

DETERMINANTS OF SHARE PRICE OF NEPALESE FINANCE COMPANIES

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Requirement for the Master of Business Studies

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Determinants of Share Price of Nepalese Finance Companies**”. The work of this dissertation has not been submitted previously for the purpose of completion of any degrees. It has been proposed and presented as part of requirements for the academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Miss Mirriyam Tamang has defended research proposal entitled “**Determinants of Share Price of Nepalese Finance Companies**”, successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Pitri Raj Adhikari and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled “**Determinants of Share Price of Nepalese Finance Companies**” presented by Mirriyam Tamang a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is acceptable for the award of degree.

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ABBREVIATIONS

AAA	: Average Annual Return
BSE	: Bombay Stock Exchange
DPR	: Dividend Payout Ratio
DPS	: Dividend Per Share
DY	: Dividend Yield
EMH	: Efficient Market Hypothesis
ESG	: Environmental, Social and Governance
EV	: Enterprise Value
EPS	: Earning Per Share
FS	: Firm Size
GCC	: Gulf Cooperation Council
GDP	: Gross Domestic Product
Inf	: Inflation
MPS	: Market Price Per Share
NEPSE	: Nepal Stock Exchange
OLS	: Ordinary Least Square
PAT	: Profit After Tax
PER	: Price Earnings Ratio
PPI	: Producer Price Index
PY	: Payout Ratio
RMP	: Relative Market Power
ROA	: Return on Assets
ROAA	: Return on Average Assets
ROE	: Return on Equity
SEBON	: Security Board of Nepal
Size	: Bank Size

ABSTRACT

The dissertation employed a combination of descriptive and causal-comparative research designs to investigate the factors influencing market valuations in the finance sector of Nepal. By focusing on 17 finance companies in Nepal, the research selected a sample comprising ICFC, Manjushree, and Reliance Finance based on their highest paid-up capital. Data collection involved gathering internal and external variables affecting market prices from company reports, annual reports, and regulatory authorities. Statistical tools such as mean, standard deviation, correlation, and regression analysis were applied to analyze the collected data, utilizing financial metrics like Earnings per Share (EPS), Dividend Per Share (DPS), Gross Domestic Product (GDP), Inflation (Inf), Return on Assets (ROA), Return on Equity (ROE), and Market Price of Share (MPS) to examine the relationships between variables.

The findings of the study revealed several key insights into the determinants of share prices in Nepalese finance companies. Firstly, a significant positive correlation was observed between earnings per share (EPS) and market price per share (MPS), suggesting that higher earnings were associated with higher market share prices. This correlation underscored the importance of profitability as a key driver of investor confidence and valuation in the Nepalese finance sector. Secondly, the regression models used in the study demonstrated statistical significance, indicating that the selected predictors collectively contributed to explaining the variance in MPS. This finding highlighted the meaningful roles played by factors such as EPS, dividend-related metrics, and economic indicators in shaping market prices and investor perceptions.

Furthermore, the study recognized the impact of dividend-related metrics on MPS, indicating that dividend policies influenced investor decision-making and market valuations. While the strength of this influence varied, the consistent recognition across studies emphasized the significance of dividends as a factor driving share prices in the Nepalese finance sector. Lastly, a positive correlation was observed between Return on Assets (ROA), Gross Domestic Product (GDP), and MPS, suggesting that companies with higher returns on assets and those operating in growing economies tended to have higher market prices per share. This finding underscored the importance of strong financial performance and economic growth in driving market valuations in Nepalese finance companies.

In essence, the findings of this study provide valuable insights for investors, policymakers, and finance professionals in understanding the determinants of share prices in Nepalese finance companies. By recognizing the importance of factors such as profitability, dividend policies, and economic indicators, stakeholders can make informed decisions to enhance market efficiency and investor confidence in the Nepalese finance sector.

Keywords: Earnings Per Share, Dividend Per Share, Return on Equity, Return on Assets, Gross Domestic Product, Inflation, Market Price Per Share

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The stock market serves as a vital indicator of a nation's economic well-being and a source of capital for businesses, making it an essential component of any economy (Stiglitz, 2003). In Nepal, the stock market has seen a significant rise in prominence in recent years, with a growing number of companies choosing to go public. Among these, finance companies play a key role in propelling the country's economic growth. Understanding the multifaceted factors influencing the share prices of these finance companies is crucial for investors, policymakers, and all stakeholders involved in the Nepalese financial landscape (Al-Ali, 2020).

A recent surge in activity within the Nepalese stock market has been marked by a growing influx of finance companies seeking public listings. These financial institutions play a pivotal role in fostering economic growth across Nepal by providing capital to various industries (Shah & Shrestha, 2014). As a result, a critical need exists to analyze the multifaceted determinants that influence the share prices of these companies. Nepal's significant economic development, spearheaded by the finance sector, has contributed to the expansion of diverse industries such as textiles, cement, steel, and food processing, attracting both domestic and international investment (Bist, 2023).

One internal factor influencing share price is a company's financial performance. Metrics such as earnings per share (EPS) and dividend payout history significantly impact investor sentiment (Beck et al., 2022). Consistent profitability and a reliable track record of dividend payments are viewed favorably, leading to higher valuations. Conversely, a decision to reduce or forgo dividends can be misconstrued as a sign of financial difficulty, even if the funds are being strategically reinvested for future growth (Lestari, 2019).

Beyond financial performance, external factors also play a role. Overall market sentiment and economic health can significantly impact share prices. Positive market psychology leads to increased buying activity, driving prices up, while negativity can trigger selling and price declines. Additionally, broader economic performance of Nepal, including factors like GDP growth rate and inflation, can directly influence the stock market and finance

company share prices. A strong national economy fosters investor confidence and can lead to higher valuations for finance companies. Finally, the overall performance of the Nepalese finance sector itself matters. If the sector is experiencing a boom due to positive regulations, individual company share prices might also rise due to increased investor interest.

Finance companies have transformed from simply protecting against financial losses to becoming key drivers of economic growth. They act as intermediaries, connecting individuals and businesses with surplus funds (savers) to those needing capital (borrowers). This efficient allocation of resources fuels investment, a crucial ingredient for economic prosperity. Moreover, finance companies provide a safety net through products like insurance and loans, mitigating risks faced by individuals and businesses (Shah & Shrestha, 2014). Imagine an entrepreneur seeking a loan to launch a new venture. By providing the necessary capital, the finance company reduces the entrepreneur's risk of failure. Furthermore, a robust network of finance companies, supported by a healthy regulatory framework from the government, fosters overall financial stability. This stability is essential for economic growth as it encourages investment and financial well-being. It is important to note that challenges like ensuring everyone has access to financial services (financial inclusion) and managing potential risks require ongoing attention (Kankariyah, 2021).

The issue addressed in the research is the determinants of the share price of the finance companies in context of Nepal. This study seeks to explore the relationship between the determinants in the context of Nepalese finance companies. It helps to determine if there is a correlation between the determinants and its share price, and if so, how they are associated. By examining this relationship, the research aims to provide insights into the factors that influence a company's share price and financial performance, which can be useful for both investors and the management of Nepalese finance companies. This information can help inform investment decisions and guide the development of effective dividend policies that can lead to improved financial performance and higher share prices.

The determinants of share price of Nepalese Finance companies are crucial for both investors and the management of Nepalese finance companies. It provides insights into the relationship between a determinants and a share price, helping investors to make informed investment decisions. Its research can also be valuable for the management of Nepalese

finance companies, as they can use the information to guide the development of effective policies that can lead to improved financial performance and higher share prices. This study is important as it sheds light on the factors that influence financial performance and share price of a company, and provides insights that can be used to make informed investment and management decisions.

The focal determinants under investigation include Earnings per Share (EPS), Dividends per Share (DPS), Return on Assets (ROA), Gross Domestic Product (GDP) and Inflation. Through an in-depth analysis of these factors, it shed light on the influence on the market price per share (MPS) of these finance companies. Stock market of Nepal, as reflected by NEPSE, plays a pivotal role in the country's economic landscape. EPS, DPS, ROA, GDP and Inflation interact with and influence the MPS of finance companies in NEPSE (Neupane, 2020).

The factors influencing share prices in the Nepalese stock market directly translate to determinants of share price for Nepalese finance companies. Financial metrics like earnings per share (EPS) and dividend per share (DPS) are positively correlated with share price for both the broader market and finance companies specifically. Strong financial performance and consistent dividends incentivize investors, leading to higher share prices. Market sentiment, including rumors and speculation, also plays a role. Positive sentiment can drive buying pressure and increase share prices, while negativity can lead to selling and price declines. A company's profile and reputation, including its history, management, and future outlook, are crucial for investor decisions. Finance companies with a strong reputation and promising prospects tend to have higher share prices (Thapa, 2019). However, there are some unique considerations for finance companies. Interest rates can have a complex relationship with share price. While higher interest rates might make bonds more attractive, potentially lowering share prices, the specific impact can vary. Similarly, a high price-to-earnings ratio (PER) might indicate an overvalued stock, potentially leading to a negative association with share price. Effective regulations in the financial sector can create stability, boosting investor confidence and potentially increasing share prices. Additionally, liquidity, the ease of buying and selling shares, can influence share price volatility. Finally, some investors use technical analysis, studying historical price patterns, to make decisions that can impact share prices. Understanding these general market factors and the unique

considerations for finance companies is essential for informed investment decisions in Nepalese finance companies (Subedi, 2024).

The study holds significant importance for various stakeholders. Firstly, in the context of Nepal's growing stock market, understanding the factors influencing share prices of finance companies is crucial for investors seeking to make informed decisions. By analyzing determinants like earnings per share (EPS), dividends per share (DPS), Return on Assets (ROA), Gross Domestic Product (GDP) and Inflation, investors can better evaluate the financial health and potential returns of these companies. Secondly, for the management of Nepalese finance companies, the study provides insights into how different policies and strategies affect share prices. This knowledge can aid in developing effective financial strategies and dividend policies to enhance financial performance and shareholder value. Additionally, policymakers can use the findings to implement regulations and initiatives that foster a conducive environment for finance companies, ultimately contributing to the overall economic growth of Nepal. Overall, the research sheds light on the complex dynamics influencing share prices in Nepal's finance sector, empowering investors, management, and policymakers alike to make informed decisions for sustainable economic development.

1.2 Problem Statement

The Nepalese stock market has undergone a recent surge, with a growing number of finance companies seeking public listings (Bist, 2023). These financial institutions play a pivotal role in fostering economic growth across Nepal by providing capital to various industries (Shah & Shrestha, 2014). However, a critical gap exists in our understanding of the factors influencing the share prices of these companies.

The recent surge of Nepalese finance companies listing on the stock market is in increasing order, but a crucial knowledge gap exists. There is a lack of clear understanding of what drives the share prices of these companies. This gap makes it difficult for investors, policymakers, and industry leaders to make informed decisions (Wagle, 2021). They need actionable data to allocate resources effectively and navigate the ever-changing Nepalese stock market.

Unlike established financial markets globally, Nepal unique situation demanded a closer look. The specific economic conditions, regulations, and even geopolitical climate can significantly impact the share prices of finance companies. Without a clear understanding of these determinants, investors were exposed to unnecessary risk and may struggle to assess the true value and growth potential of these companies (Bhattarai, 2018). Nepal status as a developing, open economy further emphasizes the importance of this study. Being open to global influences makes the country more susceptible to external economic shocks. Therefore, it is crucial to distinguish between domestic factors affecting share prices and those originating from outside Nepal. It did not fully understand how corporate governance practices, the adoption of new technologies, and a company's commitment to environmental, social, and governance (ESG) principles all play a role in shaping share prices within the Nepalese finance sector (Nepal, 2018).

