

DETERMINANTS OF SHARE PRICE OF NEPALESE COMMERCIAL BANKS.

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CHAPTER-I

INTRODUCTION

1.1 Background of the study

Investment activities are core activities for economic development. It means the sacrifice of current rupees for the future rupees in which two different attributes are generally involved i.e. time and risk. The sacrifice takes place in the present situation and is uncertain. The reward come latter, if any magnitudes generally uncertain. In some case the element of time per dominates (for example government bond). In other cases risk is the dominant attribute (for example call option on common stock). In yet others, both time and risk are important (for example share of common stock) (*Paudel, (2015)*).

Common stock one of the most popular investment alternative for investment among short term and long term securities such as marketable securities and other bond, preferred stock as it has unlimited sources of earning, large capital gain and normal gain. Like bond and preferred stock the normal gain is not fixed on common share, it determined and declared by annual general meeting. So earning on the investment of common stock depends upon the company profit. Warren Buffet and Mukesh Abany became the richest people investing on share in the world. Common share on the other hand is one popular sources of raising fund to the company according as their optional capital structure. To raise Fund Company issue share from IPO (Initial Public Offering) (*Bhandari, 2003*).

Investor must be aware to choose the share of a prosperous company which has high potentiality for rapid growth as likes Standard Chartered Bank Ltd, Uniliver Nepal Ltd, Chilime Hydropower Company Ltd. and be secured from the institution's share as like Nepal Development Bank Ltd. Which company share is chosen? Is a major question to the investor and it is answer through the fundamental analysis of stocks. Fundamental analysis is a method used to evaluate the worth of security by studying the financial data of the issuer. It scrutinizes the issuer's income and expenses, assets and liabilities, management and position in its industry. In other words it focuses on the "basic" of the business. To use fundamental analysis to help us to make investment decision, we would rely heavily on an offering prospectus, annual and quarterly reports

as well as any current news items relating to company which securities we are considering .Technical analysis is a method of evaluating securities by analyzing statistics generated by market activities past prices and volume. Technical analysis does not attempt to measure a security's intrinsic value; instead they look at stock chart for patterns and indicators that will determine a stocks future performance (*Aryal, 2015*).

Fundamental analysis is taken as more comprehensive, and difficult to understand. Technical analysis is taken as simple method to understand but it is on the basis of different assumption. Assumptions of technical analysis are as follows: Market value is determined by the interaction of supply and demand, supply and demand are governed by numerous factors both rational and irrational, security prices tend to move in trends that persist for an appreciable minor fluctuation in the market, changes in a trend are caused by shifts in supply and demand, shift in supply and demand no matter why they occur can be detected sooner or later in charts of market transactions, some chart patterns tend to respect themselves. Technical analysis has become increasingly popular over the several years as more and more people believe that historical pattern and performance of stocks is a strong indication of future performance. Even though the important of fundamental analysis is not less important as Warren E. Buffett use it to make investment decision Benjamin Graham is the father of fundamental analysis (*Dahal, 2016*).

Share are traded both in primary and secondary market. Primary market is the first market where companies issue its securities for the first time. Recently Megha Bank Ltd. is going to issue the primary stock. But secondary markets are markets for existing financial assets, which are currently traded between investors. These markets create the price and allow for liquidity. If secondary markets do not exist investors would have no place to sell their asset and without liquidity many people would not invest at all (*WWW.nepalstock.com*).

1.2 Problem statement and research questions

Nowadays, investment on capital market plays the key role in the economic development of country. The economic social and political interference directly influences it. The phase of development of the capital market in any country and effective growth is dependent upon the collective economic condition, saving and investment opportunities etc.

Though there are various commercial banks in touch with capital market, they have not been able to display the better performance as expected by the investors. On the other hand, the investor themselves are not responsible for not having self-judgment and self-control in the choice of securities for the investment hence most of the investor are carelessly investing in share. The present political instability, economic imbalance, in effective implementation of liberal economic policy of the country has shown negative symbols in the economy of the country.

The shares of the commercial banks play a vital role in the overall index of NEPSE and the overall index is highly influenced by the shares of the commercial banks. The sector wise contribution in total traded volume in NEPSE is mostly dominated by the financial sector. The shares of the publicly quoted commercial banks seem to be the basis of investment to all potential investors.

Only few investors of Nepalese share market are aware of the causing agent of share price. It means that most of the investors are unknown about the financial performance of the company but tends to invest on the company without proper financial analysis. It causes the unusual relation of the financial indicators – EPS, BVPS, DPS, etc. with the market price of the share. The market rumors relating the financial position of the company is the major analytic tool for the most of the Nepalese investors. That has caused that the MPS of the most of the foreign joint venture commercial bank are high in comparison with the other banks and manufacturing companies. In this context, the research problem of this study can be presented in the following points:

- i. What are the major determinants of the stock price of Nepalese Commercial banks listed in NEPSE?
- ii. Is there any relation between MPS with the major financial indicators (EPS, DPS, BVPS, DY and PE ratio)?

- iii. Are the investors aware of influencing factors which effect on MPS of the commercial banks?

1.3 Objectives of the study

To make the investment activities more fruitful and profitable investors require proper knowledge of share price i.e. how is share price formed, why does it fluctuate, what factor are responsible for the changes of its price and so on. A few studies have been made regarding securities listed in NEPSE, however, most of the studies made up to present capital structure analysis, deposit mobilization of the companies, dividend policy and risk and return etc. but sufficient researches have not been done to provide core prospective on the factors affecting the stock price. This study aims to identify the factors respective for share price movement and their relationship with the stock price, so that it will give a better insight into the stock price. The main objectives of the study are listed below:

- i. To identify the prime determining factors of Share Price fluctuation of Nepalese Commercial Banks.
- ii. To recognize the relationship between MPS with the various financial indicators like EPS, DPS, BVPS, DY and PE ratio.
- iii. To analyze the understanding and awareness of investors on influencing factor of MPS.

1.4 Significance of the study

The study focuses on the stock price movement of the commercial banks, so the study is particularly significant to the investors, managers, bankers, stock analyst, brokers, government officials, academicians, students and any other stakeholders who are interested in understanding the share price behavior of the commercial banks. Investors invest money with the expectation of acquiring good returns from their investment. This study analyzes financial situation of the commercial banks and performance of its traded stock. Therefore, the study is significant to investors and general public to help them undertake rational decisions while investing in the stock of the commercial banks. Moreover, the study provides insight over the financial position and capitalization status of the commercial banks. The bank management can analyze the financial position and performance of their traded stock to undertake necessary steps for its improvement. Since, the study provides

general picture of the existing share market, it is significant to the government and the policy making agencies to prepare/ change policies in a timely manner for efficient functioning and growth of stock market.

In addition, the study would also be useful to stock analyst, brokers and any persons actively involved in stock market. Moreover, the study is significant to academicians and students who are willing to learn about the stock price behavior of the commercial banks and also to those who wanted to pursuer their career in banking or share business. Taking all the above issues into consideration, this study will analyze the stock price behavior of the listed commercial banks.

1.5 Limitations of the study

Like every research study this study also has some limitations. They are given below:

- i. The study includes only commercial banks sector for the study. So, the findings and conclusion obtained may not be applicable for other sectors of companies listed in NEPSE.
- ii. Most of the primary data are based on research questionnaire. Therefore, the reliability and validity of the data depends upon their source.
- iii. The primary data was collected by using the connivance sampling design.
- iv. Only few financial and statistical tools are used in the study.
- v. For the purpose of study only common stocks or ordinary stocks are taken.
- vi. The study has been designed (to concentrate on some of the banking sector, which is a part of total capital market). So the conclusion cannot be generalized on the total capital market.

CHAPTER II

LITERATURE REVIEW

Review of literature means reviewing research studies and other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. In this chapter, attempts have been made to review some of the basic literature on technical analysis theory including review of empirical evidence of previous studies. Related literatures have divided into two sections. The first sections of this chapter contain a brief explanation of the concept of common stock and theories of the share price behavior. It includes the efficient market, fundamental analysis and technical analysis theory. The second section includes the review of previous studies related to technical analysis in foreign context as well as Nepalese context separately.

2.1 Conceptual review

Before getting into the core concept of factors determining the stock price, it is logical to be familiar with some financial terms, which are frequently used in the research about capital market and finance. So, in this section, some of the financial and technical terms related to stock market are defined.

2.1.1 Financial market

A financial market is a market in which financial securities such as stocks and bonds can be purchased and sold. Financial markets facilitates the flow of funds and thereby allow financing and investing by households, firms, and government agencies. Financial market transfer funds from those who have excess funds to those who need funds. Financial market includes the trading activities of financial institutions like Share, Bond, Debenture, etc. Hence it actually refers to the money market and capital market which facilitates the transfer of funds from the savers to users.

2.1.2 Money market

Money market refers to that financial market in which securities with a short term and highly liquid debt securities are traded. Thus, money market comprises the securities that have short maturity period, easy marketability, liquidity and even lower risk in comparison to other securities. Money market facilitates flow of short term fund. Financial institutions, major corporations, and government units are the major issuers of money market

instruments. The money market instruments of T-bills, repurchase agreement, certificate of deposits, federal funds are practices in Nepal.

2.1.3 Capital market

Capital market refers to the financial in which long term securities are traded. Long term financial instruments such as stocks issued by corporations are basically traded in a capital market. Capital market facilitates flow of long term fund. The participants of capital market are long term surplus units and deficit units (government, business and individuals). The capital market includes the stock market and the bond market. The capital market instruments are mortgages, common stock, Treasury bonds and notes, corporate and foreign bonds, state and local government bonds and notes. Development and expansion of capital market is essential for the rapid growth of the country. The capital market helps in economic development by mobilizing long-term capital needed for productive sector. Capital market is the place where financial claims and obligations are bought and sold that have maturity period of more than one year. It can be further divided into two types Primary Market and Secondary Market.

Primary market

Primary market is the place where corporations and government issue new securities. All securities, whether in money or capital markets, are initially issued in Primary Market. This is the only market in which the company or government is directly involved in the transactions and receives directly benefits from an issue that is the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individuals, businessman, governments, financial institutions, savers and investors, they become a part of the secondary market. The term 'Primary Market' is used to denote the market for the original sale of securities by an issuer and to the public.

The issuer receives cash which may be invested in productive assets or retirement of debt. Corporate bodies issue new securities in the primary market hence, securities available for the first time are offered through the primary security market. The issuer may be a brand new company or that has been in business for years. The securities offered might be a new type for the issuer or additional amount of security- used in the past.

Secondary market

Secondary market is the market in which securities are traded that has been issued in the past. Simply, secondary markets are markets in which existing outstanding securities are traded between the investors i.e. buyers and sellers. It creates the price and allow for

liquidity. Thus, Secondary Market mainly deals with previously issued shares traded through stock exchange, over the counter market or directly selling.

The function of the secondary market is to provide liquidity for securities purchased in the primary market. Once investors have purchased securities in the primary markets, they need a place to sell those securities. Without the liquidity of the secondary market, firms would have difficulty raising funds for productive purpose in the primary markets. Secondary Market is another term can be called as Security Market.

2.1.4 Security Board of Nepal (SEBON)

Securities Board Nepal was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets. It has been regulating the market under the Securities Act, 2006.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

Since its establishment, SEBON has been concentrating its efforts to improve the legal and statutory frameworks which are the bases for the healthy development of the capital market. As a part of its continuous effort to build a sound system, the Securities Exchange Act, 1983 was amended for the second time on January 30, 1997. This amendment paved the way for establishing SEBON as an apex regulatory body as it widened die horizon of SEBON by bringing market intermediaries directly under its jurisdiction and also made it mandatory for the corporate bodies to report to SEBON annually as well as semi-annually regarding their performance. Although the second amendment in the act established direct relationship of SEBON with the market intermediaries and the listed companies, supremacy in its jurisdiction is yet to be established and clearly recognized (Security Board of Nepal, 2014).

