations, and post-listing performance that often disappoints. Nepal tells a different story; over-subscription is the rule rather than the exception, and here, people don't tolerate IPOs — they chase them (SKHL's recent oversubscription of over 21 times<sup>2</sup>). Post-listing gains have convinced retail investors to view the primary market as one of the few reliably asymmetric bets available to them.

A large part of the explanation for the frenzy lies in the regulation itself – a lottery-based allotment system that gives every “lucky” applicant a slice of the pie regardless of capital size, paired with promoter lock-ins that squeeze near-term supply, almost promising a listing-week pop. The result: IPOs returned an average of 1,300% post-listing last year.

<sup>1</sup> NRB - Current Macro-Economic and Financial Situation Report

<sup>2</sup> <https://www.sharesansar.com/newsdetail/ipo-issue-of-super-khudi-hydropower-limited-closing-today-oversubscribed-2134-times-so-far-2026-02-23>



### Real Returns?

The past six years have brought an unprecedented wave of new listings to Nepal’s stock market, the most in its history. Over the same window, market capitalization swelled from NPR 1.79 trillion in FY 76/77 to NPR 4.66 trillion in FY 81/82.

A meaningful share of that growth traces back to those new listings, which on average inflated the NEPSE by 8.8% (peaking at 12.3% in FY 80-81) – the byproduct of short supply (promoter & mutual fund lock-ins) and diversified public holdings, as the chart below highlights.

For investors and investment professionals trying to beat the market, this average of 8.8% is where a lot of our “incompetence” gets quietly justified. The part of the market that your capital can’t meaningfully buy investments in, that so happens to be the most lucrative investment, if not productive.