Academic research offers valuable insights into potential determinants of share prices. Internal factors, such as a company's financial performance measured by earnings per share (EPS) and dividend payout history (DPS), significantly impact investor sentiment. Consistent profitability and a reliable track record of dividend payments are viewed favorably, leading to higher valuations. Conversely, a decision to reduce or forgo dividends can be misinterpreted as a sign of financial difficulty, even if the funds are being strategically reinvested for future growth (Lestari, 2019). External factors also play a significant role. Overall market sentiment and economic health can significantly impact share prices (Baral & Pradhan, 2017). Positive market psychology leads to increased buying activity, driving prices up, while negativity can trigger selling and price declines. Additionally, a nation's broader economic performance, including factors like GDP, growth rate and inflation, can directly influence the stock market and finance company share prices. A strong national economy with stable growth fosters investor confidence and can lead to higher valuations for finance companies (Phan & Tran, 2019). Finally, the overall performance of the Nepalese finance sector itself matters. If the sector is experiencing a boom due to positive regulations, individual company share prices might also rise due to increased investor interest.

In simpler terms, it aims to bridge the knowledge gap by investigating the various factors, both internal and external, that influence the share prices of Nepalese finance companies. By analyzing both quantitative data (numbers) and qualitative factors (broader trends), this

study hopes to provide valuable insights for investors, policymakers, and regulators in the Nepalese financial sector (Ghimire & Mishra, 2018). This will ultimately lead to better decision-making and a more informed understanding of the Nepalese finance industry.

Besides the above matter following are the issue of the study;

- i. How is the current situation of dividend per share, earning per share, return on assets, return on equity, inflation rate and GDP a market price per share of finance companies of Nepal?
- ii. Is there any relationship of dividend per share, earning per share, return on assets, return on equity, inflation rate and GDP with market price per share of finance companies?
- iii. Whether the of dividend per share, earning per share, return on assets, return on equity, inflation rate and GDP and market price per share creates impact on the MPS of the finance companies of Nepal?

1.3 Objectives of the Study

The general objective of this study is to analyze the determinants of the share price of the Nepalese finance companies.

The specific objectives are:

- i. To describe the position of dividend per share, earning per share, return on assets, return on equity, inflation rate and GDP and market price per share of the selected finance companies.
- ii. To examine the relationship of dividend per share, earning per share, return on assets, return on equity, inflation rate and GDP with market price per share.
- iii. To analyze the impact of dividend per share, earning per share, return on assets, return on equity, inflation rate and GDP and market price per share of the finance companies of Nepal.

1.4 Hypothesis of the Study

In order to empirically verify the data, the following hypothesis have been formulated and verified in this study.

H1: There is significant relationship between dividend per share and MPS of the finance companies.

H2: There is significant relationship between earnings per share and MPS of the finance companies.

H3: There is significant relationship between return on assets and MPS of the finance companies.

H4: There is significant relationship between return on equity and MPS of the finance companies.

H5: There is significant relationship between GDP and MPS of the finance companies.

H6: There is significant relationship between inflation rate and MPS of the finance companies.

1.5 Rationale of the Study

Investment in financial market i.e. money market and capital market instruments are the new aspect of investment in Nepalese investment sector, which show the positive trends of Nepalese financial market growth. Nepalese investor is more attracted to investing in the financial market instrument due the various reasons. When any new company issues (floats) shares through capital markets, very big congregation gathers to apply for owner's certificate. It reveals that people have expectation on higher return for investing in stock. Behind this, there in one of the important factor i.e. dividend decision is one of the most important decisions of financial management. It is an effective tool to attract new investors maintains present investors and controlling position of the firm. Therefore, considering all these facts, the undertaken study will help to meet deficiency of the literature relating to dividend decision and factors affecting the dividend policy, which will affect the value of stock. So the study of dividend will be considerably importance to those who want to invest in capital market instrument especially stock.

1.6 Limitations of the Study

The limitations of the study are:

- i. The study is based on a small number of Nepalese finance companies with the highest paid-up capital, which could limit how broadly the findings can be applied.
- ii. While the study shows a connection between share price and dividend policy, it doesn't prove that one causes the other. Other factors like economic conditions and company-specific events could also influence share prices and dividends.

- iii. The study examines the relationship between share price and dividend using only a few variables, which might not cover all the factors that affect these variables.
- iv. The study only includes data from three finance companies over a ten-year period from 2012/13 to 2022/23.

CHAPTER II

LITERATURE REVIEW

This study aims to analyze the determinants of share price of finance company. For this purpose, it is helpful to review related literatures in this concerned area, which will help to get clear ideas, opinions and other concepts. What others have said? What others have done? And what others have written? All these and other related questions are reviewed, which has provided useful inputs in this study. This chapter emphasizes on the literatures that are concerned with this connection. Therefore, in this chapter, conceptual frameworks given by different authors and intellectuals on this area, books, journals, research works, and previous thesis related to dividend policies and practices are reviewed. Moreover, rules regarding to dividend policy are reviewed and an attempt has been made to present them properly.

2.1 Theoretical Review

The theoretical framework is developed so that it serves as a foundation on which the entire research is based.

Cost Agency Theory

Cost Agency Theory, rooted in the seminal work of Jensen and Meckling (1976), posits that the relationship between principals (owners) and agents (managers) is characterized by information asymmetry and conflicting interests. The central tenet of this theory is the existence of agency costs, arising from the need for principals to design contracts that align the interests of agents with those of the firm's shareholders. These costs include monitoring, bonding, and residual loss expenses, which can impact the efficiency and effectiveness of corporate governance mechanisms (Jensen & Meckling, 1976).

The implications of Cost Agency Theory extend to various aspects of corporate finance, such as executive compensation, board structure, and shareholder activism. Scholars have explored the impact of agency costs on firm performance and managerial behavior, providing insights into the design of governance mechanisms that mitigate these costs (Fama & Jensen, 1983).

Efficient Market Hypothesis

The Efficient Market Hypothesis, developed by Fama (1970), asserts that financial markets efficiently incorporate all available information, rendering it impossible for investors to consistently achieve above-average returns through the analysis of historical prices or publicly available information. EMH is categorized into three forms: weak, semi-strong, and strong, each reflecting the degree of information efficiency within the market (Fama, 1970).

EMH has profound implications for investment strategies and the role of information in financial markets. Investors and researchers have debated the efficiency of markets and the existence of anomalies that may challenge the hypothesis. The Efficient Market Hypothesis has also influenced the development of passive investment strategies, such as index funds, based on the belief that attempting to beat the market is inherently futile (Malkiel, 2003).

The Residual Theory of Dividend Policy

The residual theory of dividend policy holds that the firm will only pay dividend from the residual earnings that is dividends should be paid only if funds remain after the optimum level of capital expenditures is incurred i.e. all suitable investment opportunities have been financed. With a residual dividend policy, the primary focus of the firm is on investments and hence dividend policy is a passive decision variable. The value of a firm is a direct function of its investment decisions thus making dividend policy irrelevant (Smith, 2011).

Dividend Irrelevancy Theory

The dividend irrelevancy theory asserts that dividend policy has no effect on either the price of the firm or its cost of capital. Dividend policy does not affect share price because the value of the firm is a function of its earning power and the risk of its assets. If dividends do affect value, it is only due to the informational content of dividends relative to management's earnings expectations and a clientele effect exists which allows firms to attract shareholders whose dividend preferences match the firm's historical dividend payout patterns (Miller & Modigliani, 1961).

A study conducted by Damodaran (2000) found that found that Older investors were more likely to hold high dividend stocks and Poorer investors tended to hold high dividend

stocks hence, firms with older investors pay higher dividends and firms with wealthier investors pay lower dividends.

Signaling Effect:

Rise in dividend payment is viewed as a positive signal whereas a reduction in dividend payment is viewed as a negative signal about the future earnings prospects of the company, thus leading to an increase or decreases in share prices of the firm. Managers use dividends as signals to transmit information to the capital market (Spyridakis, 1989).

Theoretical models by Bhattacharya (1979), Miller and Rock (1985) and John a John and Williams (1985) and Williams (1988) tell us that dividends increases convey goods news and dividend decreased convey bad news. However, this theory is based on the following assumptions like There is an existence of perfect capital markets i.e. No personal or corporate taxes and no transaction costs. The firm's investment policy is independent of its dividend policy and investors behave rationally and information is freely available to them and Risk or uncertainty does not exist.

The Bird in the Hand Theory

The essence of this theory is not stockholders are risk averse and prefer current dividend due to their lower level of risk as compared to future dividends. Dividend payments reduce investor uncertainty and thereby increase stock value (Lintner, 1962).

This theory is based on the logic that what is available at present is preferable to what may be available in the future. Investors would prefer to have a sure dividend now rather than a promised dividend in the future (even if the promised dividend is larger). Hence dividend policy is relevant and does affect the share price of a firm (Gordon, 1963).

2.2 Empirical Review

Kandpal and Kavidayal (2014) aimed to investigate the impact of dividend policy on the market value of shares among thirty selected Indian banks, all of which were listed and traded on the Bombay Stock Exchange (BSE). The study encompassed a ten-year timeframe, during which they examined various variables. The dependent variable was the share price, while the independent variables included the dividend payout ratio, return on net worth, debt equity ratio, and total assets. To analyze the relationships between these

variables, the researchers employed a combination of statistical methods, including multiple regression techniques, t-tests, the coefficient of determination (R²), and F-Value. Their primary finding was the identification of a significant effect of dividend policy on the share prices of the selected Indian banks. The study presented noteworthy correlations between specific variables and the share prices of individual banks. For instance, ICICI Bank exhibited a strong positive correlation with total assets (0.75) but a negative relationship with the dividend payout ratio (-0.84), return on net worth (-0.52), and debt equity ratio (-0.55). Similarly, HDFC Bank displayed a positive correlation with total assets (0.97) but a negative correlation with the dividend payout ratio (-0.10), return on net worth (-0.56), and debt equity ratio (-0.67). Yes Bank, IndusInd Bank, Jammu & Kashmir Bank Ltd, Federal Bank, and ING Vysa Bank also had unique correlations between their share prices and the examined variables. Importantly, the F-values revealed that the statistical significance of the findings varied among different banks. Notably, several private sector banks such as ICICI, HDFC, Axis Bank, Kotak Mahindra, and Yes Bank exhibited statistically significant F-values, indicating the significance of dividend policy on their share prices. In contrast, among public sector banks, only a few, including SBI, Syndicate Bank, Bank of India, and Bank of Baroda displayed statistically significant F-values. In all cases, the significance threshold was set at $F < 0.05$. These findings provide valuable insights into the relationship between dividend policy and shareholder wealth within the Indian banking sector.

In Harshapriya (2016) study, the impact of dividend policy on share price volatility in the Colombo Stock Exchange's licensed commercial banking sector over seven years (2008-2015) was investigated. The findings revealed that dividend yield had an insignificant impact on share price volatility but displayed a positive correlation. Conversely, dividend payout had a significant and expected negative correlation with share price volatility, aligning with evidence from various capital markets and dividend-related theories. The mean price volatility in the dataset was 0.19, while the average dividend yield stood at 2.84%. The mean dividend payment was 53.12, and the mean company size was 5.32. Regression analysis showed that price volatility, company size, EPS volatility, leverage, and growth were statistically significant in explaining share price volatility. However, dividend yield was not statistically significant in this regard. The model collectively explained approximately 10.2% of the variability in share price volatility, as indicated by

the R-squared value of 0.101501, and the adjusted R-squared value was 0.076658, adjusting for the number of independent variables.