2.1.5 Nepal Stock Exchange (NEPSE)

The Nepal Stock Exchange Limited is the only Stock Exchange of Nepal. NEPSE opened its trading floor on 13 January 1994. On October 31, 2019 the equity market capitalization of the companies listed on NEPSE was approximately US\$12.779 billion. It is regulated by the Securities Board of Nepal.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. As on April 4, 2013, the number of listed companies are 334, which includes Commercial Banks, Hydro Power Companies, Insurance Companies and Finance Companies among others. The Exchange has 50 registered brokers as of April 2019. The NEPSE Index is primary all equity market index of NEPSE. There are 245 companies listed on stock exchange till the date (as on 01-11-2019).

Nepal Stock Exchange was known as Securities Exchange Centre earlier. Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. The major tasks undertaken by Nepal Stock Exchange are brokerage, undertaking, managing the public issue, making market for government bonds and other financial services. Nepal Stock Exchange is a non-profit organization operating under Securities Exchange Act, 1983. It was established with joint effort of Nepal Industrial Development Corporation (NIDC) and Nepal Rastra Bank to mobilize the public saving for ensuring public ownership in the shares of public limited companies. In order to promote the stock exchange business, the center made a series of studies in the beginning regarding both the public limited companies and undertaking the business of buying and selling of securities. Recently, NEPSE has adopted the 'Circuit Breaker' system by which the speculation and fluctuation of share price is controlled. This has led the investors feel secured about their investment in certain extent. Currently paid up capital of the NEPSE is Rs. 816 million. However the AGM of NEPSE has approved to increase the capital structure to make its authorized capital of Rs.940 million. The proposed capital structure of NEPSE consists of issued capital of Rs.754.16 million and subscribed capital of 754.16 million. Out of the total capital (58.67%) is subscribed by HMG/N. similarly, (34.60%) is subscribed by NRB, (6.13%) is subscribed by NIDC and (0.62%) is subscribed by rest of the licensed members (www.nepalstock.com).

2.1.6 Common stock

Common stock is legal representation of equity for ownership position in a corporation. It lies under variable income security between two types of securities: fixed income and variable income and is a negotiable instrument. It can be bought and sold in the secondary market. The holders of common stock are called shareholders or stockholders. The common stock is the permanent and vital source of capital since they do not have a maturity date. As a return to the contribution of shareholders investment, they are entitled to dividends. It means, in the case of organizational profit, the shareholders are provided a certain sum of money as dividend. The amount or rate of dividend is fixed by the Board of Directors. Hence, the common stock is a kind of variable income security. Being the owner of the company, the shareholders bear the risk of ownership. They are entitled to dividends after the claim of outsiders are satisfied.

Features of common stock:

Claim on income:

The common stockholders bear a right to claim on income, which is earning available for ordinary shareholders, after paying expenses, interest charges, taxes and preferred dividend, if any. The income may be distributed among shareholders in the form of dividend or retained earnings. Dividends are immediate cash flow to shareholders, whereas retained earnings are the income reinvested in the organization. Which ultimately increase the net worth of Shareholders
Claim on Assets: The Common Stockholders have a residual claim on the company's assets in case of liquidation. Out of the realized value of assets, first the claims of debt-holders and then preference shareholders are satisfied, and the remaining balance, if any, is paid to the common stockholders.

Right to control:

The ordinary shareholders have the legal power to elect directors to the board. If the board fails to protect their interests, they can replace the directors. They are able to participate in the management of the company through their voting right and right to maintain proportionate ownership.

Voting right:

For each share of common stock owned, the common stockholder has the right to cast one vote at the Annual General Meeting of stockholder. Common stockholders have the right to vote on stockholders matter, such as the selection or the board of directors, sale of fixed assets, merger of the company etc.

Pre – emptive right:

The law grants shareholders the right to purchase new share in proportion to their current ownership. Thus the pre-emptive right entitles a shareholder to maintain his proportionate share ownership in the company. The stockholder's option to purchase, a stated number of new shares at a specified price during a given period, is called right which can be exercised at a subscription price which is generally much below the current market price of shares.

Limited liability:

The common stockholders are the true owner of the company, but their liability is limited to the amount of their investment in shares. If a stockholder has already fully paid the issue price of share purchased, s/he has nothing more to contribute in the event of financial distress or liquidation. The limited liability feature of share encourages unwilling investors to invest their funds in the company which helps company to raise funds.

Most of the investors are wise to invest their saving funds in stocks, with the expectation of future cash inflow as dividends and maximization of value of their holdings in the market. Dividends and value of the firm are linked with the earning power of the firms, which ultimately affects the market price of shares. So, brief discussions have been presented in the following paragraphs, on earning per share, dividend per share, book value per share and market price per share.

2.1.7 Earnings per share

Earnings per Share is calculated by dividing a company's net revenues by the outstanding shares. This gives a number that can be used to compare the earning of companies since it is unlikely any two companies will have the same number of shares outstanding. Accounting earnings that represent the different revenues and expenses, including the expenses associated with non-equity source of fund (such as interest to debt, dividend of preference shares) is known as total earnings available for common stock. If this portion of income is divided by number of outstanding shares, we get earning per share.

2.1.8 Retained earning

The total amount of earning of the firm that has not paid out as dividend through its history and indicated in the Balance Sheet as earning is known as Retained Earnings. These earnings are reinvested in the firm.

2.1.9 Dividend per share

Dividend per share is calculated by dividing the total dividend amount paid for the financial period by the number of ordinary shares in issue. The directors may pay an interim dividend

during the accounting period and then recommend a final rate of dividend per share for approved by shareholders at the Annual General Meeting (AGM).

Forms of dividend

Cash dividend: Payment made in cash to shareholder are termed as cash dividends. Distribution of cash dividend causes the reduction in total assets and net worth of the company.

Stock dividend: Distribution of bonus share as dividend to the stockholder is known as Stock Dividend. This increases the number of shares of the company.

2.1.10 Book value per share

The book value of the equity reflects the historical costs of – brick and meters the physical assets of the company. A well-run company with strong management and an organization that functions effectively should have a market value greater than the historical book value of its physical assets.

2.1.11 Market value per share

Market value per Share is the current price at which the stock is traded. For activity traded stocks that have thin markets, prices are difficult to obtain. Even when obtainable, the information may reflect only the sale of a few shares of stock and non-typing the market value of the form as a whole. For companies of this sort, care must be taken in interpreting market price information.

The market price of share gives the value of shares, and the value of the organization. The market price is that price in which shares are traded or the stock amount which is paid by the buyer to the seller to purchase the stock of company. Since the common stock holders are owner of organization and have least priority to claim in liquidation, the price is highly volatile very sensible to environmental factors.

Due to the market imperfection and uncertainty, shareholders may give a higher value to the near dividends and capital gains. Thus, payment of dividend may significantly affect the market price of shares. Higher dividends increase the value of shares and low dividends reduce the value.

Development of securities market in Nepal

The history of securities market in Nepal is not too long. Almost two and half decades ago, it began with the flotation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in

1937. Introduction of company act in 1951, the first issue of government bond in 1964 and the establishment of securities exchange center Ltd. in 1978 where some significant development of capital market in Nepal.

Securities exchange center, before it is converted into Nepal stock exchange was only the capital market institution under taking the job of brokering, underwriting, managing public issue, market making government bond and other financial services. Then the securities exchange center was converted into Nepal stock exchange Ltd. in 1993. The main objective of NEPSE is to impart free marketability and liquidity to government and corporate securities by facilities transaction in its. NEPSE is started its trading floor in 13th January, 1994 through its licensed member H.M.G. NR Bank, NIDC and licensed members are the shareholders of the NEPSE. The board of director of NEPSE constitutes nine directors in the board in accordance with securities Exchange act 1983. Six directors are nominated by Nepal government from different institutional investor. Two from the licensed members and G.M of NEPSE is Ex-officio director of the board (*Bhattarai, 2015*).

The authorized capital of NEPSE is 940 million. The issue capital is 754.16 million and paid up capital is 816million. NEPSE has 29 members brokers eleven sales issue manager. It has license to dealers (primary and secondary) issue manager in the secondary market. Till Bhadra 2075, 230 companies have listed their securities from different seven sectors on the stock exchange for their secondary transaction and they are from banking, manufacturing, insurance, finance, trading hotel and other sectors (*Bhattarai, 2018*).

Nepal stock exchange is in developing stage. Therefore, it is possible for new speculative investors to manipulate the price share involve in desirable practices. To control these deficiencies, government has established Security Board of Nepal (SEBON). It is the apex regulatory body to facilitate smooth development of a dynamic and competitive stock market and maintains its creditability, fairness, efficiency, transparency and responsiveness. NEPSE is a market where securities are exchanged. It is Nepal's one and only security market. It formulates new policies, rule and regulations for the smooth operation of the market.

Commercial Banks

Commercial banks comprise the largest group of depository institutions in size. A commercial bank is a type of financial institution that accepts deposits, offers checking

account services, makes various loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses. Commercial banks are established to improve people's economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people and the country. Commerce bank has been playing a great role for the economic development of the country directly or indirectly.

The commercial bank plays a dual role of mobilizing as well as allocating the limited resources towards people's needs for the development of the economic system. Financial business in any country is determined by political, social and economic factors. Moreover, level of economic development, banking awareness, growth and habits of population services provided by banks, level of urbanization and income distribution are other key factors affecting financial business. The history of modern bank begins from the establishment of Bank of Venice in 1157 A.D. Moreover, the growth of bank accelerated after the introduction of the Banking Act 1883 in the UK as it allowed opening of a joint stock company bank. In the beginning, commercial bank's functions were confined to accepting deposit and giving loans. However, their functions have, now, increased manifold. Commercial banks are found operating throughout the world.

Banks generate many useful reports to analyze and guide their operations. Two important reports for evaluating bank performance are the balance sheet and the income statement.

2.2 Review of the journal's articles

Review of articles, bulletins and previous studies are important for research. The review of articles gives a clear insight on the developments and updates in the area of research. In this section, articles related to Nepalese stock market and its behavior is reviewed.

Baral & Shrestha, (2006) conducted a research on "Daily Stock Price Behavior of Commercial Banks in Nepal". This study examines the stock price behavior of listed commercial banks by using the daily price movements of commercial banks sampled randomly in the fiscal year 2005/06. Observations of daily stock prices of sampled banks indicate that there is a large variation in their stock prices in the fiscal year 2005/06. They are not doing well in Nepalese stock market. Most of the serial coefficients are significantly deviated from zero and statistically insignificant. It signifies that the successive price changes are dependent. Therefore, the Nepalese stock market is inefficient in pricing the shares. Runs test results also show that the percentage of deviation between the observed

and actual number of runs in the series of price changes is significant. It is obvious that the successive price changes are not random. Thus, RWH does not hold true in the context of Nepalese stock market.

Pistolese (2008), based on his research studied of over more than 25 years on stock market investment published “a self-teaching guide for the stock market investor using technical analysis” in this book he stated that, “A thorough understanding of technical analysis can mean the difference between handsome profit or only mediocre returns from investment in the stock market chart and correctly interpret past and present share price movements and trading volumes. Once you understand what is happening to a shares price you greatly increase your chances of taking the right action at the right time –thus making profits in the stock market.” In this way Pistolese argued that technical analysis is one of the profitable approaches to stock market strategy. According to him, -“The forces of supply and demand results from the hope for profits, and supply results from the fear of loss. When these two opposing forces are not in balance, stock price move up if the demand side is greater and down if the supply side is greater. A chart showing the recent history of how these force have interacted to change the price of the stock is a tool for analyzing what has happening to the stock price recently and what may happen to it in the future” (Pistolese, 2008:1).