### IPO-Driven Inflation in NEPSE Mcap

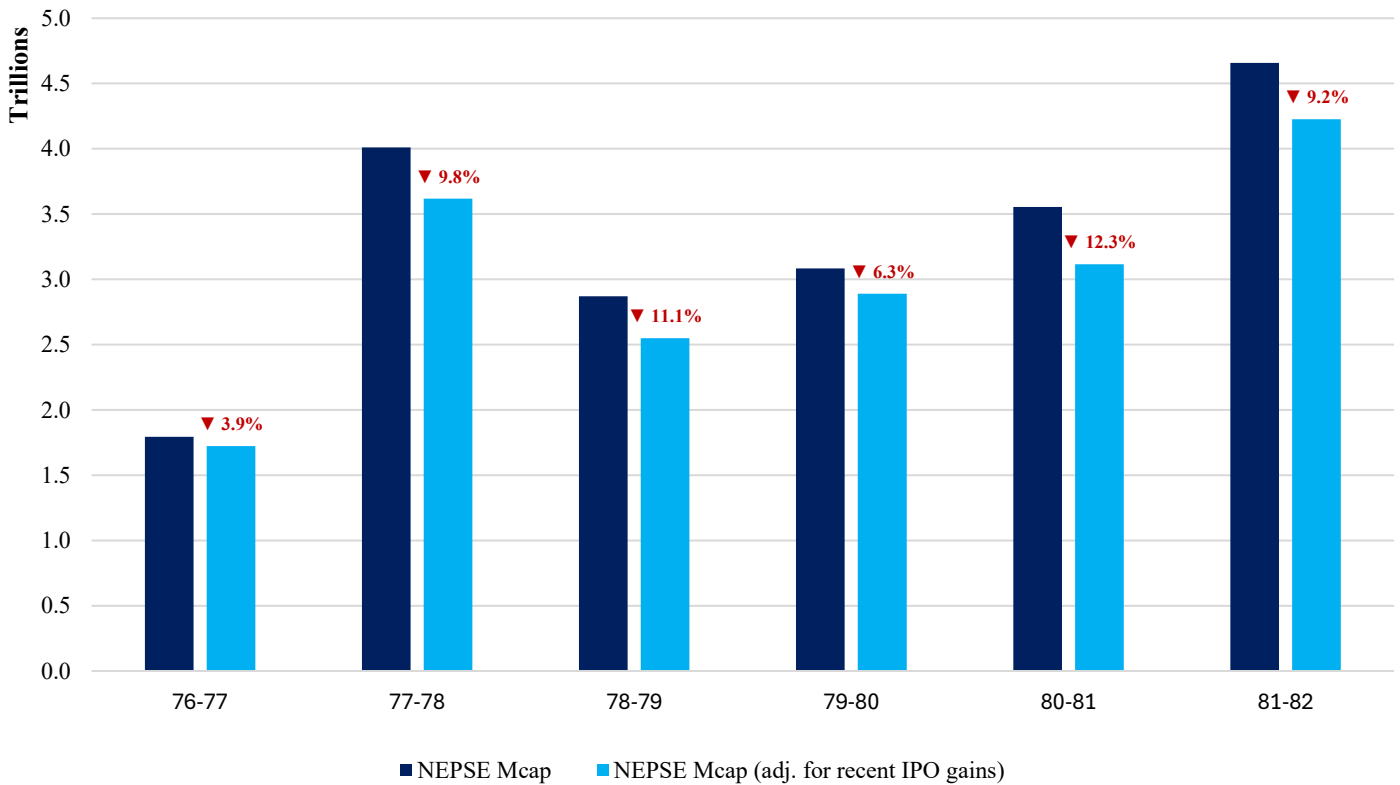


Image 1: Impact of Recent IPOs on the NEPSE Index Market Capitalization



### Hot Sectors, Borrowed Returns

As the chart above shows, the 8.8% average uplift from IPO-pops on headline returns conceals where it actually landed. Commercial Banks and Development Banks barely added new listings over the period — their returns are clean.

But sectors that were flooded with a wave of IPOs got lifted harder than the index average suggests — structurally, over cyclically. The table below shows the share of each sector's return that came from those new listings — each cell represents the IPO-driven slice of that year's sectoral return, with highlighted cells flagging the years when new issues contributed significantly. Read a single cell as: of Hotels & Tourism's market capitalization in FY 77-78, roughly 35% traced back to recent listings within the sub-index, due to short supply and lock-ins.

The overlap with Table 1 is hard to unsee. Most of the sectors that posted the loudest CAGRs — Hotels & Tourism at 36.5%, Hydropower at 30.4%, Others at 25% — are the sectors carrying significant IPO contribution.

The mechanism scales in two directions: in already-large sub-indices like Hydropower and Microfinance, a steady stream of listings keeps lifting the average year after year; in smaller sectors like Hotels & Tourism and Others, even a handful of new issues is enough to swing the index because the denominator is small to begin with.

Either way, the post-listing pop ends up on the same line — and gets compounded into the multi-year CAGR investors quote back at each other. And since the multi-year CAGR is a compounder's dream, the underlying reality is harder to achieve.

Sector	76-77	77-78	78-79	79-80	80-81	81-82
Hotels & Tourism	0%	35%	32%	14%	17%	0%
Hydropower	14%	12%	18%	21%	22%	1%
Investment	-	27%	20%	2%	10%	9%
Life Insurance	0%	11%	14%	0%	22%	26%
Manufacturing	0%	0%	0%	0%	45%	49%
Microfinance	9%	9%	15%	9%	2%	0%
Non-Life Insurance	0%	7%	3%	0%	0%	4%
Others	20%	42%	0%	0%	18%	23%

Table 3: New IPOs' Share in Sectoral Returns, FY 2076-77 to 2081-82



## **The Index's Unfair Advantage**

The Index doubled, most of its sub-indices didn't, and most of the people paid to beat it didn't either. Sit with that long enough, and the explanation stops looking like a skill problem. A meaningful share of the index's returns was manufactured by the primary market — by design, the slice of NEPSE that meaningful capital cannot scale into. And, by coincidence of the same design, it's the slice that lifts the benchmark(s) the hardest. Set aside that 8.8% average annual lift, and the market would be significantly short of the double.

The headline numbers measure one market – the capital trying to beat it lives in another. Until that's named, “beating NEPSE” will keep meaning something different from what it sounds like.

Whether those IPO returns hold up once the lock-in period lifts — or the hype quietly unwinds — is a question for the next article.

*Disclaimer: This article is for informational purposes only and does not constitute any investment advice. Past performance is not indicative of future results.*