In the study, Zainudin et. al. (2017) focused on analyzing the relationship between dividend policy and stock price volatility among industrial products firms in Malaysia. Their research encompassed a 10-year period from 2003 to 2012, covering all firms listed on Bursa Malaysia. The study employed statistical analyses including mean, standard deviation, and regression to understand the dynamics. The key findings revealed that dividend policy played a significant role in predicting stock price volatility, particularly in the post-crisis period. During the crisis period, earnings volatility emerged as a significant factor influencing stock price volatility. In the regression analysis, several variables were examined, including Dividend Yield (DY), Payout Ratio (PR), Enterprise Value (EV), and Firm Size (FS). DY, PR, and EV demonstrated statistically significant relationships with stock price, all with positive coefficients, indicating that an increase in these factors was associated with higher stock prices. However, FS showed a less significant but still statistically significant negative relationship, suggesting a slight decrease in stock price as financial stability or strength increased. The combination of these variables explained approximately 47.4% of the variability in stock prices, indicating a moderate level of explanation while leaving a significant portion of the variability unexplained. Overall, the study provided insights into how dividend policy and other factors influenced stock price volatility in the context of Malaysian industrial products firms.

Baral and Pradhan (2017) examined the impact of dividend policy on the share price of commercial banks in Nepal, focusing on a sample of 10 A-class companies listed on the Nepal Stock Exchange over a 5-year period. The research utilized correlation and regression analyses to uncover key relationships between various financial variables. The correlation analysis unveiled important insights into these relationships. Earnings Per Share (EPS) displayed a moderate positive correlation of 0.406 with Market Price per Share (MPS), indicating that higher EPS tended to correspond with higher MPS. The Price-to-Earnings ratio (PE) exhibited an even stronger positive correlation of 0.797 with MPS, suggesting a robust positive relationship between PE and MPS. Additionally, the Dividend Payout Ratio (DPR) displayed a weak positive correlation of 0.128 with MPS, implying that a higher DPR might be associated with a slightly higher MPS. The regression analysis aimed to predict MPS using EPS, PE, and DPR as independent variables. The results were

highly promising, with an R-squared value of 0.946, signifying that nearly 94.6% of the variability in MPS could be explained by these independent variables. This indicated a robust linear relationship between the chosen financial metrics and MPS. The F-value, which tests the overall significance of the regression model, was notably high at 124.764, reinforcing the model's statistical significance. Importantly, the significance values of 0.000 for all three independent variables confirmed that each of them—EPS, PE, and DPR—was highly statistically significant in explaining MPS, ruling out the possibility of random chance. Overall, the study provided valuable insights into the influence of dividend policy and related financial metrics on the share price of commercial banks in Nepal

The study conducted by Anwar et al. (2017) focused on analyzing the impact of cash dividend announcements on stock price returns within the context of Indian finance companies listed on the Bombay Stock Exchange. The research spanned a decade and involved 228 sample companies, encompassing 605 dividend announcement events. Their analysis revolved around hypotheses testing and paired sample t-tests, with a focus on abnormal annual returns (AARs) and cumulative average abnormal returns as the dependent variables and cash dividend announcements as the independent variable. The findings suggested that cash dividend announcements by these finance companies were associated with positive AARs, aligning with the signaling and informational content hypotheses of dividends. In the paired samples test, the mean difference between paired observations was found to be 0.00170, implying the average effect of cash dividend announcements on stock returns. The standard deviation of 0.00970 measured the variability in these differences, while the standard error of 0.00078 assessed the variability of the sample mean. The calculated t-value of 2.178 indicated the size of the difference relative to the variability within the paired observations. With 154 degrees of freedom, the significance value of 0.031, or p-value, suggested that there was a 3.1% probability of obtaining such results by random chance, underscoring the statistical significance of the impact of cash dividend announcements on stock price returns for these finance firms listed on the Bombay Stock Exchange.

Felimban et al. (2018) focused on examining the stock market response to dividend announcements in the Gulf Cooperation Council (GCC) countries, which were high-growth emerging markets. Their sample consisted of 1,092 firms listed in the Gulf stock exchanges over a five-year period from 2010 to 2015. The findings of the study indicated that the GCC

market appeared to be inefficient, with significant trading volume reactions observed across all three dividend announcement scenarios (increase, decrease, and constant dividends). These reactions were attributed to different investor preferences. The mean change in dividends was found to be 0.0045, suggesting an average increase in dividends within the sample. However, there appears to be a repeated entry for dividend yield with the same value, possibly indicating a data presentation issue. Additionally, the mean average return was 0.0049, indicating the average return on investments or portfolios during the specified period. The standard deviations of various variables, such as dividend change and earnings change, indicated variability in these factors within the dataset. The regression analysis included t-statistics for several independent variables. A negative t-statistic of -2.61 for dividend yield suggested statistical significance, implying that dividend yield had an impact on the dependent variable (possibly share price). Similarly, positive t-statistics for Market Price (2.47) and negative t-statistics for the change in dividend (-1.33) suggested potential statistical significance, although the associated p-values would be needed for confirmation. Overall, the study shed light on the market response to dividend announcements in the GCC countries, highlighting the significance of trading volume and the impact of different dividend change scenarios.

The study conducted by Baral and Pradhan (2018) aimed to investigate the impact of dividend policy on the share price of commercial banks in Nepal. Their sample consisted of 10 A-class banks listed on the Nepal Stock Exchange over a five-year period from 2012/13 to 2016/17. The analysis utilized mean, standard deviation, and regression techniques to assess the relationships between various factors and market share prices. The findings revealed that among the factors examined, such as Earnings Per Share (EPS), Price-to-Earnings (P/E) ratio, and Dividend Payout Ratio (DPR), P/E ratio had the strongest positive influence on the share price of top-gaining commercial banks, while DPR had the most significant impact on the share price of top-losing banks. Correlation analysis indicated positive relationships between EPS and market share price (albeit relatively weak), between P/E ratio and share price (moderate), and between DPR and share price (strong). The regression results showed that the independent variables (EPS, P/E, and DPR) collectively explained around 26.9% of the variability in Market Price per Share (MPS). However, the adjusted R-squared value, which considered the number of predictors, suggested that the model accounted for 16.5% of the variability while penalizing for multiple predictors. The F-statistic for the model was relatively low, indicating that the

model as a whole might not be statistically significant. Additionally, the t-statistics for EPS, P/E, and DPR indicated that these variables may not individually be statistically significant in explaining MPS. Overall, the study provided insights into the complex relationship between dividend policy and share prices in the context of Nepalese commercial banks.

Singh and Tandon (2019) explored the relationship between dividend policy and stock prices in the Indian market. They conducted their analysis over a 10-year period, examining data from 45 Indian companies. The study employed both correlation and regression analyses to assess the connections between market price per share (MPS) and various financial metrics. Notably, the research revealed several significant correlations. A strong positive correlation of 0.77 emerged between earnings per share (EPS) and MPS, indicating that companies with higher earnings generally have higher market share prices. Additionally, a moderate positive correlation of 0.50 was observed between dividends per share (DPS) and MPS, suggesting that companies distributed higher dividends to see higher market prices. Conversely, there was a slight negative correlation (-0.13) between dividend yield (DY) and MPS, implying that higher dividend yields might lead to slightly lower market prices. The adjusted R-squared value of 0.65 in the regression analysis indicated that the financial indicators explained approximately 65% of the variance in MPS. The F-statistic and Chi-Square value further emphasized the overall significance of the regression model. These findings provided valuable insights into the intricate relationship between market prices and key financial metrics, contributing to a deeper understanding of factors affecting a company's market valuation in the Indian context.

Phan and Tran (2019) examined the influence of dividend policy and ownership structure on stock price volatility in the Vietnamese market, focusing on data from companies listed on the HOSE and HNX stock exchanges over seven years (2008-2015). The findings revealed several key insights. The mean price volatility in the Vietnamese market during the sample period was 0.72, indicating a moderate level of volatility. Dividend yield, calculated as dividends per share divided by the stock price, had a mean of 0.08, while the mean payout ratio represented the proportion of earnings paid out as dividends and stood at 0.57. The study found that dividend yield played a role in mitigating stock price volatility in the emerging Vietnamese market. However, the stabilizing effect of foreign and state ownership was no longer significant after the global financial crisis. Furthermore, the research did not uncover any moderating effect of ownership structure on the relationship

between dividend yield and price volatility during the sample period. The correlation analysis demonstrated mostly weak negative correlations between price volatility and various factors, indicating that as some of these factors increased, price volatility tended to decrease, and vice versa. However, these correlations were generally small in magnitude. The regression model explained only about 15.8% of the variability in price volatility, suggesting the presence of other unaccounted-for factors influencing market volatility in Vietnam. Nonetheless, both the p-value and F-test emphasized the statistical significance of the regression model, underscoring the collective impact of the independent variables on price volatility in the Vietnamese market.

The study conducted by Alajekwa et al. (2020) aimed to investigate the impact of dividend policy on stock price volatility in the Nigerian Stock Market over an 11-year period from 2006 to 2016. Their research revealed some interesting insights. For financial firms, dividend payout ratio was found to have a significant positive effect on stock market volatility, while dividend yield had an insignificant effect. In the case of non-financial firms, both dividend payout ratio and dividend yield had insignificant effects on stock market volatility. The analysis utilized various statistical models, including Pooled OLS, Fixed Effects, and Random Effects, each with their own set of relevant statistics such as R-squared values, F-statistics, Durbin-Watson tests, and Hausman tests. These statistical metrics helped assess the explanatory power of the models and potential issues like autocorrelation. Notably, the Fixed Effects model appeared to provide a better fit for both financial and non-financial firms, as indicated by higher R-squared values and Hausman test statistics. Overall, the study shed light on the complex relationship between dividend policy and stock price volatility in the Nigerian Stock Market.

The study conducted by Khan and Shamim (2021) delved into the sector-wise analysis of dividend payment behavior among companies listed on the Karachi Stock Exchange over a five-year period, spanning from 2014 to 2019. This study encompassed 32 distinct industry sectors within the Karachi Stock Exchange. Their primary analytical approach involved regression models to uncover the explanatory power of these models within various industry sectors. Notably, sectors such as Telecommunication, Tobacco, Household Goods, and Forestry exhibited exceptionally high adjusted R-squared values, signifying strong explanatory capabilities of the models. These sectors explained 97.7%, 96.14%, 92.85%, and 91.84% of the variability, respectively, in their respective dependent

variables. This was complemented by statistically significant F-statistics, with values like 17.24, 14.95, 72.82, and 9.00, indicating the overall significance of these models. In contrast, sectors such as Automobile and Electricity showed lower adjusted R-squared values, signifying less substantial explanatory capabilities, further supported by comparatively lower F-statistics. These findings provided valuable insights into the varying degrees of predictive accuracy and model significance across different industry sectors, contributing to a nuanced understanding of their unique dynamics within the Karachi Stock Exchange.

Farrukh et al. (2022) explored the impact of dividend policy on shareholders' wealth and firm performance in Pakistan using a sample of 51 companies listed on the Pakistan Stock Exchange over a 10-year period. Their research employed a combination of descriptive analysis, correlation, and regression to assess various financial variables. The correlation and regression revealed several key insights. Dividends per Share (DPS) exhibited mixed correlations with other financial metrics. It had a negligible negative correlation with Earnings per Share (EPS), a moderate positive correlation with Return on Equity (ROE), and a weak positive correlation with Share Price (SP). Interestingly, it showed a negative correlation with Dividend Yield (DY). The regression analysis, which involved combined variables, demonstrated varying degrees of predictability. SP had a limited explanatory power with an R-squared value of 0.0577, while EPS and ROE exhibited higher values of 0.328 and 0.13, respectively, indicating their stronger predictive capabilities. The F-statistics for these models were statistically significant, underscoring the overall significance of the relationships. The correlation and regression analyses shed light on the intricate connections between dividend policy, shareholders' wealth, and firm performance in the context of Pakistan's financial landscape.