(Nepali Times, January 2008) published an article on the “Stock Investment Behavior in Nepal”. The article stated that the problems at the NEPSE are twofold. The first is that it is basically an extension of the casino, with people speculating rather than investing wisely. The other is that the volume of stocks is too low. Globally, the development of stock markets has only worked well when guided by institutional investors rather than individuals. In Nepal we have individual investors, led by some rogue insiders, who have turned it into a punters den. The stock exchange has been relegated to a racecourse, with betting dependent on the alcohol content in one’s blood rather than rational thinking by one’s brain. It also states that the NRB should regulate the market and the financial sector as an ongoing exercise, not just a reaction to the latest problem. It is vital that the financial sector is seen to be stable if the country is to build credibility as a place to invest in. The business sector also needs to pull up its socks. Corporate governance should be a way of life if Nepali companies are to compete in the global arena. Relying on insider trading or dodgy legislation will not work in the long run. Looking ahead, the stock exchange must provide the necessary avenues to assist in funding Nepal’s economic growth, but this must

be based on sound international practices. The article provides following suggestions: Make trading paperless to reduce speculation, Give the regulators stronger ongoing powers, Give favorable tax breaks to mutual funds and institutional investors so that individuals go through them instead of trading directly in the market, Acknowledge that stock investment is a long-term game and not a short-term gamble, and accept that decent returns will only occur if the market is health.

G.C. (Dec 2009) On the literature named as “Volatility Analysis of Nepalese Stock Market by Surya Bahadur”, he found that the distribution of the daily return series for the Nepalese stock market to be leptokurtic, non-normal and exhibiting significant time dependencies. The volatility of the Nepalese stock market is modeled using daily return series consisting of 1297 observations from July 2003 to Feb 2009 and different classes of estimators and volatility models. The results indicate that the most appropriate model for volatility modeling in Nepalese market, where no significant asymmetry in the conditional volatility of returns was captured, is GARCH (1, 1). The study revealed strong evidence of time-varying volatility, a tendency of the periods of high and low volatility to cluster and a high persistence and predictability of volatility in the Nepalese stock market. The study revealed strong evidence of time varying volatility, a tendency of the periods of high and low volatility to cluster and a high persistence and predictability of volatility in the Nepalese stock market.

Mark C. Mitchell and T. Harold Mulherinin (2009), about “The impact of public information on the stock market” focused the public information to influences of share market. The express that, in this article, we ask the straight forward question of whether the amount of information that is publicly reported affects the trading activity and the price movements in security markets. The primary contribution of our research design to this important issue that we employ distinctive proxy for information the number of announcement released daily by Dow Jones and company. Although this proxy certainly yields an imperfect treatment of the information available to securities market participants it is more comprehensive than most measures used in prior studies and provide a reasonably broad observable variable with which to address the question of the impact of public information on the stock market (Blaek, 2008).

Thapa, (June 2012) on the literature on “Stock Market Volatility in Nepal” by Thapa, tries to examine the presence of volatility in the stock market of Nepal. It uses the Autoregressive Conditional Heteroskedasticity (ARCH) and its extension, the Generalized

Autoregressive Conditional Heteroskedasticity (GARCH) models, originally introduced by Engle (1982), Bollerslev (1986) and Nelson (1991). Time series data from January 1, 2004 to December 31, 2011 on eight sub-indices and NEPSE index are used. It is found that six out of the eight sub-indices are volatile during the observation period. Conditional volatility persists in the stocks of commercial bank, development bank, trading, manufacturing, insurance and other sectors while it does not exist in the stocks of hotel and finance company. ARCH and GARCH terms are significant in aggregate NEPSE index. Hence, it can be concluded that there is strong evidence of time-varying volatility; a tendency of the periods of high and low volatility to cluster; and high persistence of shocks on volatility in Nepal's stock market. However, interest rate has no significant role found in stock market volatility of Nepal. While regressing volatility of overall stock returns against the interest rates, it is found that that there is no role of interest rates changes on stock return volatility.

Bhattarai, (2014) On the national research of Bhattarai on “Determinants of Share Price of Nepalese Commercial Banks”, he examines the determinants of share price of commercial banks listed on the Nepal Stock Exchange Limited over the period of 2006 to 2014. Data were sourced from the annual reports of the sampled banks and analyzed using regression model. The results revealed that earning per share and price- earnings ratios have the significant positive association with share price while dividend yield showed the significant inverse association with share price. The major conclusion of the study is that dividend yield, earning per share and price-earnings ratio are the most influencing factors in determining share price in Nepalese commercial banks.

Paudel, (2015) has conducted a study on “A Study on Share Price Movement of Joint Venture Commercial Bank.” He used various financial and statistical tools like standard deviation, correlation, beta, t- test etc. the major objective of the study was to examine Nepal Stock Exchange market and to judge whether the market shares of different banking indicators (book value per share and major financial ratio) explain the share price movement. With the application of above stated methodologies, he concluded that the market share and growth rates of different banking indicators used are not captured by the market share of these banks. The ordinary least square equation of book value per share on market value per share reveals that the independent variable does not fully explain the dependent variable on the basis of above mentioned points. So, Nepal Stock Exchange operates in a weak form of efficient market hypothesis, indicating that the market prices move randomly. The market value per share does not accommodate all the available

historical information. The beta coefficient which measures the riskiness of individual security in relative term, suggest that the stocks of joint venture commercial banks are less risky as compared to other average stock traded in the stock exchange.

Dahal, (2016) has conducted a study on “Stock Market Behavior of Listed Joint Stock Companies in Nepal” taking 67 sample companies. To analyze the gathered data he used simple percentage and pried t-test as analyzing tools. He found that most of the investors were attached with banking sector for investment. On analyzing primary data it was found that the stock market in Nepal is in developing stage as investors are not well aware about the investment process and its other factor like NEPSE index, price trend and investment facilitators are not doing their work in systematic way. It was also found that the investor’s motive for owning shares of company is to receive the dividend from the shares. On analyzing the price trend of two years NEPSE index in different months with the help of monthly trend, while that of year 2001 was in decreasing trend. Similarly, the result of paired t-test for signaling factors with reference to major seven events showed that signaling effects had played main role in fluctuation of stock prices.

Ghimire & Mishra(2018), aimed to determine the relationship between stock price and explanatory variables DPS, EPS, P-E ratio, BV, Market to BV for the period 2012 to 2017. Using simple and multiple regression analysis and descriptive statistics this study investigates the factor affecting the stock price. With the sample size of 11 financial and nonfinancial firms of Nepal, the result indicates that the variables Market to BV, P-E ratio are the significant determinants of stock price which directly affect the stock price. Likewise, DPS, BV also have significance positive influence on stock price whereas EPS has minimum influence on the stock price. The major findings of this study seems to be particularly useful for the share investors, fund manager and economy as well, as they can watch out for these significant factors while estimating stock returns and predicting share prices.

2.3 Review of master’s theses

Gautam, (2005) conducted a research on “A Study on the Behavior of Stock Market Price in Nepalese Security Market”. The main objectives of the research was to examine and study the price trend with the help of NEPSE index, volume of stock traded, impact of signaling factors on NEPSE, to find the correlation coefficient and regression analysis

between the sampled companies and to analyze the closing market price of the sampled companies.

The major findings of the study were as follows: The price trend of the sampled companies was not in a predictable trend and the volume of the stock traded was in a fluctuating trend during the study period. The relationship between EPS and DPS and EPS and NWPS was positive. The regression analysis between the EPS and market price showed that all sample companies had positive regression coefficient which indicated that the price would increase at an average rate. The major signaling factors such as closure of major industries, closure of multinational companies and political demonstrations of four political parties played a major role in determining the NEPSE index. Gautam recommended formulating “Investors Protection Act” to remove difficulties such as transaction facilities in the stock market. She also stressed on the need of adopting one window policy to provide all services while granting approval.

Pradhan, (2013) is conducted a study on “Stock Market Behavior in a small capital market; a case of Nepal” by collecting the data of 17 enterprise from 2006 to 2010. He has applied market equity, market value to book value, price earnings and dividend as technical tools to analysis of data. His findings indicate that larger stocks have larger price earnings ratio, large ratio of market value to book value of equity, lower liquidity, lower probability, and smaller dividend. Price-earnings ratios and dividend ratio are more variable from smaller stock whereas market value to book value of equity is more variable for larger stocks. Large stocks also have higher leverage, lower assets turnover, and lower interest coverage but these are more variable from smaller stock than for larger stocks. Stocks with larger market value to book value of equity have larger price earnings ratios, and lower dividends. These stocks also have lower liquidity, higher leverage, lower earnings, lower turnover and lower interest coverage. The study can be concluded that there is a positive relationship between the ratio of dividend per share, to market price per share and interest coverage.

Gautam, (2010), he studied is about the “stock market volatility of listed commercial banks in Nepal”. He found that the Nepalese capital market is in the developing phase and Nepalese Stock Market is in developing stage. Most of the people citizens are still unaware of stock market. Though share market plays the vital role on mobilization of capital in national economy, in the case of Nepal, it is still crawling towards the betterment. The prime objective of this study is to find the major determinants of Share Price of Nepalese

Commercial Banks. Hence, all 15 Commercial Banks presently listed in NEPSE are taken in consideration for the purpose. Market Price of these banks has been analytically tested here to compare with other financial indicators like DPS, EPS and BPS. For analytical purpose. This study is focused on the analysis of the relation of MPS with the major financial indicators like BPS, DPS and EPS. The trend of MPS has been tested for the period of last six years. On the basis of such data, the determinants of share price have been observed. Different statistical as well as financial tools have been used to interpret the data in scientific manner. He concluded that The MPS of most of the banks are found to be correlated with other individual financial indicators like BPS, EPS and DPS insignificantly. This shows that they individually rarely influence share price but they have combine effect on it. There can be other factors which influence the share price of the organization. Market price per share of most of the banks is insignificantly correlated with all the indicators (DPS, BPS and EPS) in most of the cases. This implies that they individually don't influence the share price but they jointly influence the share price. There can be other factors to which influence the share price. EPS and DPS are the major influencer of the share price. Besides this, political situation, annual general meeting, assets structure and capital structure of the organization also influence the share price of the company. The reputed and established commercial banks have very good trend of their financial performance whereas new banks are penetrating their market. Most of the banks are operating in profit in recent years though they suffered some losses during their initial stages. Still, the investors are positive towards the share of these banks.

Sharma (2011), examined the relationship between equity share prices and explanatory variables such as dividend per share, price earnings ratio, earning per share, size in terms of sale, and net worth for the period 1994 to 2009. The result revealed that earning per share, dividend per share, and book value per share has significant impact on the market price of share. Furthermore, results of the study indicated that dividend per share and earnings per share being the strongest determinants of market price, so the results of the study supports liberal dividend policy and suggests companies to pay regular dividends.

Nirmala, Sanju and Ramachandran (2011),demonstrated the determinants of share prices in the Indian market, used panel data pertaining to three sectors (auto, health care and public-sector undertakings) over the period of 2000-2009 and employed fully modified ordinary least squares methods. Their findings indicated that dividend, price earnings ratio

and leverage were significant determinants of share prices for all three sectors. Profitability variable influenced share prices only in the case of auto sector.

Khatriwada, (2014) has conducted study on “Stock Market Efficiency and Behavior of Share Prices.” He used serial correlation test and runs tests as statistical tools, further he used technical trading rule named filter rule for analyzing the data. He found that standard deviations of each and every individual stock’s price changes are higher than the mean. Therefore, the general shape of empirical frequency distribution is flatter than normal distribution’s shape. Most of the results obtained from the serial correlation test for 30 stocks are absolutely large and significantly insulated from zero. The results obtained from the runs test are also consistent with the results of serial correlation tests. When the run test analyzed by lengths; it was found that actual numbers of runs are not normally distributed. Therefore, there exists significant determination in the successive price changes series of Nepalese stock market. Similarly, the results obtained from the filter test showed that difficult mechanical trading rule can beat the average market return. As-most of the filter’s trading returned higher than buy and hold strategy, it supports the result of serial correlation and runs test. Hence, he concluded that today’s price changes are not an unbiased outcome of yesterday’s price changes.