Kulkarni and Hyderabad (2022) investigated the impact of dividend policy on stock prices using data from companies listed on the NSE 500 in India over the years 2019-20 to 2021-22. Their analysis employed descriptive statistics, correlation matrices, unit root tests, and the least square method. They found that there was a strong positive correlation (0.835) between Earnings Per Share (EPS) and Market Price per Share (MPS), indicating that investors highly valued companies with higher EPS. Additionally, there was a moderate positive correlation (0.286) between Dividend Per Share (DPS) and MPS, suggesting that dividends influenced investors but not as strongly as EPS. Return on Equity (ROE) also

exhibited a moderate positive correlation (0.550) with MPS, indicating that profitability relative to equity was considered when valuing stocks. However, Profit After Tax (PAT) showed a weak correlation (0.0253) with MPS. The Retention Ratio had a weak positive correlation (0.077) with MPS, suggesting a slight influence when companies retained more earnings. Regression analysis revealed that EPS was highly significant in explaining MPS, while DPS, ROE, and PAT were less significant. The model explained approximately 70.2% of the variability in MPS, indicating a reasonably good fit, and the adjusted R-Square suggesting the model's relevance. Overall, the study highlighted the significance of EPS and the moderate impact of DPS and ROE on stock prices in the Indian market.

The study conducted by Lamyaa et. al. (2023) investigated the relationship between dividend payout policy and financial performance in the Moroccan stock market over an 11-year period from 2006 to 2016. Their research, using panel data regression analysis, revealed that dividend policy had a significant impact on share prices in Morocco. Companies that paid dividends tend to exhibit higher financial performance compared to those that do not distributed dividends. Additionally, non-dividend-paying companies were shown to have higher debt levels and smaller sizes. The correlation analysis showed a positive relationship between Dividend Per Share and Share Price (0.6717), a negative correlation between Debt Policy (EN) and Share Price (-0.0754), and a strong positive correlation between Profit (BPA) and Share Price (0.6471). In the fixed effect model, the coefficients indicated that a one-unit increase in Dividend Policy corresponded to a 0.6717-unit increase in Share Price, while a one-unit deterioration in Debt Policy corresponded to a decrease of 1.15 units in Share Price. The model explained approximately 61.87% of the variability in Share Price. In the random effect model, similar findings were observed, with slightly different coefficients and an R-Square of 0.6361, indicating that this model explained approximately 63.61% of the variability in Share Price. These results emphasized the importance of dividend policy in influencing the financial performance and share prices of Moroccan companies.

Table 1

Summary of Review

Authors (Dates)	Variables	Methodology	Findings
Lamyaa et al. (2023)	D.V: Stock Price I.V: DPO, DY, GR, LEV, SIZE, EPS Volatile, Financial Crisis,	Population: companies registered in Nigerian Stock Exchange Sample: 60 firms Time: 11 Years Method of Analysis: Panel Data Regression	Dividend policy has an effect on the share price in Morocco. companies that pay dividends tend to have a higher financial performance than those that do not. Dividends distributed and the profits are found to be significantly positive for the financial performance of Moroccan companies.
Farrukh et al. (2022)	D.V: Shareholders Wealth (EPS and Share Price), Firm Performance (ROE) I.V: Dividend Policy (DPS, DY)	Population: companies of the Pakistan stock exchange Sample: 51 sample companies Time: 10 Years Method of Analysis: Descriptive Correlation Regression	The correlation and regression analyses provide comprehensive insights into the relationships and predictive capabilities of various financial variables. DPS displays mixed correlations with other metrics: a negative correlation with EPS and DY, a moderate positive correlation with ROE, and Share Price.
Kulkarni and Hyderabad, (2022)	D.V: Share Price I.V: DPS, ROE and PAT	Population: Companies listed under in India Sample: NSE 500 Time: 2019-20 to 2021-22 Years Method of Analysis: descriptive statistics, correlation matrix, unit root test and least square	Investors consider dividends not only as the source of income but also a way to value the firms from the investment point of view. By having information on dividend payout ratio (DPO), an investor may perform a better and more accurate analysis of the firm's financial performance and Payout ratio (POR).

		method	
Khan and Shamim (2021)	D.V: EPS, FCF, I.V: 32 sectors like Oil and gas Chemicals Forestry and paper Industrial metals and mining Construction Materials, and 26 other	Population: All the sectors of Karachi Stock Exchange Sample: 32 sectors sample companies Time: 5 Years Method of Analysis: Regression	Telecommunication, Tobacco, Household Goods, and Forestry exhibit high adjusted R- squared values, signifying strong explanatory power of the models, with the models. This is complemented by statistically significant F- statistics. In contrast, industries like Automobile and Electricity showcase lower adjusted R-squared values indicating less substantial explanatory capabilities.
Alajekwu et al. (2020)	D.V: Stock Price I.V: DPO, DY, GR, LEV, SIZE, EPS Volatile, GDP	Population: companies registered in Nigerian Stock Exchange Sample: 60 firms (19 financial and 41 Non financial) Time: 11 Years (2006 to 2016) Method of Analysis: OLS, Fixed Effects Model, Random Effects Model	Dividend payout ratio has significant positive effect on stock market volatility of non-financial firms, and positive but insignificant effect for the financial firms. However, dividend yield has insignificant negative effect on stock market volatility for both financial and non- financial services firms.
Singh and Tandon (2019)	D.V: MPS I.V: DY, RR, EPS, DPS, ROE, PAT	Population: companies registered in the Indian registration company Sample: 45 sample companies Time: 10 Years Method of Analysis:	A positive correlation is found between MPS and EPS. There is a moderate positive correlation of between MPS and DPS. A negative correlation exists between MPS and DY. The absence of a correlation (0.00) between MPS and Retention Ratio (RR). MPS shows a weak positive correlation with

		Regression Analysis, Correlation Analysis	Return on Equity (ROE). There is a weak negative correlation between MPS and Profit After Tax.
Phan and Tran (2019)	D.V: Price Volatility I.V: Dividend Payout ratio, Divided Yield, Market Capitalization, Debt Structure, Foreign Block Ownership, Presence of foreign ownership, Inflation	Population: Companies listed on the two Vietnamese stock exchange (HOSE and HNX) Sample: 2876 firms Time: 7 Years (2008-2015) Analysis: Mean, Std. Deviation Correlation Regression	The dividend yield mitigates stock price volatility in the emerging market of Vietnam. The price-stabilizing effect of foreign (and state) involvement has no longer been significant after the global financial crisis. Also, the study finds no moderating effect of ownership structure on the relation between dividend yield and price volatility during the sample period.
Devkota & Dhungana (2019)	D.V: NEPSE I.V. Derivatives, Nepse Index, Market Capitalization, Macroeconomics (GDP, Inflation)	Population: NEPSE Index, Economic Variable Sample : 24 year data of Nepse and Macroeconomic Variable Analysis: Correlation, Regression	Nepalese stock market is highly interest rate sensitive while the gold price has insignificant impact on the stock market. The real exchange rate has insignificant effect on the stock market. Macroeconomic variables have a notable impact on stock market.
Felimban et al. (2018)	D.V: Share Price I.V: Dividend, Abnormal return, Abnormal Trading volume	Population: All the stocks listed in the stock exchange of gulf countries Sample: 1092 firms Time: 5 Years Method of Analysis: Mean, St. Deviation, Maximum, Minimum Regression	Gulf Cooperation Council (GCC) market is inefficient significant trading volume (TV) reaction in all the three announcements clusters, where dividends increase, decrease, and are constant dividend change announcements have an impact on the TV response due to different investors' preferences

Baral and Pradhan (2018)	D.V: Market Share Price I.V: Earning Per Share, Price Earnings Ratio, Dividend Payout Ratio	Population: All the A class banks listed in Nepal Stock Exchange Sample: 10 Banks Time: 5 Years (2012/13-2016/17) Method of Analysis: Mean, St. Deviation, Maximum, Minimum Regression	Except DPR, the other factors like EPS, P/E ratio have positive relationship with stock price among them P/E is the strongest factor that affects the share price in case of top gainer commercial banks whereas EPS, P/E ratio and DPR have positive influence on stock price among them DPR is the strongest factor that affects the share price in case of top loser bank.
Zainudin et. al. (2017)	D.V: Share Price I.V: Dividend Payout, Earnings Per Share, Firm Size, Leverage, Growth of Assets	Population: All the firms listed on Bursa Malaysia Sample: Time: 10 Years (2003-2012) Method of Analysis: Mean, St. Deviation, Maximum, Minimum Regression	Earnings volatility significantly explains stock price volatility of industrial products firms during the crisis period, while dividend payout ratio predominantly influences volatility during pre- and post-crisis sub-periods. The empirical results indicate that dividend policy is a strong predictor of stock price.
Baral and Pradhan (2017)	DV: MPS I.V: EPS, PE and DPR	Population: All the A Class companies listed in NEPSE Sample: 10 sample companies Time: 5 Yrs Method of Analysis: Correlation	There is a positive correlation between EPS and MPS and PE. There is a positive correlation between DPR and MPS. The regression High correlation between the predicted values and the actual values of MPS.
Anwar et al. (2017)	D.V: Abnormal Annual Return, Cumulative Average Abnormal Return	Population: Finance companies listed on Bombay stock	The cash dividend announcement have positive AARs of the select finance companies..

	I.V: Cash Dividend	exchange Sample: 228 sample companies and 605 dividend announcement Time 10 Years Method of Analysis: Hypotheses and paired sample T -test	The mean (average) value is 0.00170. The standard deviation is 0.00970.. The standard error is 0.00078. The t-value is 2.178. The degrees of freedom are 154. In a paired samples t-test, the degrees of freedom are typically equal to the number of pairs minus 1. The significance value is 0.031. There is a 3.1% chance of observing such a result by random chance.
Harshapriya (2016)	D.V: Price Volatility I.V: Dividend Payout ratio, Divided Yield, Company size, EPS, Leverage, Growth	Population: 10 Licensed Commercial Banking (LCB) stocks (CSE) Sample: 228 sample companies and 605 dividend announcement Time 7 Years Analysis: Mean, Std. Deviation	The impact of dividend yield on share price volatility of licensed commercial banks were found to be insignificant positive correlation, whereas dividend payout had a significant negative correlation as expected with share price.
Kandpal and Kavidayal (2014)	D.V: Share Price I.V: Dividend Payout Ratio, Return on Net worth, Debt equity, Total Assets	Population: Banks listed in Bombay Stock Exchange Sample: 30 Indian Banks (15 Public, 15 Private) Time: 10 Years Method Analysis: regression technique, t test, the coefficient of determination (R ²) and F-Value.	There is a significant effect of dividend policy on the share price. In case of public sector only few banks has statistically significant as F < 0.05.

2.3 Research Gap

The study on the determinants of share price of Nepalese finance companies offers valuable insights into the factors influencing share prices in Nepal's finance sector; however, a notable research gap lies in its exclusive focus on this specific sector within the Nepalese economy. To provide a more comprehensive analysis, future research could consider a broader economic and political context in Nepal, taking into account the potential impact of macroeconomic indicators, political stability, and regulatory frameworks on share prices (Khan, 2009). Additionally, a comparative approach involving sectors beyond finance, such as services or agriculture, could reveal sector-specific variations in share price determinants. A longitudinal analysis encompassing changes in economic conditions and financial markets over time would also offer a more dynamic perspective (Alajekwa & Ezeabasili, 2020). Furthermore, exploring how Nepalese finance companies compare with their international counterparts and integrating qualitative research methods, such as interviews or surveys with industry experts and stakeholders, could provide a more nuanced understanding of share price determinants and investor behavior. Addressing these research gaps would contribute to a more comprehensive and insightful study of share price determinants in Nepal's finance sector.