Almumani (2014), identified the quantitative factors that influence share prices for the listed banks in Amman Stock Exchange over the period 2005-2011. In this study these variables (dividend per share, earning per share, size, price earnings ratio, book value, dividend payout ratio and market price) were considered and ratio analysis, correlation and a linear multiple regression models were used to measure the individual as well as combined effects of explanatory variables on the dependent variables. The empirical results showed that there was a positive correlation between independent variables (DPS, EPS, size, P/E ratio, and book value per share) and dependent variable (market price of share). Regression results showed that EPS, BV, P/E ratio and DPS have significant and positive relationship with market price of share.

Dhakal (2018), has different specific objectives. In this study aimed to evaluate the qualitative as well as quantitative factors affecting the stock price in NEPSE with focus to commercial banks, to determine the effect of earning per share, book value and P/E ratio on the share price, to examine the individual effect of earning per share and dividend per share on the stock price, to analyze the market trends of market price per share with

financial indicators and to examine the impact of share price fluctuation. This study found that the commercial banks performance is highly inconsistent in the relationship of MPPS with EPS, DPS and BVPS. The MPPS is found to be highly correlated with the EPS and BVPS. From the primary data analysis, factors affecting the market price of share of commercial banks listed in Nepal Stock Exchange are identified. Such internal factors affecting the share price are earnings per share, book value, dividend payment, price earnings ratio, paid up capital of the banks. Similarly, there are other environmental factors affecting the market price of share. Such environmental factors affecting the share price are government instability, NRB's policy, SEBON performance, political influences. NEPSE is in primitive stage and it has not significant effect of return on assets, retention ratio, non-performing loan of the bank, cash reserve ratio and cost of fund. After analyzing the secondary and primary data, the following conclusions have been achieved. It was found that the major findings of the study show that the market price per share has high degree of positive relationship with EPS, BVPS and DPS. Earnings, book value, dividend payment, paid up capital, price earnings ratio, and political stability are the major factors affecting the share price in NEPSE, according to the respondents of the survey. Cost of capital, retention ratio cost of equity, market liquidity, and change in management does not significantly affect the share price in NEPSE.

Neupane(2018), this study was done with the objectives to analyze the moving average of stock price of Nabil bank, Standard Chartered bank and Everest bank, to determine the relative strength analysis of Nabil bank, Standard Chartered bank and Everest bank, to find relation between selected commercial bank (Nabil bank, Standard Chartered bank, Everest bank) stock price and NEPSE index. The major findings of this study was extracted from the analysis of primary and secondary data, and the conclusion has been made on the basis of major findings. This report concluded that from the observance and analysis of above data the commercial bank should move as per the direction given by the central bank. Bank should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial banks to live in the industry. Banks should invest in different sector very carefully, while advancing loan because loan is the blood of commercial banks for survival. If commercial banks do not apply sound deposit mobilization it will be in great trouble in future to collect it in time. Hence the possibility of bankruptcy there too. Bank should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations, there is

high chance of default risk. Diversifications are indeed need to all the business houses but it has seen immense importance to commercial banks. Diversification of investment of collected deposit is very much important to commercial bank than other business houses because banks use the money to other people for the benefit of its own. And lastly is can be said that banks are important for the nation. It helps in the capital formation to the nations, which is the most important element for the economic growth of the country.

From the review of literature on share price determinants, it can be observed that earnings per share, price earnings ratio, dividend per share is the most important factor among all. Even though the capital market of Nepal is not well developed, there are various researches made on it. It is being very infancy; the factor which affect the stock price of large and well-developed organized stock exchange may varies from that of NEPSE. However, some of the factors are worldwide common. In this chapter various books, magazines, journals, research papers, unpublished thesis reports etc. are reviewed, which determines/affects the stock price in NEPSE.

2.4 Research gap

Today's world is marketed by rapid changes and new developments; as such researchers conducted a few years back may not be adequate to explain current phenomena. Thus, continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism. Through many affiliate researchers have been done in this area but these have been very few exclusive researchers on this subject. The recent research by Bhattarai (2015) suffers a short coming of having inadequate graphical and comprehensive analysis. His study is based on financial year 20013/14 and he used primary analysis, questionnaire and interview as well as moving average and chart analysis are used as analytical tools. The researcher have been through many literature reviews and given my best to fulfill this work. In this study is based on primary and secondary data and uses mean, standard deviation, correlation, regression and relative strength analysis and run test as statistical tools. In my researcher effort had been made to understand the Technical Analysis on Common Stock and the researcher hope this research will be fruitful for future researchers as reference and help investor for choosing right timing for buying and selling of common stock of selected company in the secondary market as well as to give insight to choose right timing of buying and selling securities in the secondary market. So this study is fruitful to those interested

persons, scholars, businessman, civil society, stakeholders, students Government for academically as well as policy perspectives.

CHAPTER III

RESEARCH METHODOLOGY

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample, data collection technique and analytical tools of the research study. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data.

3.1 Research design

The main objective of this study is to examine the interrelation of MPS with BVPS, EPS, DPS, DY and PE ratio. To achieve objectives, the descriptive design have been adopted. For examining facts, descriptive techniques have been used to determine factors determining stock price of commercial banks in the NEPSE.

3.2 Population and sample

Almost 245 companies from different sectors have listed on Nepal Stock Exchange Ltd. for their secondary transactions (NEPSE Trading report 2022). The concerned of the study is only related with commercial banks. Therefore, the size of the population is the total numbers of commercial banks listed in the Nepal Stock Exchange.

There are 20 commercial banks operating in Nepal which is the population of the study and out of them seven banks are selected for sample with judgmental sampling technique where the chances of selecting the banks are even commercial banks have been taken as samples. These are Everest Bank , NABIL Bank, Nepal SBI Bank , SCBNL, NIBL,.

3.3 Sources of data

For the effective and efficient findings, both Primary and Secondary data will be collected as source of data. For the purpose of Primary Data, a questionnaire will be presented to the at least 100 respondents from the NEPSE courtyard that have either invested in share or willing to invest in share soon. The secondary data will be collected from different sources of related companies and organizations as follows:

- i. The year-ended equity share data sheet showing MPS, BVPS, EPS, DPS, Balance Sheet Profit and Loss a/c etc.
- ii. Information relevant to study available in various wet-sites.

iii. Previous thesis and studies

iv. SEBON, NEPSE, financial statistics reports, relevant books, journals, magazines, bulletins publications of different authorities.

The details of variables involved in this study is listed below in the form of table.

Table

Details of variables

| Variable | Short Name | Type | Unit | Calculation |
|------------------------|-------------------|-------------|-------------|---------------------------------------------|
| Earnings per Share | EPS | Independent | Rupee | Net profit after tax/Number of Shares |
| Dividend per Share | DPS | Independent | Rupee | TotalDividend/Number of Shares |
| Price earnings Ratio | P/E ratio | Independent | Times | Market price per share/EPS |
| Book value per Share | BVPS | Independent | Rupee | Shareholder's equity/Number of Share |
| Dividend yield | DY | Independent | percentage | Annual dividend per share/Price per share |
| Market price per Share | MPS | Dependent | Rupee | Total market capitalization/Number of share |

3.4 Data collection procedure

The research consists of both primary as well as secondary data. Since the nature of these two types of data is different, the data collection procedure also varies. The relevant secondary data has been collected from the annual report of the commercial banks available from their websites like www.nabilbank.com.np, www.everestbank.com.np, www.standardcharteredbank.com.np etcetera. On the other hand, primary data collected through scheduled questionnaire.

Primary data will be collected through questionnaire distributed to the respondents and the response will be collected from the respondents accordingly filled and for the collection of secondary data, the official website of Nepal Stock Exchange, www.nepalstock.com will be visited from where the financial reports of the concerned companies and other relevant information will be taken. Likewise, the website of Nepal Rastra Bank, www.nrb.org.np will be also visited and required data will be downloaded. The financial statements of the

concerned organizations will be taken from the library of Security Board of Nepal, NEPSE and the share department of respective banks.

3.5 Data processing procedure

Firstly, data gathered from the various sources was verified and simplified for the purpose of analysis. Then it will be arranged and presented in a systematic way. Moreover, it was checked, edited and tabulated in such a way that provides convenience for further computation and interpretation.

The relevant data was inserted in meaningful tables. Only the data which was recant to the study was presented in the tabular form in the understandable way and unnecessary data make to clarify the tabulated data in systematic way. An attempt was made to find out the conclusion from the available data, with the help of various financial as well as statistical tools. For the calculation of statistical value like mean, standard deviation, coefficient of variance, correlation etc. the help of computer software excel and SPSS were used.

3.6 Data analysis tools

Several tools and techniques are used to analyze the Primary and Secondary data collected from various source for obtaining the conclusion. Various statistical and financial tools have been used to analyze the data in this study. The financial tools applied are earning per share (EPS), dividend per share (DPS), market price per share (MPS), book value per share (BVPS), Dividend yield (DY) and price earnings ratio (P/E ratio). The statistical tools applied are average/arithmetic mean, standard deviation, coefficient of variation and correlation coefficient. The tools applied have discussed below.

3.6.1 Financial tools.

Financial tools are used to examine the performance of the bank. With the help of financial information different variables are calculated and compared to find out strength and weakness of a bank for investment.

3.6.1.1 Earnings per share (EPS)

Earnings per share is the portion of a company's profit allocated to each outstanding share of a common stock. Earnings per share serves as an indicator of a company's profitability. It is a market prospect ratio that measure the amount of net income earned per share of stock outstanding. The increasing earnings per share generally results in high market price. It is calculated by dividing the net profit after tax by number of shares outstanding. Earnings per share of the company provides strength to the company share in the market. It is calculated as:

$$\text{EPS} = \frac{\text{Net profit after tax}}{\text{No. of share outstanding}}$$

3.6.1.2 Dividend per share (DPS)

Out of the earning per share some amount is distributed to shareholders and some is retained by the company. The amount distributed from per share earnings to the shareholder is known as dividend per share. The percentage of earning the firm pays in cash or stock to its shareholders is known as dividend. Nothing is more important than dividends to stockholders. They buy share of firm with the hope of sharing profits earned by firms. The role motive of stockholders is to receive return on their investment. Hence, the company offering high dividend per share is regarded as company caring for shareholders expectation.

It is calculated as follows:

$$\text{DPS} = \frac{\text{Total dividend proposed}}{\text{No. of ordinary share}}$$

3.6.1.3 Market price per share

Market price is the price an asset would fetch in the market place. Market value is also commonly used to refer to market capitalization of a publicly traded company and is obtained by multiplying the number of its outstanding shares by the current share price. Market value can fluctuate a great deal over periods of time and is substantially influenced by the business cycle. Market values plunge during the bear market and rise during the bull markets. Market price per share is the real value of the company stock. It is the price that the buyer agrees to pay, and seller agrees to receive. It shows the actual performance of the company. Many companies try to maintain their stock price by declaring attractive dividend every fiscal year. It is calculated by dividing total market capitalization with number of ordinary shares outstanding.

It is calculated as follows:

$$\text{Market price per share} = \frac{\text{Market capitalization}}{\text{No. of shares outstanding}}$$

3.6.1.4 Price earnings ratio (P/E Ratio)

It is the most important ratio commonly used by most of the investor for selecting stock. It is the ratio of market price in comparison to the current earnings per share of the company. P/E ratio is the ratio for valuing a company that measures its current share price relative to its per-share earnings. It is also sometimes known as the price multiple or the earnings multiple. The P/E ratio indicates how much amount an investor can expect to invest in a

company to receive one rupee of that company's earnings. It is calculated by dividing the current market price by earning per share. Lower the P/E Ratio indicates lower the risk in the firm to invest. Higher P/E ratio indicates higher risk of the company's share. It suggests that whether the share price of the company is overvalued or undervalued. In Nepal investor rely very much on this ratio. They want to invest in the company which P/E Ratio is less than 25.

It is calculated as follows:

$$\text{P/E ratio} = \frac{\text{Market price per share}}{\text{Current earning per share}}$$

3.6.1.5 Book value per share

Book value per share is the stock's actual value as per the company record. Book value per share is a financial measure that represents a per share assessment of the minimum value of a company's equity. More specifically, this value is determined by relating the original value of a firm's common stock adjusted for any outflow (dividend and bonus) and inflow (retained earnings) modifiers to the number of shares outstanding. It is also known as net worth per share. It is the result of shareholder's equity divided by no. of shares outstanding.

It is calculated as follows:

$$\text{Book value per share} = \frac{\text{Total paid up capital} + \text{reserve and surplus}}{\text{No. of shares outstanding}}$$

3.6.1.6 Dividend yield

The dividend yield is the ratio of a company's annual dividend compared to its share price. The dividend yield is the amount of money a company pays shareholders (over the course of a year) for owning a share of its stock divided by its current stock price displayed as a percentage. Higher dividend yields aren't always attractive investment opportunities, as its dividend yield could be elevated due to a declining stock price. The dividend yield is represented as a percentage and is calculated as follows:

$$\text{Dividend Yield} = \frac{\text{Annual dividend}}{\text{Share Price}}$$

3.6.2 Statistical tools

Statistical tools measure the data and give the result in numeric form which helps to analyze the data in logical way. The following statistical tools have been used in this study.

3.6.2.1 Average/ Mean

Average, in general, is calculated by adding all the numbers of all observations and dividing by the total number of observations. It is in fact, a value which is represented to stand for whole group of which it is part, as typical of all the value in the group.

$$\text{Mean} = \frac{\sum X}{n}$$

3.6.2.2 Standard deviation

The standard deviation (σ) is another measure of investment risk. It is absolute measures of dispersion. The smaller the standard deviation the lower will be the degree of risk of the stock. In other words, a small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and vice versa. The formula for calculating the standard deviation is:

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

Where,

Standard Deviation

$\sum X$ Number in X-series

\bar{X} Mean

n Number of Observations in a sample

3.6.2.3 Coefficient of variation

The coefficient variation (CV) is the other useful measure of risk. It is the standard

Deviation divided by the expected return, which measures risk per unit of return. It provides a more meaningful basis for comparison when the expected returns on two alternatives are not the same. If investors believe that the rate of return should increase as the risk increase, then the coefficient of variation provides a quick summary of the relative trade-off between expected return and risk.

$$CV = \frac{\sigma}{\bar{X}}$$

Where,

CV Coefficient of Variation

X Mean

= Standard Deviation

3.6.2.4 Correlation coefficient

Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated if accompanied by the change of another variable. If the increase (decrease) in the value of one variable on an average is associated with the increase (decrease) in the value of another variable, positive relationship is said to be existed. The relationship will be negative if increased (decreased) in the variable of one variable is associated with the decreased (increased) in the value of another variable. But the correlation coefficient always remains within the limit of +1 to - 1. Karl Pearson's Coefficient of correlation is widely used in practice. By Karl Pearson, the simple correlation coefficient (between two variables say X and Y) is given by:

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

r : Correlation between X and Y

N : Number of observations in series X and Y

$\sum X$: Sum of observations in series X

$\sum Y$: Sum of observations in series Y

$\sum X^2$: Sum of square observations in series X

$\sum Y^2$: Sum of squared observations in series Y

$\sum XY$: Sum of product of observations in series X and Y

CHAPTER – IV

RESULTS AND DISCUSSION

This chapter is the main body part of this study. The primary and secondary data are collected in unprocessed form. So, in this chapter, such unprocessed data are presented in systematic formats and analyzed using different financial as well as statistical tools and techniques. The secondary as well as primary data, collected from different sources, are presented and analyzed separately using both qualitative and quantitative measure. In this course of analysis, data gathered from various sources have been inserted in the tabular form.

4.1 Financial analysis

The financial tools are used to examine the strength and weakness of the bank in terms of financial health or financial performance. The financial tools used for data analysis are presented below:

4.1.1 Earnings per share.

Earnings per share is the portion of a company's profit allocated to each outstanding share of a common stock. Earnings per share serves as an indicator of a company's profitability. The table number 1 shows the EPS of all sample banks. Sample banks have been denoted as the trading symbol in NEPSE.

Table 1
Earnings per share of sample banks

(In Rupees)

| Fiscal Year | NBL | | EBL | | Nepal SBI | | NIBL | | SCB | |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | EPS | Index | EPS | Index | EPS | Index | EPS | Index | EPS | Index |
| 2016/17 | 38.77 | 100.00 | 32.48 | 100.00 | 34.83 | 100.00 | 40.70 | 100.00 | 35.49 | 100.00 |
| 2017/18 | 39.98 | 68.40 | 32.78 | 90.70 | 25.16 | 99.00 | 30.90 | 75.92 | 27.33 | 87.64 |
| 2018/19 | 26.99 | 70.83 | 38.05 | 46.87 | 27.13 | 105.60 | 29.30 | 71.99 | 30.39 | 70.20 |
| 2019/20 | 20.68 | 71.53 | 29.71 | 37.75 | 17.23 | 96.07 | 29.30 | 71.99 | 24.81 | 54.21 |
| 2020/21 | 23.43 | 59.17 | 19.19 | 38.10 | 10.15 | 72.24 | 35.70 | 87.71 | 16.32 | 41.74 |
| Total | 309.56 | 369.93 | 269.67 | 313.42 | 164.71 | 472.90 | 165.90 | 407.62 | 231.63 | 353.80 |
| Mean | 61.91 | 73.99 | 53.93 | 62.68 | 32.94 | 94.58 | 33.18 | 81.52 | 46.33 | 70.76 |
| SD | 11.49 | 13.74 | 23.26 | 27.03 | 4.04 | 11.59 | 4.43 | 10.89 | 13.91 | 21.24 |
| CV | 0.19 | 0.19 | 0.43 | 0.43 | 0.12 | 0.12 | 0.13 | 0.13 | 0.30 | 0.30 |

(Source: Appendix A)

Table 1 shows EPS of the sample banks. The mean EPS of NBL is high among all followed by NIBL, Nepal SBI, EBL and SCB is the lowest. The Nepal SBI bank seems to be more consistent among all in terms of EPS. Most of the banks EPS is declining in the year 2017/018 but NIBL are able to maintain the same EPS. In the fiscal year 2017/018 EPS of NBL and EBL is decreased by more than eight rupees. The higher fluctuation of EPS in NBL and Nepal SBI suggest inconsistent performance of the bank. Most of the sample bank's index decline on the last year but rate of index of Nepal SBI bank was increase on the year 2015/016.

4.1.2 Dividend per share

Dividend per share is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure is calculated by dividing the total dividends paid by a business; including interim dividends for a period of time by number of outstanding ordinary shares issued. Investors very much rely on this ratio for investing. They prefer the company that distribute attractive dividends. Table number 2 shows the DPS of all sample banks.

Table 2

Dividend per share of sample banks

(In Rupees)

| Fiscal Year | NBL | | EBL | | Nepal SBI | | NIBL | | SCB | |
|--------------|---------------|---------------|--------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | DPS | Index | DPS | Index | DPS | Index | DPS | Index | DPS | Index |
| 2016/17 | 0.00 | 100.00 | 33.00 | 100.00 | 16.34 | 100.00 | 40.00 | 100.00 | 64.67 | 100.00 |
| 2017/18 | 0.00 | 56.68 | 0.00 | 250.00 | 15.79 | 128.77 | 34.70 | 86.75 | 27.62 | 85.84 |
| 2018/19 | 15.00 | 69.23 | 5.00 | 583.33 | 16.84 | 132.90 | 41.00 | 102.50 | 22.44 | 68.14 |
| 2019/20 | 12.00 | 73.85 | 5.00 | 275.00 | 9.47 | 74.04 | 40.00 | 100.00 | 26.00 | 204.39 |
| 2020/21 | 14.00 | 52.31 | 6.00 | 0.00 | 5.31 | 71.55 | 40.00 | 100.00 | 13.06 | 33.98 |
| Total | 228.84 | 352.06 | 145.0 | 1208.33 | 111.95 | 507.25 | 195.70 | 489.25 | 253.56 | 492.35 |
| Mean | 45.77 | 70.41 | 29.00 | 241.67 | 22.39 | 101.45 | 39.14 | 97.85 | 50.71 | 98.47 |
| SD | 10.90 | 16.76 | 23.78 | 198.19 | 5.74 | 26.01 | 2.25 | 5.63 | 29.55 | 57.38 |
| CV | 0.24 | 0.24 | 0.82 | 0.82 | 0.26 | 0.26 | 0.06 | 0.06 | 0.58 | 0.58 |

(Source: Appendix A)

Table 2 shows the DPS's Mean, standard deviation and coefficient of variation of all sample banks. All the sample banks have distributed attractive dividend in all five years of the study as per their earnings. The average DPS of NBL and SCB are high among all.

More than 50% of the earning is distributed to the investors. But in terms of consistency NIBL has made the constant dividend distribution and index pattern. Although, the average dividend per share of SCB and Nepal SBI seem unattractive due to high fluctuation in distribution of dividend to the investors. In the fiscal year 2017/018 SBL and SBI dividend per share have been decreased by more than 44%, it suggests the inconsistency of the banks. The CV of EBL is 82% which shows the high fluctuation in the dividend distribution pattern. The NIBL is 2.25 which show the low SD to other bank in terms of dividend payment. Accept index of EBL, other bank has a fluctuate index rate on every year.

4.1.3 Market price per share.

Market price is the price an asset would fetch in the market place. Market value is also commonly used to refer to market capitalization of a publicly traded company and is obtained by multiplying the number of its outstanding shares by the current share price. Market value can fluctuate a great deal over periods of time and is substantially influenced by the business cycle. Market values plunge during the bear market and rise during the bull markets. The market price per share of the sample banks is analyzed in the table number 3.

Table 3

Market price per share of sample banks

(In Rupees)

| Fiscal Year | NBL | | EBL | | Nepal SBI | | NIBL | | SCB | |
|--------------|---------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|-----------------|--------------|
| | MPS | Index | MPS | Index | MPS | Index | MPS | Index | MPS | Index |
| 2016/17 | 364.00 | 100.0 | 1353 | 100.0 | 925.00 | 100.0 | 960.0 | 100.0 | 2295 | 100.0 |
| 2017/18 | 281.00 | 75.35 | 663 | 80.58 | 499.00 | 69.30 | 704.0 | 73.33 | 755 | 69.42 |
| 2018/19 | 336.00 | 92.47 | 666 | 128.66 | 469.00 | 146.48 | 1040.0 | 108.33 | 632 | 128.62 |
| 2019/20 | 249.00 | 60.08 | 675 | 51.43 | 435.00 | 72.27 | 770.0 | 80.21 | 645 | 81.99 |
| 2020/21 | 443.00 | 36.33 | 738 | 25.20 | 409.00 | 38.98 | 621.0 | 64.69 | 590 | 26.97 |
| Total | 9233.0 | 364.22 | 10152.0 | 385.86 | 5466.00 | 427.03 | 4095.00 | 426.56 | 11392.00 | 407.0 |
| Mean | 1846.6 | 72.84 | 2030.40 | 77.17 | 1093.20 | 85.41 | 819.00 | 85.31 | 2278.40 | 81.40 |
| SD | 580.82 | 22.91 | 952.09 | 36.19 | 462.60 | 36.14 | 157.20 | 16.37 | 943.52 | 33.71 |
| CV | 0.31 | 0.31 | 0.47 | 0.47 | 0.42 | 0.42 | 0.19 | 0.19 | 0.41 | 0.41 |

(Source: Appendix A)

The above table shows that the MPS and INDEX of sample banks. The MPS of NBL was Rs.2535 of the year 2016/17 which is the maximum among the last five years and it is least Rs.931 of year 2020/21. The MPS of NBL is fluctuate in every year. The index of NBL is

decreasing level. The MPS of each sample bank except NBL was maximum on the year of 2018/19 in which it is minimum 2020/21 for all bank. The index all sample bank except NBL was extreme on the year of 2018/19 whereas it is lowest on the last years 2020/21. The Mean and standard deviation of NIBL are least and it has least risk 0.19 in which mean is maximum of SCB and standard deviation maximum of EBL, also EBL has a maximum risk 0.47.