CHAPTER III

RESEARCH METHODOLOGY

This chapter explains the methods used in the study to reach its objectives, including the research design, sampling, data collection and analysis techniques. It demonstrates the specifics of the researcher's overall research plan. This chapter has also included the decision-making process for sample size, sampling methods, study tools, sources of gathering data, and data management. This chapter has thoroughly explained the research design of the study as well as the methods used to collect and analyze the data. Further it has explained how the study was conducted and hypothesis was tested in order to fulfill the study's goals.

3.1 Research Design

Descriptive and casual comparative research designs are used in the study. The main objective of this study is to ascertain the determinants of share price of Nepalese finance company. The study use causal-comparative and descriptive research designs to understand the determinants of share prices in Nepalese finance companies. Descriptive research offers a comprehensive overview of variables like share prices and their determinants, utilizing existing data. Meanwhile, causal-comparative design allows for the exploration of potential causal relationships between these variables, comparing different finance companies. This approach is practical, feasible with existing data, and aims to provide a holistic understanding of share price determinants.

3.2 Population and Sample

According to the report of Nepal Rastra Bank March 2024, a total of 17 finance companies including are in Nepal. 3 Finance company with highest paid up capital i.e. ICFC, Manjushree and Reliance Finance companies are taken from the finance companies.

3.3 Nature and Sources of Data

The study consists the comparative study of the determinants of the market price of the Finance company. The study is mainly based on secondary data. Data relating to the internal variables affecting the market price of these three finance companies are directly obtained from concerned company. The supplementary data and information are obtained from

annual report and website of NEPSE, SEBON. Other information sources as well the external variables creating impact on the market share have been tapped from number of institutions and regulating authorities like Nepal Rastra Bank, Security Exchange Board of Nepal, Ministry of Finance and National Planning commission etc. Besides the data have been acquired from the various sources. In short, the secondary data are used in the study.

3.4 Instrument of Data Collection

The data analysis tools are applied as simple as possible. Data obtained from the various sources are not be used in their original form. They are further verified and simplified for the purpose of analysis. Data, information, figures and facts so obtained are checked, rechecked, edited and tabulated for computation. According to the nature of data, they had been inserted in meaningful tables. Homogeneous data had been sorted in one table and similarly various tables had been prepared in understandable. Data had been analyzed and interpreted using mean, standard deviation, correlation and regression. The detail calculations that are not able to be shown in the body part of the report has been presented in appendices at the end of the report.

3.5 Method of Analysis

Financial and statistical tools have been used in this study. The analysis of data will be done according to pattern of data. Financial tools and simple regression analysis are used in the analysis. The relationship between different variables are studied using correlation and regression. The various calculated results obtained through financial and statistical tools are tabulated using the headings of descriptive analysis and statistical analysis; they are compared with each other to interpret the result.

3.5.1 Financial Tools

a) Earnings per Share (EPS)

EPS is the portion of the company's distributable profit, which is allocated to each outstanding equity share (common share). It is an indicator of the profitability of any organization, and it is one of the most widely used measures of profitability. The earnings per share are a useful measure of profitability, and when compared with EPS of other similar companies, it gives a view of the comparative earning power of the companies. EPS

when calculated over a number of years indicates whether the earning power of the company has improved or deteriorated. Investors usually look for companies with steadily increasing earnings per share. EPS calculations made over the years indicate whether the sample banks earning power on per share basis have changed over the period or not. EPS is calculated by dividing the net profit after taxes by the total no. of the common shares outstanding (Baral & Pradhan, 2018).

$$EPS = \frac{\text{Net profit after taxes}}{\text{No. of common shares outstanding}}$$

b) Dividend Per share (DPS)

DPS indicates the part of earning distributed to the shareholders on per share basis. It is calculated by dividing the total dividend to equity shareholders by the total no. of equity shares (Baral & Pradhan, 2018).

$$DPS = \frac{\text{Total dividend to ordinary shareholders}}{\text{No. of ordinary shares outstanding}}$$

c) Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is a crucial measure of a nation's economic performance, representing the total value of all goods and services produced within a country's borders over a specified period, typically annually or quarterly. It serves as a key indicator of a country's economic health and growth trajectory. GDP provides valuable insights into an economy's size, direction, and composition. It helps policymakers, economists, and investors gauge economic performance, identify trends, and formulate appropriate policies. For instance, high GDP growth rates often indicate a healthy, expanding economy, while declining GDP may signal economic contraction or recession (Mankiw & Taylor, 2014).

d) Inflation (Inf)

Inflation refers to the rate at which the general level of prices for goods and services is rising, leading to a decrease in the purchasing power of money. It is typically measured as a percentage change in the Consumer Price Index (CPI) or the Producer Price Index (PPI) over a specified period, often monthly or annually (Blanchard & Johnson, 2013).

e) Return on Assets (ROA)

ROA stands for Return on Assets. It's a financial ratio that measures a company's profitability relative to its company assets. In short, ROA tells you how effectively a company is using its assets to generate profits.

f) Return on Equity (ROE)

ROE stands for Return on Equity. It's a financial ratio that measures a company's profitability relative to its company equity. In short, ROE tells you how effectively a company is using its equity to generate profits.

g) Market Price of Share (MPS)

MPS is that value of stock, which can be obtained by a firm from the market. Market value of share is one of the variables, which is affected by the dividend per Share and earnings per share of the firm. If the earnings per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value (Baral & Pradhan, 2018).

3.5.2 Statistical Tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured from groups of individuals or group of observation from a single individual. Statistics is a study of the principles and method used in collection, presentation analysis and interpretation of numerical data in any sphere of inquiry.

a) Mean or Average (\bar{X}):

An average is value, which represents a group of values. It shows the characteristics of the whole group. Generally, the average value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is also known as simple average (Chen & Huang, 2021).

Where,

$$\text{Mean or Average } (\bar{X}) = \frac{\sum X}{N}$$

b) Standard Deviation (σ):

Standard deviation is the positive square root of average sum of squares of deviations of observation from the arithmetic mean of the distribution. Standard deviation is the popular and useful measure of dispersion and gives uniform, correct and stable results. Karl Pearson introduced the standard deviations concept in 1823. It is denoted by the small Greek letter sigma. "The standard deviation measures the absolute dispersion or variability of the distribution; for the greater the amount of dispersion or variability the greater the standard deviations, for the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as Homogeneity of a series; a large standard deviation means just the opposite." (Chandra; 2008) In this, standard deviation is calculated for selected dependent and independent variables specified in the model presented above (Chen & Huang, 2021).

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum (x - \bar{x})^2}{n-1}}$$

c) Correlation Analysis:

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another. In the present study, both simple correlation and multiple correlations have been used. Correlation co-efficient between the following financial variables have been calculated and interpreted (Chen & Huang, 2021).

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

d) Regression Analysis

Regression is a statistical method for investigating relationships between the variables by the establishment of an approximate functional relationship between them. It is considered as a useful tool for determining the strength of relationship between two or more variables.

$$\text{MPS} = \alpha + \beta_1 \text{EPS} + \beta_2 \text{DPS} + \beta_3 \text{GDP} + \beta_4 \text{Inf} + \beta_5 \text{ROE} + \beta_5 \text{ROA} + e \dots \dots \dots (i)$$

Where,

MPS = Market Price Per Share

EPS= Earning Price Per Share

DPS= Dividend Price per Share

GDP= Gross Domestic Product

Inf = Inflation

ROE = Return on Equity

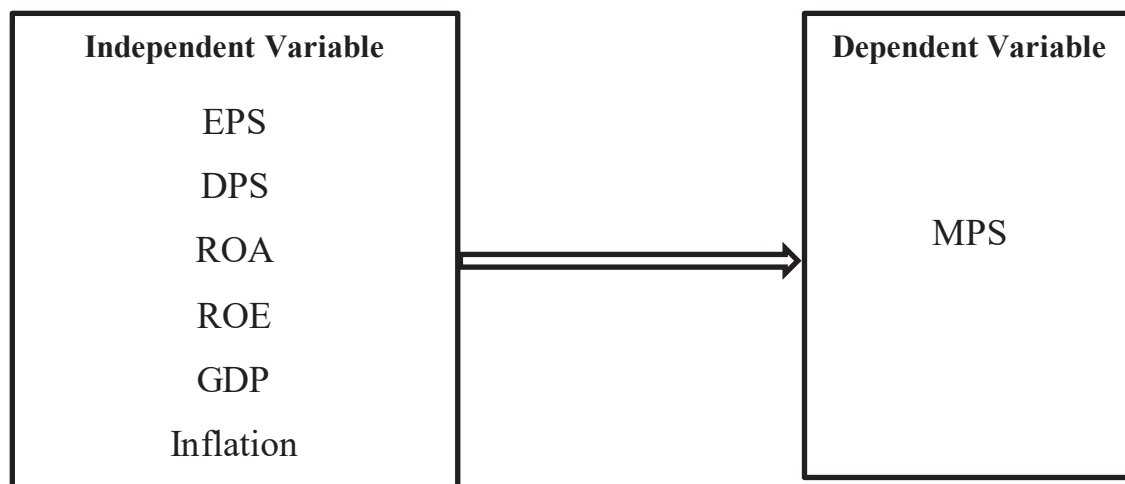
ROA = Return on Equity

α = constant term,

e= error term,

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Beta coefficient of variables

3.6 Research Framework and Definition of Variables



(Source: *Singh & Tandon, 2019; Devkota & Dhungana, 2019*)

Independent Variable

EPS (Earnings Per Share)

EPS stands for Earnings Per Share. It is a financial metric that indicates the portion of a company's profit allocated to each outstanding share of common stock. It is calculated by dividing the company's net earnings (after taxes and preferred stock dividends) by the weighted average number of shares outstanding during a specific period.

DPS (Dividends Per Share)

DPS stands for Dividends Per Share. It represents the portion of a company's earnings distributed to its shareholders in the form of dividends. DPS is calculated by dividing the total amount of dividends paid by the company to its common shareholders by the number of outstanding shares. DPS reflects the cash flow that investors receive for each share they own.

Return on Assets (ROA)

ROA stands for Return on Assets. It's a financial ratio that measures a company's profitability relative to its company assets. In short, ROA tells you how effectively a company is using its assets to generate profits.

Return on Equity (ROE)

ROE stands for Return on Equity. It's a financial ratio that measures a company's profitability relative to its company equity. In short, ROE tells you how effectively a company is using its equity to generate profits.

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is a crucial measure of a nation's economic performance, representing the total value of all goods and services produced within a country's borders over a specified period, typically annually or quarterly. It serves as a key indicator of a country's economic health and growth trajectory. GDP provides valuable insights into an economy's size, direction, and composition. It helps policymakers, economists, and investors gauge economic performance, identify trends, and formulate appropriate policies. For instance, high GDP growth rates often indicate a healthy, expanding economy, while declining GDP may signal economic contraction or recession (Mankiw & Taylor, 2014).

Inflation (Inf)

Inflation refers to the rate at which the general level of prices for goods and services is rising, leading to a decrease in the purchasing power of money. It is typically measured as

a percentage change in the Consumer Price Index (CPI) or the Producer Price Index (PPI) over a specified period, often monthly or annually (Blanchard & Johnson, 2013).

Dependent Variable

MPS (Market Price per Share)

MPS stands for Market Price per Share. It refers to the current trading price of a single share of a company's stock in the open market. The MPS is determined by the supply and demand dynamics of the stock market and can fluctuate based on various factors such as investor sentiment, company performance, industry trends, and market conditions. The MPS is a key component in calculating various financial ratios and determining the value of a company's stock.

CHAPTER IV

RESULT AND DISCUSSION

The presentation and analysis of data is the core of this study, which consists comparative analysis of financial performance of the companies and analysis of share price of Nepalese finance companies.

4.1 Analysis of Data

The performances of individual companies that are listed in the stock exchange have direct impact on capital market. A company having a good performance has highest market price, high volume of transaction, higher demand of stock, lower risk and low cost of capital. Various indicators i.e. internal and external are used to analyze the company performance. The internal variables are earning per share, dividend per share, return on equity, and the external are gross domestic product and Inflation.

4.1.1 Earning Price per Share

The profitability of a firm from the point of view of the ordinary shareholders is the EPS. It measures the profit available to the equity holders on a per share basis, i.e. the amount that they can get on every share held. It is calculated by dividing the profits available to the shareholders by the number of outstanding shares.

Table 2

EPS of the Sample Company

(in Rs)

	ICFC	MFL	RFL	Mean	S.D.
2013/14	11.23	5.67	12.37	9.76	3.58
2014/15	13.81	8.86	11.54	11.40	2.48
2015/16	21.44	13.14	19.41	18.00	4.33
2016/17	24.03	7.07	21.14	17.41	9.07
2017/18	12.86	11.36	11.83	12.02	0.77
2018/19	16.28	9.52	8.78	11.53	4.13
2019/20	11.26	34.28	12.32	19.29	13.00
2020/21	24.55	51.51	16.33	30.80	18.40
2021/22	17.71	8.09	6.76	10.85	5.98
2022/23	13.06	18.28	-13.74	5.87	17.18
Mean	16.62	16.78	10.67	14.69	7.89
S.D.	5.11	14.78	9.66	7.02	6.27

(Source: Annual report of sample Company appendix I and II)

The table 2 presents earnings per share (EPS) data for a sample company and its affiliated entities, including a finance company (ICFC), Manjushree Finance (MFL), and Reliance Finance (RFL), across a span of ten years. EPS figures for ICFC show fluctuating profitability over the years, ranging from 11.23 in 2013/14 to 24.55 in 2020/21. Manjushree Finance displays wide-ranging EPS values, from 5.67 to 51.51, indicating notable fluctuations in its financial performance. Reliance Finance exhibits variability as well, with EPS values ranging from 6.76 to -13.74, suggesting a loss in 2022/23. Summary statistics such as mean and standard deviation of EPS are also provided, giving an average indication of profitability for each entity over the analyzed period. Overall, the table provides insights into the EPS performance of the sample company and its associated entities, revealing trends and fluctuations in profitability over time.

4.1.2 Dividend Per Share

Dividend is the portion of profit that is ready to be available for shareholders. A part of the net profits belonging to equity shareholders is retained in the business and the balance is paid them as dividends. The dividend paid to the shareholders on a per share basis is the DPS. In other words, DPS is the net distributed profit belonging to the shareholder's dividend by the number of ordinary shares outstanding. That is,

Table 3

<i>DPS of the Sample Company</i>					<i>(Rs.)</i>
	ICFC	MFL	RFL	Mean	S.D.
2013/14	8.650	7.500	0.000	5.383	4.697
2014/15	11.050	12.000	21.050	14.700	5.520
2015/16	17.890	14.740	15.790	16.140	1.604
2016/17	21.050	6.320	12.630	13.333	7.390
2017/18	8.000	9.000	2.630	6.543	3.426
2018/19	13.000	21.350	6.580	13.643	7.406
2019/20	10.500	29.000	10.530	16.677	10.672
2020/21	10.000	52.000	15.790	25.930	22.762
2021/22	5.000	0.000	6.840	3.947	3.540
2022/23	0.000	5.260	0.000	1.753	3.037
Mean	10.514	15.717	9.184	11.805	3.453
S.D.	5.990	15.263	7.193	7.362	6.140

(Source: Annual report of sample Company appendix I and II)

Table 3 outlines the dividend per share (DPS) data for a sample company and its affiliated entities across multiple fiscal years, with ICFC representing the finance company, MFL indicating Manjushree Finance, and RFL representing Reliance Finance. Over the years, ICFC's DPS varies from 8.650 to 0.000, indicating fluctuations in dividend distribution. Manjushree Finance (MFL) exhibits varying DPS figures as well, ranging from 7.500 to 52.000, suggesting notable changes in dividend payouts. Reliance Finance (RFL) displays DPS values ranging from 0.000 to 21.050, indicating variability in dividend distributions across the years. Summary statistics such as mean and standard deviation (S.D.) of DPS are provided, with ICFC having a mean DPS of 10.514, MFL with 15.717, and RFL with 9.184. These statistics offer an average indication of dividend distribution for each entity over the analyzed period, along with the degree of variability in dividend payouts.

4.1.3 Market Price per Share

The market price of share is very important for all stakeholders. Generally, good market price per share is the face of a company. If the market price is well high, the investors perceive it very positively disregarding the other factors. Any decrease in the market price will adversely affect the company. If the market price of a particular company decreases very sharply and consistently, it may lead to Company.

Table 4

MPS of the Sample Company

(in Rs)

	ICFC	MFL	RFL	Mean	S.D.
2013/14	219.00	134.00	178.00	177.00	42.51
2014/15	225.00	188.00	171.00	194.67	27.61
2015/16	365.00	385.00	301.00	350.33	43.88
2016/17	288.00	157.00	212.00	219.00	65.78
2017/18	172.00	117.00	119.00	136.00	31.19
2018/19	168.00	128.00	126.00	140.67	23.69
2019/20	173.00	308.00	121.00	200.67	96.52
2020/21	640.00	1280.00	532.00	817.33	404.30
2021/22	450.00	447.00	310.00	402.33	79.98
2022/23	525.00	550.00	385.00	486.67	88.93
Mean	322.50	369.40	245.50	312.47	90.44
S.D.	166.72	353.91	135.73	213.14	113.36

(Source: Annual report of sample Company appendix I and II)

Table 4 presents data on the dividend payout per share (DPS) for a sample company and its affiliated entities across different fiscal years. In this context, ICFC represents the finance company, MFL refers to Manjushree Finance, and RFL indicates Reliance Finance. Over the years, there are variations in the DPS figures for each entity. For instance, ICFC's DPS ranges from 172.00 to 640.00, MFL's DPS ranges from 117.00 to 1280.00, and RFL's DPS ranges from 119.00 to 532.00. The mean DPS values across all entities are as follows: ICFC (322.50), MFL (369.40), and RFL (245.50). These mean values provide an average indication of dividend payouts for each entity over the analyzed period. Furthermore, the standard deviation (S.D.) values reflect the degree of variability in DPS for each entity, with ICFC having an S.D. of 166.72, MFL with 353.91, and RFL with 135.73.

4.1.4 Return on Assets

ROA stands for Return on Assets. It's a financial ratio that measures a company's profitability relative to its company assets. In short, ROA tells you how effectively a company is using its assets to generate profits.

Table 5

ROA of the Sample Company

(in Rs)

	ICFC	MFL	RFL	Mean	S.D.
2013/14	2.27	0.79	1.00	1.35	0.80
2014/15	1.91	0.80	1.87	1.53	0.63
2015/16	2.76	1.09	2.06	1.97	0.84
2016/17	2.24	1.09	2.82	2.05	0.88
2017/18	1.04	1.29	1.44	1.26	0.20
2018/19	1.04	0.74	1.21	1.00	0.24
2019/20	0.66	2.85	1.61	1.71	1.10
2020/21	1.45	3.63	2.07	2.38	1.12
2021/22	0.81	0.72	0.77	0.77	0.05
2022/23	0.72	0.84	0.92	0.83	0.10
Mean	1.49	1.38	1.58	1.48	0.60
S.D.	0.75	1.01	0.64	0.54	0.41

(Source: Annual report of sample Company appendix I and II)

The provided table 5 presents data on the return on assets (ROA) for various companies, namely ICFC, MFL, and RFL, over the years 2013/14 to 2022/23. ROA is a financial metric used to assess a company's profitability relative to its total assets. Across the companies

and years analyzed, there are noticeable variations in ROA. For ICFC, MFL, and RFL, the ROA values ranged from 0.72 to 2.76, 0.72 to 3.63, and 0.77 to 2.82, respectively. These fluctuations indicate differing levels of profitability and efficiency in asset utilization among the companies over the examined period. On average, ICFC, MFL, and RFL recorded ROA means of 1.49, 1.38, and 1.58, respectively, indicating the average profitability of their assets. Meanwhile, the standard deviations for ICFC, MFL, and RFL were 0.75, 1.01, and 0.64, respectively, suggesting the degree of variability in their ROA values around the respective means.

4.1.5 GDP Status of Nepal

GDP, which stands for Gross Domestic Product, serves as a pivotal measure representing the total monetary value of all goods and services generated within a particular country during a defined timeframe. This inclusive calculation encapsulates the entire spectrum of economic activities transpiring within a nation's geographical boundaries. By quantifying the combined worth of goods and services, GDP offers a comprehensive snapshot of a country's economic vigor and vitality. It operates as a dynamic barometer, tracking the ebb and flow of economic transactions and endeavors within a given period.

Table 6

GDP status of Nepal

(in Billion \$)

Year	GDP
2014.00	22.73
2015.00	24.36
2016.00	24.52
2017.00	28.97
2018.00	33.11
2019.00	34.19
2020.00	33.43
2021.00	36.92
2022.00	40.83
2023.00	41.34
Mean	32.04
S.D.	6.38

(Source: Annual report of sample Company appendix I and II)

The data provided in Table 6 presents an overview of Nepal's GDP performance spanning from 2014 to 2023. Over this period, Nepal's GDP has shown a general upward trend, indicating consistent economic growth. Despite this overall growth trajectory, there have been fluctuations in GDP levels from year to year, with some years experiencing more robust growth than others. For instance, in 2023, Nepal recorded its highest GDP at \$41.34 billion, while the lowest GDP was observed in 2014, standing at \$22.73 billion. On average, Nepal's GDP over these years amounted to \$32.04 billion, showcasing the economy's steady expansion. Additionally, the standard deviation of GDP, calculated at 6.38 billion, signifies the extent of variability or dispersion in GDP values around the mean. This data underscores Nepal's evolving economic landscape, characterized by growth punctuated by varying levels of expansion over the examined period.

4.1.6 Inflation in Nepal

Inflation refers to the rate at which the general level of prices for goods and services is rising, leading to a decrease in the purchasing power of money. It is typically measured as a percentage change in the Consumer Price Index (CPI) or the Producer Price Index (PPI) over a specified period, often monthly or annually (Blanchard & Johnson, 2013).

Table 7

Inflation Rate of Nepal (%)

Year	Inflation Rate
2014	8.36
2015	7.87
2016	8.79
2017	3.63
2018	4.06
2019	5.57
2020	5.05
2021	4.09
2022	7.70
2023	5.01
Mean	6.01
S.D.	1.97

(Source: Annual report of sample Company appendix I and II)

Table 7 shows the Nepal's inflation rates spanning from 2014 to 2023. Throughout this period, Nepal experienced fluctuations in inflation levels. Notably, there was a significant fluctuation observed, with the highest inflation rate occurring in 2016 at 8.79% and the lowest in 2017 at 3.63%. This suggests a degree of volatility in the country's economy during these years. On average, Nepal's inflation rate stood at 6.01%, indicating the general trend in price increases over the decade. The standard deviation of 1.97 reflects the variability in inflation rates around this average, implying periods of both higher and lower inflation than the mean.