4.1.4 Price earnings ratio

P/E ratio is the ratio for valuing a company that measures its current share price relative to its per-share earnings. It is also sometimes known as the price multiple or the earnings multiple. In essence, the P/E ratio indicates how much amount an investor can expect to invest in a company in order to receive one rupee of that company's earnings.

Table 4

Price earnings ratio (P/E ratio) of sample banks

(In times)

| Fiscal Year | NBL | | EBL | | Nepal SBI | | NIBL | | SCB | |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | P/E ratio | Index | P/E ratio | Index | P/E ratio | Index | P/E ratio | Index | P/E ratio | Index |
| 2016/17 | 9.39 | 100.00 | 41.66 | 100.00 | 27.64 | 100.00 | 23.60 | 100.00 | 64.67 | 100.00 |
| 2017/18 | 7.03 | 110.17 | 20.23 | 88.88 | 19.83 | 70.01 | 22.80 | 96.61 | 27.62 | 79.20 |
| 2018/19 | 12.45 | 130.57 | 17.50 | 274.49 | 17.29 | 138.72 | 35.50 | 150.42 | 22.44 | 183.23 |
| 2019/20 | 12.04 | 83.99 | 22.72 | 136.23 | 25.24 | 75.21 | 26.30 | 111.44 | 26.00 | 151.27 |
| 2020/21 | 18.90 | 61.41 | 37.06 | 66.15 | 40.30 | 53.96 | 17.40 | 73.73 | 36.16 | 64.61 |
| Total | 147.25 | 486.13 | 203.59 | 665.76 | 160.93 | 437.90 | 125.60 | 532.20 | 247.23 | 578.32 |
| Mean | 29.45 | 97.23 | 40.72 | 133.15 | 32.19 | 87.58 | 25.12 | 106.44 | 49.45 | 115.66 |
| SD | 7.10 | 23.43 | 22.69 | 74.21 | 10.85 | 29.54 | 5.94 | 25.17 | 19.13 | 44.75 |
| CV | 0.24 | 0.24 | 0.56 | 0.56 | 0.34 | 0.34 | 0.24 | 0.24 | 0.39 | 0.39 |

(Source: Appendix A)

The above table shows that P/E ratio of sample banks of this study. The P/E ratio of NBL is 39.29 times of year 2018/19 which is higher and 18.60 times of year 2020/21 which is lower. The index of NBL is increasing in year 2017/18 and 2018/19. The P/E ratio of EBL, Nepal SBI, NIBL, SCB of year 2018/19 is 83.94 times, 50.98 times, 35.50 times, 78.33 times respectively which is higher and P/E ratio of year 2020/21 is 20.23 times, 19.83

times, 17.40 times, 27.62 times respectively which is lower. The index of EBL, Nepal SBI, NIBL, and SCB is increased in year 2018/19. The mean of P/E ratio is maximum of SCB and minimum of NIBL. The standard deviation and risk of P/E ratio of EBL are higher than other sample banks whereas minimum of NIBL.

4.1.5 Book value per share

Book value per share is the ratio that divides common equity value by number of share outstanding. The book value of equity per share is one factor that investors can use to determine whether a stock price is undervalued. If a business can increase its BVPS, investors may view the stock as more valuable, and the stock price increases. Table 4.5

Book value per share of sample banks

(In Rupees)

| Fiscal Year | NBL | | EBL | | Nepal SBI | | NIBL | | SCB | |
|--------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|
| | BVPS | Index | BVPS | Index | BVPS | Index | BVPS | Index | BVPS | Index |
| 2016/17 | 251.00 | 100.00 | 296.30 | 100.00 | 152.20 | 100.00 | 166.00 | 100.00 | 249.00 | 100.00 |
| 2017/18 | 259.00 | 103.19 | 335.60 | 113.26 | 159.08 | 108.96 | 155.00 | 93.37 | 265.00 | 106.43 |
| 2018/19 | 244.00 | 97.21 | 370.84 | 125.16 | 167.52 | 108.02 | 187.00 | 112.65 | 268.00 | 107.63 |
| 2019/20 | 270.00 | 107.57 | 290.00 | 97.87 | 165.66 | 88.93 | 176.00 | 106.02 | 296.00 | 118.88 |
| 2020/21 | 256.00 | 101.99 | 200.00 | 67.50 | 162.22 | 92.95 | 236.00 | 142.17 | 174.00 | 69.88 |
| Total | 1280.0 | 509.96 | 1492.74 | 503.79 | 853.79 | 498.85 | 920.00 | 554.22 | 1252.00 | 502.81 |
| Mean | 256.00 | 101.99 | 298.55 | 100.76 | 170.76 | 99.77 | 184.00 | 110.84 | 250.40 | 100.56 |
| SD | 8.65 | 3.45 | 57.25 | 19.32 | 13.62 | 7.96 | 28.08 | 16.91 | 41.09 | 16.50 |
| CV | 0.03 | 0.03 | 0.19 | 0.19 | 0.08 | 0.08 | 0.15 | 0.15 | 0.16 | 0.16 |

(Source: Appendix A)

The Table 5 shows that the Book Value per Share of sample banks. By table, the BVPS of all sample bank except SCB are fluctuated in every fiscal years but BVPS of SCB was increasing gradually from 2016/17 to 2019/20 but it is decreased on the last years. The index percent of sample banks are fluctuated from 2018/16 to 2020/21. In average EBL has maximum BVPS and Nepal SBI has minimum BVPS by 127.76. NBL is rs.270 of year 2019/20 which is higher and rs.244 of year 2018/19 which is lower. The index of all year is increasing except year 2018/19. On the other hand, the standard deviation and risk of BVPS are maximum of EBL and Minimum of NBL.

4.1.6 Dividend yield

Dividend yield is the ratio of expected dividend and current market price. This type of yield is also known as current yield. The dividend yield of a share is the dividend per share, divided by the price per share. It is also a company's total annual dividend payments divided by its market capitalization, assuming the number of shares is constant. It is often expressed as a percentage. Dividend yield is used to calculate the earnings on investment (shares) considering only the returns in the form of total dividends declared by the company during the year.

Table 6

Dividend yield of sample banks

(In Percentage)

| Fiscal Year | NBL | | EBL | | Nepal SBI | | NIBL | | SCB | |
|--------------|--------------|---------------|-------------|----------------|--------------|---------------|--------------|---------------|--------------|---------------|
| | DY | Index | DY | Index | DY | Index | DY | Index | DY | Index |
| 2016/17 | 2.56 | 100 | 0.46 | 100 | 1.7 | 100 | 4.17 | 100 | 1.84 | 100 |
| 2017/18 | 1.93 | 75.39 | 1.42 | 308.70 | 3.20 | 186.05 | 4.93 | 118.23 | 2.28 | 123.91 |
| 2018/19 | 1.92 | 75.00 | 2.07 | 453.40 | 1.56 | 90.70 | 3.94 | 94.48 | 0.97 | 52.72 |
| 2019/20 | 3.15 | 123.05 | 2.44 | 534.76 | 1.77 | 102.91 | 5.19 | 124.46 | 4.59 | 249.46 |
| 2020/21 | 3.69 | 144.14 | 0.00 | 0.00 | 3.16 | 183.72 | 6.44 | 154.44 | 2.32 | 126.09 |
| Total | 13.25 | 517.58 | 6.38 | 1396.85 | 11.41 | 663.37 | 24.67 | 591.61 | 12.00 | 652.17 |
| Mean | 2.65 | 103.52 | 1.28 | 279.37 | 2.28 | 132.67 | 4.93 | 118.32 | 2.40 | 130.43 |
| SD | 0.69 | 27.01 | 0.93 | 203.27 | 0.74 | 42.83 | 0.88 | 21.19 | 1.20 | 65.11 |
| CV | 0.26 | 0.26 | 0.73 | 0.73 | 0.32 | 0.32 | 0.18 | 0.18 | 0.50 | 0.50 |

(Source: Appendix A)

Table no. 6 shows that the dividend yields of sample banks from 2016/17 to 2020/21. It shows that the dividend yield of EBL is increased in every years and other sample banks have fluctuated rate if DY. But since two years, all banks has been increased their DY. In average, NIBL has a maximum DY and EBL has least DY. In case of index of YD of sample banks, most of the banks has increased percent on the last two years but SCB has decreased quantity. The standard deviation and risk are maximum of EBL and minimum of NBL.

4.2 Statistical analysis

The table given below shows the financial summary of the seven commercial banks based on past five years, their mean, standard deviation and coefficient of variation of individual

bank as well as overall bank. The yearly EPS, DPS, BVPS and MPS of individual bank are presented in the appendix section.

Table 7

Mean, S.D. & C.V. of MPS, EPS, DPS, BVPS, PE Ratio and DY

(In Rupees)

| Bank | Tools | MPS | EPS | DPS | BVPS | PE Ratio | DY |
|-----------|-------|----------------|--------------|--------------|---------------|--------------|-------------|
| NBL | Mean | 1846.6 | 61.91 | 45.77 | 256 | 29.45 | 2.65 |
| | S.D. | 580.82 | 11.49 | 10.9 | 8.65 | 7.1 | 0.69 |
| | C.V | 0.31 | 0.19 | 0.24 | 0.03 | 0.24 | 0.26 |
| EBL | Mean | 2030.4 | 53.93 | 29 | 298.55 | 40.72 | 1.28 |
| | S.D. | 952.09 | 23.26 | 23.78 | 57.25 | 22.69 | 0.93 |
| | C.V. | 0.47 | 0.43 | 0.82 | 0.19 | 0.56 | 0.73 |
| Nepal SBI | Mean | 1093.2 | 32.94 | 22.39 | 170.76 | 32.19 | 2.28 |
| | S.D. | 462.6 | 4.04 | 5.74 | 13.62 | 10.85 | 0.74 |
| | C.V. | 0.42 | 0.12 | 0.26 | 0.08 | 0.34 | 0.32 |
| NIBL | Mean | 819 | 33.18 | 39.14 | 184 | 25.12 | 4.93 |
| | S.D. | 157.2 | 4.43 | 2.25 | 28.08 | 5.94 | 0.88 |
| | C.V | 0.19 | 0.13 | 0.06 | 0.15 | 0.24 | 0.18 |
| SCB | Mean | 2278.4 | 46.33 | 50.71 | 250.4 | 49.45 | 2.40 |
| | S.D. | 943.52 | 13.91 | 29.55 | 41.09 | 19.13 | 1.20 |
| | C.V | 0.41 | 0.3 | 0.58 | 0.16 | 0.39 | 0.50 |
| Overall | Mean | 1613.52 | 45.66 | 37.40 | 231.94 | 35.39 | 2.71 |
| | S.D. | 301.81 | 7.07 | 10.51 | 17.85 | 6.64 | 0.18 |
| | C.V. | 0.19 | 0.15 | 0.28 | 0.08 | 0.19 | 0.07 |

(Source: Appendix A)

The above table shows that the statistical analysis of sample banks. We got, the average value of MPS of all sample banks is Rs1613.52 in which SCB has a highest average MPS Rs.2278.4 whereas NIBL has least mean MPS 819. Also, the mean of overall EPS of sample banks is found to be Rs.45.66 in which mean EPS of NBL has maximum value which is 61.91 and minimum of Nepal SBI which is by 32.94. The overall DPS of all sample banks is found to be 37.40 in which SCB has maximum and Nepal SBI has least mean DPS. The overall BVPS of all sample banks is found to be 231.94 in which EBL has maximum Mean BVPS and Nepal SBI has least BVPS. The overall PE ratio of all sample banks is found to be 35.39 in which SCB has maximum mean PE ratio and NIBL is least

mean PE ratio. Similarly, the overall DY of all sample banks is found to be 2.71 in which NIBL has maximum and EBL has least mean DY.