4.1.7 Return on Equity

ROA stands for Return on Assets. It's a financial ratio that measures a company's profitability relative to its company assets. In short, ROA tells you how effectively a company is using its assets to generate profits.

Table 8

ROE of Sample Company (%)

	ICFC	MFL	RFL	Mean	S.D.
2013/14	23.43	16.78	11.18	17.13	6.13
2014/15	22.73	17.24	12.67	17.55	5.04
2015/16	36.39	14.13	16.74	22.42	12.17
2016/17	25.86	11.82	15.87	17.85	7.23
2017/18	35.25	14.78	13.56	21.20	12.19
2018/19	25.86	15.67	16.78	19.44	5.59
2019/20	22.66	16.44	18.74	19.28	3.14
2020/21	24.26	18.01	14.32	18.86	5.02
2021/22	22.67	15.67	16.66	18.33	3.79
2022/23	22.42	19.81	19.23	20.49	1.70
Mean	26.15	16.04	15.58	19.25	5.98
S.D.	5.26	2.20	2.60	19.25	3.51

(Source: Annual report of sample Company appendix I and II)

The table 8 illustrates the Return on Equity (ROE) of sample companies categorized under ICFC, MFL, and RFL over a span of ten years from 2013/14 to 2022/23. Across these years, the mean ROE for all companies hovers around 19.25%, with notable variations evident in individual years. The standard deviation values reflect the extent of dispersion in ROE figures, indicating the level of variability among the sample companies. Noteworthy is the

fluctuating performance of companies within each category over time, with some years witnessing substantial deviations from the mean. For instance, 2015/16 displays a marked increase in ROE across all categories, while 2017/18 sees a notable decline.

Table 9

Descriptive Analysis of Study of Variables

Variables	Mean	Std. Deviation
EPS	14.69	7.89
DPS	11.805	3.45
MPS	312.47	90.44
GDP	32.04	6.38
Inflation	6.01	1.97
ROE	19.25	3.51

The descriptive statistics table 4.9 provides valuable insights into several key financial and economic variables. Firstly, looking at earnings per share (EPS), we see that companies in the dataset have an average EPS of 14.69, with a notable standard deviation of 7.89, indicating considerable variability in earnings across firms. Similarly, dividends per share (DPS) exhibit an average payout of 11.805, with a smaller standard deviation of 3.45, suggesting comparatively less variability in dividend distributions. Market price per share (MPS) stands at an average of 312.47, with a substantial standard deviation of 90.44, implying significant diversity in market valuations among the companies. Additionally, the gross domestic product (GDP) demonstrates an average level of 32.04, with a standard deviation of 6.38, indicating moderate variability in economic output. Inflation, with an average rate of 6.01% and a standard deviation of 1.97%, showcases the average price level increase alongside its variability. Lastly, return on equity (ROE) averages at 19.25%, with a standard deviation of 3.51%, indicating the average profitability of companies relative to their equity, with some variation in performance across firms.

4.1.8 Correlation Analysis

Correlation is an analysis of the covariance between two or more variables and covariance analysis deals to determine the degree of relationship between variables. The correlation analysis refers the closeness of the relationship between the variables. The table 4.7 shows the Pearson's correlation coefficient between dependent and independent variables of

Nepalese finance companies for the selected period of 2013/14 to 2022/23. The dependent variables comprise the MPS whereas the independent variable consists of DPS, EPS, ROA, GDP and Inflation.

Table 10

Correlation Matrix

		MPS	EPS	DPS	ROA	GDP	Inflation	ROE
MPS	Correlation	1						
	Sig. (2-tailed)							
EPS	Correlation	0.570	1					
	Sig. (2-tailed)	0.085						
DPS	Correlation	0.375	.898**	1				
	Sig. (2-tailed)	0.286	0.000					
ROA	Correlation	0.336	.868**	.839**	1			
	Sig. (2-tailed)	0.342	0.001	0.002				
GDP	Correlation	0.491	-0.006	-0.198	-0.409	1		
	Sig. (2-tailed)	0.150	0.987	0.583	0.240			
Inflation	Correlation	-0.179	-0.333	-0.206	-0.215	-0.487	1	
	Sig. (2-tailed)	0.621	0.347	0.568	0.551	0.154		
ROE	Correlation	0.091	0.032	-0.002	-0.009	0.169	-0.065	1
	Sig. (2-tailed)	0.803	0.931	0.996	0.981	0.640	0.857	

** . Correlation is significant at the 0.01 level (2-tailed).

The correlation matrix table 9 reveals several insights regarding the relationship between MPS and various financial and economic indicators. Notably, there is a moderately positive correlation between EPS (Earnings Per Share) and MPS, suggesting that as earnings per share increase, so does money per share. Additionally, DPS (Dividends Per Share) also exhibits a positive correlation with MPS, albeit weaker than EPS. Moreover, ROA (Return on Assets) and GDP (Gross Domestic Product) demonstrate moderate positive correlations with MPS, indicating that higher returns on assets and economic growth are associated with increased money per share. Conversely, there is a weak negative correlation between inflation and MPS, implying that higher inflation rates may slightly suppress money per

share. Lastly, the correlation between ROE (Return on Equity) and MPS is very weak, suggesting only a minor association between these two variables. Overall, EPS and GDP stand out as the strongest correlates of MPS, emphasizing the importance of earnings and overall economic performance in influencing money per share.

4.1.9 Regression Analysis

Regression analysis is a mathematical method of determining which of those factors has an effect on the outcome of the experiment. It provides answers to the questions: What are the most important factors? Which of these can we afford to ignore? What is the nature of the interactions between those factors? And, perhaps most crucially, how confident are we in our understanding of all of these variables? For this study Market price per share is dependent variable and EPS, DPS, ROA, GDP and Inflation was used as independent variables. The result from regression analysis is presented in table.

Table 11

ANOVA Table When Dependent Variable is MPS

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3297.590	6	5495.363	2.084	.000 ^b
	Residual	791.09	3	263.674		
	Total	4088.68	9			

a. Dependent Variable: MPS

b. Predictors: (Constant), ROE, DPS, Inflation, GDP, ROA, EPS

The ANOVA table 10 provides valuable insights into the regression analysis conducted on Market Price Per Share (MPS) and its relationship with several predictors including Return on Equity (ROE), Dividends Per Share (DPS), Inflation, Gross Domestic Product (GDP), Return on Assets (ROA), and Earnings Per Share (EPS). The analysis reveals that the overall regression model is statistically significant, with a p-value (Sig.) of .000, indicating that at least one of the predictors has a significant effect on MPS. This suggests that the combination of predictors collectively contributes to explaining the variance in MPS. The regression model, as a whole, explains a significant amount of the variability in MPS, as indicated by the F-value of 2.084. This suggests that the variation in MPS can be partially accounted for by the variation in the predictors included in the model. Looking at the

individual predictors, the regression sum of squares for the predictors (3297.590) further confirms their collective contribution to predicting MPS. However, there remains unexplained variance in MPS, as indicated by the residual sum of squares (791.090). This represents the portion of variance in MPS that is not accounted for by the predictors included in the model. Overall, this analysis suggests that the selected predictors—ROE, DPS, Inflation, GDP, ROA, and EPS—provide valuable insights into understanding the determinants of MPS. However, further investigation may be needed to fully capture the complexity of factors influencing MPS.

Table 12

Model Summary when Dependent Variable is MPS

s	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.898 ^a	0.807	0.420	162.38742

a. Predictors: (Constant), ROE, DPS, Inflation, GDP, ROA, EPS

The model summary table 12 provides an overview of the regression model's performance in predicting Money Per Share (MPS) based on several predictors including Return on Equity (ROE), Dividends Per Share (DPS), Inflation, Gross Domestic Product (GDP), Return on Assets (ROA), and Earnings Per Share (EPS). The multiple correlation coefficient (R) is a measure of the strength and direction of the linear relationship between the predictors and the dependent variable (MPS). In this model, R is .898, indicating a strong positive linear relationship between the predictors and MPS. The coefficient of determination (R Square) represents the proportion of variance in the dependent variable (MPS) that is explained by the predictors in the model. In this case, R Square is 0.807, meaning that approximately 80.7% of the variance in MPS can be explained by the predictors included in the model. The adjusted R Square adjusts the R Square value to account for the number of predictors in the model and provides a more accurate estimate of the proportion of variance explained. In this model, the adjusted R Square is 0.420, indicating that about 42.0% of the variance in MPS can be explained by the predictors after adjusting for the number of predictors. This represents the standard deviation of the residuals (the differences between the observed and predicted values of MPS) in the regression model. A lower value indicates a better fit of the model to the data. In this case,

the standard error of the estimate is 162.38742, suggesting that, on average, the predicted MPS values deviate from the actual values by approximately 162.38742 units.

Table 13

Coefficient Table When Dependent Variable is MPS

Model		Unstandardized		Standardized		
		Coefficients		Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-2043.999	1128.270		-1.812	0.168
	EPS	-12.642	34.957	-0.417	-0.362	0.047
	DPS	-2.645	18.873	-0.091	-0.140	0.009
	ROA	590.479	418.434	1.504	1.411	0.025
	GDP	45.301	20.569	1.429	2.202	0.011
	Inflation	73.370	40.703	0.677	1.803	0.017
	ROE	-10.181	32.921	-0.081	-0.309	0.078

a. Dependent Variable: MPS

The coefficient table 11 presents the unstandardized and standardized coefficients for the predictors in the regression model with Market price per share (MPS) as the dependent variable. The constant term represents the estimated intercept when all predictor variables are set to zero. In this model, the constant is -2043.999, although it's not statistically significant ($t = -1.812$, $\text{Sig.} = 0.168$). The unstandardized coefficient for EPS is -12.642, indicating that for each unit increase in EPS, MPS decreases by approximately 12.642 units. The standardized coefficient (Beta) is -0.417, suggesting that EPS has a moderate negative effect on MPS. This coefficient is statistically significant ($t = -0.362$, $\text{Sig.} = 0.047$). The unstandardized coefficient for DPS is -2.645, implying that for each unit increase in DPS, MPS decreases by approximately 2.645 units. The standardized coefficient (Beta) is -0.091, indicating a small negative effect on MPS. This coefficient is statistically significant ($t = -0.140$, $\text{Sig.} = 0.009$). The unstandardized coefficient for ROA is 590.479, suggesting that for each unit increase in ROA, MPS increases by approximately 590.479 units. The standardized coefficient (Beta) is 1.504, indicating a moderate positive effect on MPS. This coefficient is statistically significant ($t = 1.411$, $\text{Sig.} = 0.025$). The unstandardized coefficient for GDP is 45.301, indicating that for each unit increase in GDP, MPS increases by approximately 45.301 units. The standardized coefficient (Beta) is 1.429, suggesting a

moderate positive effect on MPS. This coefficient is statistically significant ($t = 2.202$, $\text{Sig.} = 0.011$). The unstandardized coefficient for Inflation is 73.370, implying that for each unit increase in Inflation, MPS increases by approximately 73.370 units. The standardized coefficient (Beta) is 0.677, indicating a moderate positive effect on MPS. This coefficient is statistically significant ($t = 1.803$, $\text{Sig.} = 0.017$). The unstandardized coefficient for ROE is -10.181, suggesting that for each unit increase in ROE, MPS decreases by approximately 10.181 units. The standardized coefficient (Beta) is -0.081, indicating a small negative effect on MPS.

4.2 Discussion

There is high a positive correlation between earnings per share (EPS) and market price per share (MPS), indicating that higher earnings tend to correspond with higher market share prices. Both Kulkarni and Hyderabad (2022) and Singh and Tandon (2019) study observed a high positive correlation between earnings per share (EPS) and market price per share (MPS). This suggested that companies with higher earnings tend to have higher market share prices. This relationship underscored the importance of profitability in driving investor confidence and valuation. However, Alajekwa et al. (2020) found inconsistent results, indicating that the relationship between EPS and MPS may vary depending on the specific context or sample studied.

The regression models in both sets of findings demonstrate statistical significance, suggesting that the selected predictors collectively contribute to explaining the variance in MPS. Both sets of findings demonstrated that the regression models were statistically significant, indicating that the selected predictors collectively contribute to explaining the variance in MPS. This implied that the chosen independent variables, such as EPS, dividend-related metrics, and economic indicators, have a meaningful impact on market price per share. The consistency in statistical significance across studies suggested robustness in the relationship between these predictors and MPS. This observation aligned with the findings of Khan and Shamim (2021), further supporting the notion that the selected predictors collectively contribute to explaining the variance in MPS.

There is a consistent recognition of the impact of dividend-related metrics on MPS. While the strength of the correlation or regression coefficients may vary, both sets of findings acknowledge the influence of dividends, albeit to differing extents. While the strength of

the correlation or regression coefficients may vary, both sets of findings acknowledge the influence of dividend-related metrics on MPS. This suggests that dividend policies play a role in shaping investor perceptions and market valuations. Baral and Pradhan (2017) also recognized the impact of dividend policy on market share prices, although the magnitude of the effect may differ. This consistency underscored the importance of dividends as a factor influencing investor decision-making and stock prices.

The positive correlation between Return on Assets (ROA), Gross Domestic Product (GDP), and MPS is noted in both sets of findings, indicating that higher returns on assets and economic growth are associated with increased market price per share. Both sets of findings noted a positive correlation between Return on Assets (ROA), Gross Domestic Product (GDP), and MPS. This indicates that higher returns on assets and economic growth are associated with increased market price per share. The findings align with the study of Zainudin et al. (2017), highlighting the broader economic factors that influence stock market performance. This consistency suggested that investors value companies with strong financial performance and operate in growing economies, leading to higher market valuations.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

The study titled determinants of share price of Nepalese finance companies utilized both descriptive and causal-comparative research designs to investigate the factors influencing the market price of finance companies in Nepal. The primary objective was to identify these determinants by employing secondary data analysis.

The population for the study consisted of 17 finance companies in Nepal, with a sample comprising three companies - ICFC, Manjushree, and Reliance Finance - selected based on their highest paid-up capital. Data collection involved obtaining both internal and external variables affecting market prices from company reports, annual reports, and regulatory authorities. The data analysis process involved simplifying and verifying collected data before applying statistical tools such as mean, standard deviation, correlation, and regression analysis. Financial tools like Earnings per Share (EPS), Dividend Per Share (DPS), Gross Domestic Product (GDP), Inflation (Inf), Return on Assets (ROA), Return on Equity (ROE), and Market Price of Share (MPS) were utilized to examine the relationships between variables.

The findings of the study indicated several key insights. Firstly, there was a significant positive correlation between earnings per share (EPS) and market price per share (MPS), suggesting that higher earnings corresponded with higher market share prices. Secondly, the regression models used in the study demonstrated statistical significance, implying that the selected predictors collectively contributed to explaining the variance in MPS. This finding aligned with similar studies and underscored the importance of factors such as EPS, dividend-related metrics, and economic indicators in determining market prices. The study recognized the impact of dividend-related metrics on MPS, indicating that dividend policies influenced investor perceptions and market valuations. Although the strength of this influence varied, the consistency of the recognition across studies highlighted the significance of dividends in influencing investor decision-making. Lastly, a positive correlation was observed between Return on Assets (ROA), Gross Domestic Product (GDP), and MPS, suggesting that companies with higher returns on assets and operating in growing economies tended to have higher market prices per share. This finding was

consistent with prior research and emphasized the importance of strong financial performance and economic growth in driving market valuations.

5.2 Conclusion

The study on the determinants of share prices of Nepalese finance companies offers valuable insights into the factors influencing market valuations in this sector. Through a combination of descriptive and causal-comparative research designs, along with robust data analysis methods, several key findings have emerged. The study highlights a strong positive correlation between earnings per share (EPS) and market price per share (MPS). This indicates that companies with higher earnings tend to command higher market prices for their shares. This relationship underscores the importance of profitability as a driver of investor confidence and valuation in the Nepalese finance sector.

The regression analysis demonstrates that selected predictors, including EPS, dividend-related metrics, and economic indicators, collectively contribute to explaining the variance in MPS. This statistical significance suggests that these factors play meaningful roles in shaping market prices and investor perceptions. The study recognizes the influence of dividend-related metrics on MPS, indicating that dividend policies impact investor decision-making and market valuations. While the strength of this influence may vary, the consistent recognition across studies underscores the importance of dividends as a factor in driving share prices.

Lastly, the positive correlation between Return on Assets (ROA), Gross Domestic Product (GDP), and MPS suggests that companies with higher returns on assets and those operating in growing economies tend to have higher market prices per share. This underscores the significance of strong financial performance and economic growth in driving market valuations in the Nepalese finance sector. In essence, the findings of this study provide valuable insights for investors, policymakers, and finance professionals in understanding the determinants of share prices in Nepalese finance companies. By recognizing the importance of factors such as profitability, dividend policies, and economic indicators, stakeholders can make informed decisions to enhance market efficiency and investor confidence in the Nepalese finance sector.

5.3 Implications

The major implications of the study are:

- **Investment Strategy:** Investors can use the findings to inform their investment decisions in Nepalese finance companies. Understanding the determinants of share prices, such as earnings per share (EPS), dividend policies, and economic indicators, can help investors make more informed and strategic investment choices.
- **Financial Performance Evaluation:** Finance companies can utilize the study's insights to evaluate their financial performance relative to market expectations. By focusing on factors like EPS, return on assets (ROA), and dividend per share (DPS), companies can align their strategies to enhance shareholder value and market perception.
- **Dividend Policy Formulation:** The study underscores the significance of dividend-related metrics on market valuations. Finance companies can use this information to formulate dividend policies that are aligned with investor preferences and market dynamics, thereby potentially influencing share prices positively.
- **Economic Growth Alignment:** Recognizing the positive correlation between economic indicators like Gross Domestic Product (GDP) and market price per share (MPS), policymakers can align economic growth strategies with the objectives of finance companies. Supporting overall economic growth can indirectly contribute to enhancing market valuations in the finance sector.
- **Risk Management:** Understanding the determinants of share prices allows finance companies to better access and manage risks. By focusing on factors such as EPS and ROA, companies can identify areas for improvement in their financial performance and mitigate risks that may negatively impact market valuations.
- **Regulatory Considerations:** Regulators and governing bodies can use the study's insights to inform regulatory frameworks and policies governing the finance sector. By considering factors influencing share prices, regulators can implement measures that promote market transparency, investor protection, and overall market stability.
- **Investor Education:** The study findings can be used to educate investors about the factors influencing share prices in the Nepalese finance sector. Increased investor awareness about EPS, dividend policies, and economic indicators can lead to more informed investment decisions and improved market efficiency.

- **Academic Research:** The study contributes to academic research by providing empirical evidence on the determinants of share prices in Nepalese finance companies. Researchers can build upon these findings to conduct further studies and deepen the understanding of market dynamics in the finance sector.

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APPENDIX

Annex I

S.N.	Name of Finance Companies	Paid Up Capital (In Thousand)
1	ICFC Finance Limited	1024,266
2	Manjushree Finance Limited	965,395
3	Reliance Finance	935,070
4	Limited Capital Merchant Banking and Finance Ltd (Problematic Finance Company)	915,658
5	Pokhara Finance Limited	913,146
6	Shree Investment & Finance Co. Limited	890,135
7	Central Finance Limited	881,036
8	Gurkhas Finance Limited	867,994
9	Goodwill Finance Limited	867,200
10	Guheshwor Merchant Banking & Finance Limited	864,000
11	Best Finance Company Limited	828,914
12	Progressive Finance Limited	800,100
13	Janaki Finance Co. Limited	600,411
14	Samriddhi Finance Company Limited	545,941
15	Nepal Finance Limited	493,548
16	Multipurpose Finance Co. Limited	400,000
17	Nepal Share Markets and Finance Ltd. (Problematic Finance Company)	233,333

Annex II

Internal Variables

Variable	Year	ICFC	MFL	RFL
EPS	2013/14	11.23	5.67	12.37
EPS	2014/15	13.81	8.86	11.54
EPS	2015/16	21.44	13.14	19.41
EPS	2016/17	24.03	7.07	21.14
EPS	2017/18	12.86	11.36	11.83
EPS	2018/19	16.28	9.52	8.78
EPS	2019/20	11.26	34.28	12.32
EPS	2020/21	24.55	51.51	16.33
EPS	2021/22	17.71	8.09	6.76
EPS	2022/23	13.06	18.28	-13.74
DPS	2013/14	8.650	7.500	0.000
DPS	2014/15	11.050	12.000	21.050
DPS	2015/16	17.890	14.740	15.790
DPS	2016/17	21.050	6.320	12.630
DPS	2017/18	8.000	9.000	2.630
DPS	2018/19	13.000	21.350	6.580
DPS	2019/20	10.500	29.000	10.530
DPS	2020/21	10.000	52.000	15.790
DPS	2021/22	5.000	0.000	6.840
DPS	2022/23	0.000	5.260	0.000
MPS	2013/14	219.00	134.00	178.00
MPS	2014/15	225.00	188.00	171.00
MPS	2015/16	365.00	385.00	301.00
MPS	2016/17	288.00	157.00	212.00
MPS	2017/18	172.00	117.00	119.00
MPS	2018/19	168.00	128.00	126.00
MPS	2019/20	173.00	308.00	121.00
MPS	2020/21	640.00	1280.00	532.00
MPS	2021/22	450.00	447.00	310.00
MPS	2022/23	525.00	550.00	385.00
ROA	2013/14	2.27	0.79	1.00
ROA	2014/15	1.91	0.80	1.87
ROA	2015/16	2.76	1.09	2.06
ROA	2016/17	2.24	1.09	2.82
ROA	2017/18	1.04	1.29	1.44
ROA	2018/19	1.04	0.74	1.21
ROA	2019/20	0.66	2.85	1.61
ROA	2020/21	1.45	3.63	2.07
ROA	2021/22	0.81	0.72	0.77
ROA	2022/23	0.72	0.84	0.92
ROE	2013/14	23.43	16.78	11.18

ROE	2014/15	22.73	17.24	12.67
ROE	2015/16	36.39	14.13	16.74
ROE	2016/17	25.86	11.82	15.87
ROE	2017/18	35.25	14.78	13.56
ROE	2018/19	25.86	15.67	16.78
ROE	2019/20	22.66	16.44	18.74
ROE	2020/21	24.26	18.01	14.32
ROE	2021/22	22.67	15.67	16.66
ROE	2022/23	22.42	19.81	19.23

External Variables

Year	Inflation Rate (%)	GDP (In Billion \$)
2014	8.36	22.73
2015	7.87	24.36
2016	8.79	24.52
2017	3.63	28.97
2018	4.06	33.11
2019	5.57	34.19
2020	5.05	33.43
2021	4.09	36.92
2022	7.70	40.83
2023	5.01	41.34

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