The overall standard deviation of MPS of all sample banks is found to be 301.81 in which EBL has maximum standard deviation and NIBL has least standard deviation. On the other hand, the overall standard deviation of EPS is found to be 7.07 and maximum and minimum standard deviation are EBL and SBI respectively. The overall standard deviation of DPS of all sample banks is found to be 10.51 and SCB has highest percent and NIBL has lowest percent of DPS. The overall standard deviation of BVPS of all, sample banks is found to be 17.85 in which EBL has maximum whereas NBL has least. The overall standard deviation of PE ratio of all sample banks is found to be 6.64 in which EBL has maximum whereas NIBL has least. Similarly, the overall standard deviation of DY of all sample banks is found to be 0.18 in which SCB has maximum whereas NBL has least.

In case of coefficient of variance, the C.V. of MPS, EBL has a highest risk comparison to the average risk of sample banks whereas NIBL has least risk than other banks. In case of C.V. of EPS, there is 0.15 overall C.V of all sample banks in which EBL has highest risk and Nepal SBI has least. In case of C.V of DPS, 0.28 is the overall risk of all sample banks and EBL has highest risk and lowest to NIBL. In case of C.V. of the BVPS, the overall C.V is 0.08 in which EBL has maximum and NBL has Least. In case of C.V. of the PE ratio, the overall C.V is 0.19 in which EBL has maximum and NBL and NIBL are least. Similarly, in case of C.V. of the DY, the overall C.V is 0.07 in which EBL has maximum and NIBL has Least.

4.3 Relationship between EPS, DPS, BVPS, DY and P/E ratio to MPS

The relationship of Earning per share, dividend per share, book value per share, dividend yield, and price earnings ratio to market value per share is determined in this section. For the analytical purpose, the Market Price per Share (MPS) is assumed to be influenced with the volatility occurred in EPS, DPS, BVPS, DY and PE Ratio. Hence, MPS is taken as dependent variable whereas EPS, DPS, BVPS, DY and PE ratio are taken as independent variable. The correlation analysis is performed to determine the relationship of EPS, DPS, BVPS, DY and PE ratio with MPS. To determine the effect of DPS, EPS, BVPS, DY and PE ratio on MPS, simple correlation as well as their coefficient of determination are calculated.

4.3.1 Correlation analysis of Nabil Bank Limited:

The correlation analysis of NBL's overall data is done to find out the relationship of different variables with MPS.

Table 8

Correlation of Nabil Bank Limited

| | MPS | EPS | DPS | BVPS | DY | PE |
|------|-------|---------------------|-------|--------|---------------------|----|
| MPS | 1 | | | | | |
| EPS | 0.764 | 1 | | | | |
| DPS | 0.710 | 0.964 ^{**} | 1 | | | |
| BVPS | 0.547 | 0.241 | 0.175 | 1 | | |
| DY | 0.794 | 0.266 | 0.156 | 0.470 | 1 | |
| PE | 0.834 | 0.285 | 0.238 | -0.553 | 0.960 ^{**} | 1 |

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

(Source: Appendix B)

In the above table shows the data reflects significant correlations between market price per share, earning per share, dividend per share, book value per share, dividend yield, and price earnings ratio are each other. The correlation between MPS and EPS is 0.764, MPS and DPS is 0.710, MPS and BVPS is 0.547, MPS and DY is 0.794, MPS and PE is 0.834, correlation between EPS and DPS is 0.964, EPS and BVPS is 0.241, EPS and DY is 0.266, EPS and PE is 0.285. The correlation between DPS and BVPS is 0.175, DPS and DY is 0.156, DPS and PE is 0.238, BVPS and DY is 0.470, BVPS and PE is -0.533 at the end the correlation between DY and PE is 0.960.

The EPS, DPS and PE ratio is positively correlated to MPS. It states that increase in EPS, DPS and PE ratio leads to increase in MPS. On the other hand, the BVPS and DY is negative relationship to MPS. It reveals that decrease in BVPS and DY leads to increase in MPS.

4.3.2 Correlation analysis of Everest Bank Limited:

The correlation analysis of EBL's overall data is done to find out the relationship of different variables with MPS.

Table 9
Correlation of Everest Bank Limited

| | MPS | EPS | DPS | BVPS | DY | PE |
|-------------------------------------------------------------|--------|-------|--------|-------|-------|----|
| MPS | 1 | | | | | |
| EPS | 0.420 | 1 | | | | |
| DPS | 0.727 | 0.200 | 1 | | | |
| BVPS | 0.882* | 0.316 | 0.861 | 1 | | |
| DY | 0.352 | 0.292 | 0.800 | 0.679 | 1 | |
| PE | 0.728 | 0.313 | 0.937* | 0.717 | 0.645 | 1 |
| *. Correlation is significant at the 0.05 level (2-tailed). | | | | | | |

(Source: Appendix B)

In the above table shows the data reflects significant correlations between market price per share, earning per share, dividend per share, book value per share, dividend yield, and price earnings ratio are each other. The correlation between MPS and EPS is 0.420, MPS and DPS is 0.727, MPS and BVPS is 0.882, MPS and DY is 0.352, MPS and PE is 0.728, correlation between EPS and DPS is 0.200, EPS and BVPS is 0.316, EPS and DY is 0.292, EPS and PE is 0.313. The correlation between DPS and BVPS is 0.861, DPS and DY is 0.800, DPS and PE is 0.937, BVPS and DY is 0.679, BVPS and PE is 0.717 at the end the correlation between DY and PE is 0.645.

The EPS, DPS, DY and PE ratio is positively correlated to MPS. It states that increase in EPS, DPS, DY and PE ratio leads to increase in MPS. On the other hand, there is negative relationship between BVPS and MPS. It reveals that decrease in BVPS leads to increase in MPS.

4.3.3 Correlation analysis of Nepal SBI Bank Limited:

The correlation analysis of Nepal SBI's overall data is done to find out the relationship of different variables with MPS.

Table 10
Correlation of Nepal SBI Bank Limited

| | MPS | EPS | DPS | BVPS | DY | PE |
|---------------------------------------------------------------|---------------------|-------|---------------------|-------|-------|----|
| MPS | 1 | | | | | |
| EPS | 0.811 | 1 | | | | |
| DPS | 0.682 | 0.721 | 1 | | | |
| BVPS | 0.569 | 0.583 | 0.977 ^{**} | 1 | | |
| DY | 0.759 | 0.640 | 0.094 | 0.065 | 1 | |
| PE | 0.995 ^{**} | 0.751 | 0.639 | 0.533 | 0.764 | 1 |
| ** . Correlation is significant at the 0.01 level (2-tailed). | | | | | | |

(Source: Appendix B)

In the above table shows the data reflects significant correlations between market price per share, earning per share, dividend per share, book value per share, dividend yield, and price earnings ratio are each other. The correlation between MPS and EPS is 0.811, MPS and DPS is 0.682, MPS and BVPS is 0.569, MPS and DY is 0.759, MPS and PE is 0.995, correlation between EPS and DPS is 0.721, EPS and BVPS is 0.583, EPS and DY is 0.640, EPS and PE is 0.751. The correlation between DPS and BVPS is 0.977, DPS and DY is 0.094, DPS and PE is 0.639, BVPS and DY is 0.065, BVPS and PE is 0.533 at the end the correlation between DY and PE is 0.764.

The EPS, DPS, BVPS and PE ratio is positively correlated to MPS. It states that increase in EPS, DPS, BVPS and PE ratio leads to increase in MPS. On the other hand, there is negative relationship between DY and MPS. It reveals that decrease in DY leads to increase in MPS.

4.3.4 Correlation analysis of Nepal Investment Bank Limited:

The correlation analysis of NIBL's overall data is done to find out the relationship of different variables with MPS.

Table 11

Correlation of Nepal Investment Bank Limited

| | MPS | EPS | DPS | BVPS | DY | PE |
|------|--------|-------|-------|-------|-------|----|
| MPS | 1 | | | | | |
| EPS | 0.045 | 1 | | | | |
| DPS | 0.469 | 0.164 | 1 | | | |
| BVPS | 0.383 | 0.131 | 0.495 | 1 | | |
| DY | 0.918* | 0.047 | 0.098 | 0.702 | 1 | |
| PE | 0.818 | 0.535 | 0.339 | 0.342 | 0.780 | 1 |

*. Correlation is significant at the 0.05 level (2-tailed).

(Source: Appendix B)

In the above table shows the data reflects significant correlations between market price per share, earning per share, dividend per share, book value per share, dividend yield, and price earnings ratio are each other. The correlation between MPS and EPS is 0.045, MPS and DPS is 0.469, MPS and BVPS is 0.383, MPS and DY is 0.918, MPS and PE is 0.818, correlation between EPS and DPS is 0.164, EPS and BVPS is 0.131, EPS and DY is 0.047, EPS and PE is 0.535. The correlation between DPS and BVPS is 0.495, DPS and DY is 0.098, DPS and PE is 0.339, BVPS and DY is 0.702, BVPS and PE is 0.342 at the end the correlation between DY and PE is 0.780.

The EPS, DPS, DY and PE ratio is positively correlated to MPS. It states that increase in EPS, DPS, and PE ratio leads to increase in MPS. On the other hand, there is negative relationship between BVPS and MPS. It reveals that decrease in BVPS leads to increase in MPS.

4.3.4 Correlation analysis of Standard Chartered Bank

The correlation analysis of SCB's overall data is done to find out the relationship of different variables with MPS.

Table 12

Correlation of Standard Chartered Bank

| | MPS | EPS | DPS | BVPS | DY | PE |
|------|-------|--------|-------|-------|--------|----|
| MPS | 1 | | | | | |
| EPS | 0.526 | 1 | | | | |
| DPS | 0.240 | 0.005 | 1 | | | |
| BVPS | 0.695 | 0.380 | 0.767 | 1 | | |
| DY | 0.351 | 0.405 | 0.818 | 0.324 | 1 | |
| PE | 0.813 | -0.046 | 0.425 | 0.675 | -0.005 | 1 |

(Source: Appendix B)

In the above table shows the data reflects significant correlations between market price per share, earning per share, dividend per share, book value per share, dividend yield, and price earnings ratio are each other. The correlation between MPS and EPS is 0.526, MPS and DPS is 0.240, MPS and BVPS is 0.695, MPS and DY is 0.351, MPS and PE is 0.813, correlation between EPS and DPS is 0.005, EPS and BVPS is 0.380, EPS and DY is 0.405, EPS and PE is -0.046. The correlation between DPS and BVPS is 0.767, DPS and DY is 0.818, DPS and PE is 0.425, BVPS and DY is 0.324, BVPS and PE is 0.675 at the end the correlation between DY and PE is -0.005.

The EPS, DPS, BVPS and PE ratio is positively correlated to MPS. It states that increase in EPS, DPS, BVPS and PE ratio leads to increase in MPS. On the other hand, there is negative relationship between DY and MPS. It reveals that decrease in DY leads to increase in MPS.

4.4 Analysis of primary data:

In this research, primary data collection method was used, where primary data refers to data that is first used to test the working hypothesis and then used as evidence to support a researcher's claim. Survey questionnaire method was used as it is best suited for descriptive study. Questionnaires were handed out through delivery and collection method. Delivery and collection of questionnaires allow researcher to confirm that the questionnaires were filled up completely and reduce the occurrence of missing data. It facilitates the researcher

to explain respondents about any queries they may have regarding the questionnaire. This, in turn, would increase the accuracy of the data being collected.

Reliability test of primary data

In order to understand whether the question in this questionnaire all reliability measure the variables under study a Cronbach's Alpha(α) was run on a sample of 100 items. Quality and consistency of survey was assessed with Cronbach's Alpha.

BVPS and CV of NBL shows that there is lower fluctuation among the sampled banks.

- x. The EBL has 0.73 which is the highest and NIBL has 0.18 which is the lowest CV of DY respectively. The CV of EBL shows that there is higher fluctuation in DY and CV of NIBL shows that there is lower fluctuation among the sampled banks.
- xi. The correlation analysis shows there is high degree of positive relationship of MPS with EPS among all other different variables and is significant at 0.01 level of significance (2-tailed).

Major findings from the survey.

- i. The 89 percent of the people agree that the political situation affect the share price and the share market where as 9 percent of the people are disagree on it.
- ii. Regarding the responses on the EPS determines the share price movement, majority of the people (86 percent) agreed and ten percent of respondents neither agree nor disagree and rest of the respondent disagree which is the 4 percent of total respondents.
- iii. Regarding on the response on dividend distribution pattern of the company increases or decreases the share price, 74 percent of respondents agree in which only four percent disagree on it.

- iv. Regarding on management quality of organization, the factors of moving stock market are interest rate, inflection, unemployment, economics growth, higher the BVPS, risk associated with company, rules and regulations of Nepal Rastra bank, liquidity of share price on market, capital structures, organizational performance, financials aspects, GDP and PCI, more than 50 percent of respondents agree by which effects on the share price movement.
- v. Regarding on the economic conditions affects the share price in market and larger companies, less than 50 percent of respondents agree and nearly equal percent of respondents neither agree nor disagree and disagree.

- vi. The average mean of all questions related to investor's response regarding share price moment is 2.27 which is ranges from don't know to agree and standard deviation is .9975, means almost response agreed the statement.
- vii. 68 percent of respondents agree on the statements and 17.5 percent are neutral on the statement and rest of the respondents disagree on the statements.

4.6 Discussion

Pradhan, (2013) is conducted a study His findings indicate that larger stocks have larger price earnings ratio, large ratio of market value to book value of equity, lower liquidity, lower probability, and smaller dividend. Price-earnings ratios and dividend ratio are more variable from smaller stock whereas market value to book value of equity is more variable for larger stocks. Large stocks also have higher leverage, lower assets turnover, and lower interest coverage but these are more variable from smaller stock than for larger stocks. Stocks with larger market value to book value of equity have larger price earnings ratios, and lower dividends. These stocks also have lower liquidity, higher leverage, lower earnings, lower turnover and lower interest coverage. The study can be concluded that there is a positive relationship between the ratio of dividend per share, to market price per share and interest coverage. Gautam, (2010), he studied is about the “stock market volatility of listed commercial banks in Nepal”. He found that the Nepalese capital market is in the developing phase and Nepalese Stock Market is in developing stage. Sharma (2011), examined the relationship between equity share prices and explanatory variables such as dividend per share, price earnings ratio, earning per share, size in terms of sale, and net worth for the period 1994 to 2009. The result revealed that earning per share, dividend per share, and book value per share has significant impact on the market price of share. Furthermore, results of the study indicated that dividend per share and earnings per share being the strongest determinants of market price, so the results of the study supports liberal dividend policy and suggests companies to pay regular dividends.

Nirmala, Sanju and Ramachandran (2011),demonstrated the determinants of share prices in the Indian market, used panel data pertaining to three sectors (auto, health care and public-sector undertakings) over the period of 2000-2009 and employed fully modified ordinary least squares methods. Their findings indicated that dividend, price earnings ratio

and leverage were significant determinants of share prices for all three sectors. Profitability variable influenced share prices only in the case of auto sector.

Khatiwada, (2014) has conducted study on “Stock Market Efficiency and Behavior of Share Prices.” He used serial correlation test and runs tests as statistical tools, further he used technical trading rule named filter rule for analyzing the data. He found that standard deviations of each and every individual stock’s price changes are higher than the mean. Therefore, the general shape of empirical frequency distribution is flatter than normal distribution’s shape. Most of the results obtained from the serial correlation test for 30 stocks are absolutely large and significantly insulated from zero. The results obtained from the runs test are also consistent with the results of serial correlation tests. When the run test analyzed by lengths; it was found that actual numbers of runs are not normally distributed. Therefore, there exists significant determination in the successive price changes series of Nepalese stock market. Similarly, the results obtained from the filter test showed that difficult mechanical trading rule can beat the average market return. As-most of the filter’s trading returned higher than buy and hold strategy, it supports the result of serial correlation and runs test. Hence, he concluded that today’s price changes are not an unbiased outcome of yesterday’s price changes.

CHAPTER- V

SUMMARAY AND CONCLUSION

This chapter provides the brief summary of the entire study and highlights the major findings of the study. In addition, the major conclusions are discussed in separate section of this chapter which is followed by some implications and the recommendations regarding the share price movement of Nepalese commercial banks. Finally, the chapter ends with the scope of the future research in the same field. They are discussed below.

5.1 Summary

In Nepal, stock market is a recent phenomenon then in developed countries. “Security market refer to buyer and seller of security and also structure of comprising all those agencies and institution which help in the sale and resale of companies securities” (Paudel, 2015).By providing efficient market mechanism for collecting and mobilizing fund, stock market has significant role to accelerate the pace of industrial growth in the national economy and also to create the concept of stock exchange activities. But in Nepal after establishing the security board in 1994 A.D. it took place in modernization. Lack of high infrastructure, information dissemination system, lack of high professional broker, rigid rule and regulation and investors unconsciousness are main problem in stock market. Due to many more problems Nepalese market could not contribute in economy as compare to developed countries. Regarding various problems this study is only concerned with “stock market price movement and patterns of change and performance of selected commercial banks and finance companies in terms of share price movement" (Paudel, 2015).

The study is focused on the identification of variable that affect the share price and analysis of the relationship of these variables with the market price per share of the commercial banks. Hence, five listed commercial banks are taken in consideration for the purpose. Market price of the sample banks has been analytically tested here to compare with other financial indicator like EPS, DPS, BVPS, DY and P/E ratio. For this purpose, secondary data was gathered from different sources and different financial tools as well as statistical tools have been used for analysis. Along with this, a set of 17 questions were prepared and presented to 100 respondents to collect primary data related the share price movement on Nepalese commercial banks. This study mainly aims to examine the factors affecting the share price of commercial bank in the capital market. The share price of commercial banks has been passing through up and down in recent years. Stock market seems to be highly sensitive and fluctuating, hence the basic focus of the study is to examine factors affecting

stock price with the help of five years data on five sample banks. Basically, the price of the stock is determined by demand and supply, but there are many other factors that lead to the fluctuation in price. Company financial indicator like EPS, DPS, BVPS, P/E ratio, cost of equity, cost of fund and other environmental factor like government's policy, fiscal policy, political situation, NRB's policy, news, rumors, interest rate affects the share price. Nobody can predict the main factors that affect the change in share price. It has been a major concern to many researcher and investors regarding the major determinants and variables of share price.

Some study regarding share price movements were conducted in different times by the different peoples. They found that the most influencing factors in share price movement are DPS, BVPS, and EPS which are the similar finding to this study. Gautam, 2010 conducted a study on stock market volatility of listed commercial banks in Nepal". He found that the Nepalese capital market is in the developing phase and Nepalese Stock Market is in developing stage. Generally speaking, most of the people citizens are still unaware of stock market. This study is focused on the analysis of the relation of MPS with the major financial indicators like BPS, DPS and EPS.

Neupane(2018), The major findings of this study was extracted from the analysis of primary and secondary data, and the conclusion has been made on the basis of major findings. This report concluded that from the observance and analysis of above data the commercial bank should move as per the direction given by the central bank. Bank should have optimum policy to collect the deposit in various accounts.

Many young people are attracted towards stock investment. Investment in common stock is not an easy task. It requires proper knowledge, risk taking capacity and patience. Since, the stock investment provides a handsome profit sometimes with the increase in market price and dividend distributed by the company, many people are attracted in this sector. But, sometimes the stock price declines so heavily that the dividend provided by the company cannot cover the loss amount occurred due to decrease in MPS.

5.2 Conclusion

The study of the factors affecting share price movement has been a subject of great interest these days. Specially, the share price of commercial banks in Nepal is very fluctuating. It is a subject of curiosity to identify the factors affecting share price of commercial banks. The shares of commercial banks dominate the portfolio of majority of investors. So, this

study examines the factors affecting share price movement of commercial banks over the period 2016/17-2020/21. The findings of the study over the past five-year period revealed that dividend per share and earnings per share, book value per share has the significant positive association with share price.

From the secondary data analysis, it is found that the commercial banks performance is highly inconsistent in the relationship of MPS with EPS, DPS, DY, BVPS and PE ratio. The MPS is found to be highly correlated with the EPS and DPS. From the primary data analysis, factors affecting the market price of share of commercial banks listed in Nepal Stock Exchange are identified. Such internal factors affecting the share price are earnings per share, book value, and dividend per share, dividend yield and price earnings ratio of the banks. Similarly, there are other environmental factors affecting the market price of share. Such environmental factors affecting the share price are the political situation of country, earning per share, dividend distribution patterns, book value, share price, rules and regulations of Nepal Rastra Bank and changing policy, financial aspects (assets, paid up capital etc.), government instability, SEBON performance. There exists significant relationship of EPS, DPS, BVPS, DY and P/E ratio with MPS.

5.3 Implications

Based on this study, the major implications are as follows.

- i. Most of the respondents/investors were found to rely very much only EPS, DPS, BVPS and P/E ratio and DY of a company. Sometimes the EPS and DPS only may not cover the return as per risk associated with it. The investors are recommended not to perceive EPS, DPS, and BVPS only as the performance measurement of the company. Other fundamental factors like cost of capital, corporate governance of the company, non-performing loan ratio should also be taken into considerations. Investors are recommended to invest in the stock of the company only after proper fundamental as well as technical analysis and also take only the calculated risk.
- ii. During the study it is found that investors have limited choice of investment sector. Nepalese stock market is dominant by bank and financial institutions. There are other big companies operating in Nepal. NEPSE and SEBON should make a policy to motivate other sectors like manufacturing and processing, trading and real estate to come under listing of NEPSE. It would increase the market size and investors would have sectorial choices of investment.

- iii. Majority of the investors feel that NEPSE and SEBON are not serious in protecting the interest of investors. Hence both the bodies should be more responsible towards investors by providing the investor friendly trading platform. The listed company not publishing their annual report in time is to be punished by the NEPSE and make them oblige towards the shareholders and investors. The listed companies are recommended to provide their quarterly and yearly reports in their websites, so the investors are able to track the financial health and position of the company.
- iv. Most of the banks EPS has been declined in the fiscal year 2017/018, it might be the reason of paid-up-capital increment as per the directive of NRB. So, the banks are recommended to increase their earnings to maintain a balance between earnings and increased capital. It can be done by reducing the operating cost, decrease the non-performing loan and minimize the cost of fund.
- v. For the further development of the stock market SEBON should establish and introduce the fully online trading system as per international standards, provide the broker license to the commercial banks, motivate the NRN to invest in capital market.
- vi. ICRA Nepal and other rating agency should be made more responsible to publish credit rating information of the IPO and FPO timely so that the potential investors have a clear concept of the financial health and prospects of organization.
- vii. The regulatory body for hydropower, hotels, manufacturing and processing sector should be established very soon.
- viii. The new investors coming in the market are suggested not to invest in common stock without proper knowledge and investment strategy. The new investors are recommended to buy the stock for investment purpose rather than trading purpose.
- ix. Government should formulate and implement a rigid rules and regulations for the further development of share market. A mechanism to take immediate action against fraud companies is to be established.
- x. During the study it is found that the investors now-a-days is more rational and aware than before. They measure the cost savings, invest as per their risk bearing capacity and consider tax savings. Hence, the investor who holds the stock for longer period should be charged less capital gain tax. So, it is recommended to NEPSE to reduce the broker commission, minimize the capital gain tax for long term stock holders and cut off the DP fee charged for every transaction.

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