DETERMINANTS OF DIVIDEND POLICY IN COMMERCIAL BANKS IN NEPAL

A Thesis

Submitted By:

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RECOMMENDATION

This is to certify that the Thesis

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of thesis

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as the partial fulfillment of the requirements for

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DECLARATION

I hereby declare that the thesis" **DETERMINANTS OF DIVIDEND POLICY IN COMMERCIAL BANKS IN NEPAL"** submitted to Shanker Dev Campus the Faculty of Management, Tribhuvan University is my original work done for the partial fulfillment of requirements for the Master of Business Studies (M.B.S.) under the supervision of Kamal Prakash Adhikari of Shanker Dev Campus.

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Anju Gyawali

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ABBREVIATIONS

AD	:	Anno Domini
ANOVA	:	Analysis Of Variance
ATM	:	Automated Tailor Machine
BS	:	Bikram Sambat
BVR	:	Book Value Ratio
C.L	:	Current Liabilities
CB	:	Commercial Banks
CRR	:	Cash Reserve Ratio
DPR	:	Dividend Payout Ratio
DPS	:	Dividends per Share
DY	:	Dividend Yield
e.g.	:	Example
EMH	:	Efficient Market Hypothesis
EPS	:	Earnings per Share
F/Y	:	Fiscal Year
GCG	:	Good Corporate Governance
GDP	:	Gross Domestic Products
i.e.	:	That is
JVBs	:	Joint Venture Banks
Ltd	:	Limited
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
PER	:	Price-Earnings Ratio
ROA	:	Return on Asset
SD	:	Standard Deviation
SEM	:	Structural Equation Model
T.A	:	Total Assets
TU	:	Tribhuvan University
YPE	:	Yield per Share

CHAPTER-I

INTRODUCTION

1.1 Background of the study

The nation's economy has historically depended heavily on commercial banks. They are essential to the growth of commerce and industry. They are serving as both the nation's resources, which are essential for a country's economic development, and the stewards of its wealth. For investors, the stock market offers the finest potential for investing. Furthermore, a long-term venture capital fund is needed to finance many valuable enterprises. The majority of investors are tempted to take on risk and are hesitant to link their savings to a long-term obligation. An attractive and less dangerous investment is a liquid stock market. Because they can simply and rapidly sell shares if they wish to withdraw their savings before the project matures, investors are encouraged to put their money into long-term projects. Simultaneously, firms are able to easily get capital by issuing additional shares.

The price at which a share of stock is currently trading on the market is referred to as the stock price. When shares of a publicly traded firm are issued, they are assigned a value that, in theory, corresponds to the company's overall worth. A stock's price will fluctuate in response to various circumstances, such as shifts in the overall economy, shifts in specific industries, conflict, political developments, and changes in the environment. The banking industry is essential to the nation's economic growth. A bank is a type of organization that mobilizes resources by taking deposits from different sources and using the money to invest in industries, trade, commerce, tourism, and agriculture, among other things. Thus, it is evident that banks are very beneficial and necessary for a contemporary society. As a result, banks are essential to the economic growth of emerging nations like Nepal. Over the past 20 years, academics and practitioners have paid close attention to stock price movement since it may be used as a gauge of market risk. Interest in predicting time-varying stock return volatility has increased recently (Shrestha & Subedi, 2014).

Typically, the stock market index is used to measure a nation's economic health. An increase in the stock index is typically interpreted favorably because it shows investors have faith in the economy's prospects. A decline in the stock index is

interpreted negatively since it shows that investors have low expectations for the state of the economy going forward. The economy's macroeconomic and microeconomic variables are the causes of the index's growth and fall. Any element that affects a company's cash flows or discount rate will have an effect on the stock market's share price (Shrestha & Subedi, 2015).

The market where financial products like bonds, debentures, shares, and so on are transacted is known as the financial market. The community's savings are made available to users of those funds through a number of means. It offers a platform for direct business fund transactions between fund sources and demanders. The marketplace where buyers and sellers engage in the trading of financial instruments is referred to as the financial market. Financial assets come in a variety of shapes and sizes, from common shares of different corporations to long-term government bonds. The money market, which is made up of providers and demanders of short-term funds with maturities of one year or less, is known as short-term financing. Businesses can borrow money on a short-term basis thanks to the money market. The capital market, also referred to as long-term finance, is made up of suppliers and demanders of long-term funds having maturities longer than a year. The capital market enables businesses to obtain long-term investment. The financial market supports national growth, investment, entrepreneurship, saving, and industrial development (Fama, 2016).

The term "capital market" refers to the bond and stock exchanges where securities are exchanged and is a crucial component of contemporary financial systems. There are two categories of securities: debt securities, which include bonds and debentures, and equity securities, which include shares in corporations. It makes it possible for people and businesses to lend their savings to those in need and for governments and businesses to raise long-term capital. Commercial banks are an essential part of the financial system since they provide loans and take deposits. Banks and the capital market coexist and are the most important external finance sources for people, businesses, and the government. They offer a way to mobilize and direct savings in addition to moving and allocating risks throughout the economy (Lyndon, 2016).

Before making an investment in securities, investors and shareholders in Nepal rarely care to learn about the risk and return characteristics of the equities. The majority of regular Nepalese investors only make one securities investment, and they do so

without doing a risk-return analysis. Even if some investors lose a lot of money because they allocate their assets to different securities based more on the logic and impact of the portfolio than on the expectations and assumptions of the individual stocks. Furthermore, investors are likewise hesitant to purchase securities. Thus, it is imperative that they become well-versed in these instruments as well as their application to investment decision-making and assessment (Prasanna & Ezhilmaran, 2013).

The founding of Nepal Bank Ltd. in 1937 A.D. marked the beginning of modern banking in Nepal. which served as Nepal's first commercial bank. Before Nepal Rastra Bank (NRB) was founded in 1966, Nepal Bank Ltd. served as both the country's commercial and central bank (Wikipedia, n.d.). In 1984, following the government's adoption of a liberal economic policy in the middle of the 1980s, Nabil Bank Ltd. became the first private sector commercial bank. 2041 B.S. Nepal Arab Bank Ltd., the first joint venture commercial bank, was founded. Subsequently, numerous other joint venture banks and private sector banks were founded.

1.1.1 Brief History of Sample Banks

Nabil Bank Ltd.

Since its establishment in 1984 AD, Nabil Bank Ltd. has played a crucial role in the growth of Nepal's financial services sector. The three solid pillars that the Bank has always adhered to are product innovation, technology, and service excellence. As a result, cutting-edge services and products have been developed, improving consumers' lives and setting standards for the domestic banking industry. This has ushered in a culture of customer-centric banking.

Nabil Bank runs its business through a vast nationwide network that includes 230 branch offices, 254 ATMs, a large number of point-of-sale terminals, and remittance agents. Additionally, the Bank maintains approximately 170 relationships with foreign correspondent banks. Through its subsidiary Nabil Investment Banking Ltd., the Bank runs its investment banking division.

The Bank is aware that its responsibility extends beyond facilitating financial transactions to include societal advancement. As a result, the Bank actively promotes financial literacy and offers financial access to a sizable portion of the populace nationwide as part of its CSR efforts. Key areas that characterize the Bank's commitment to the nation's development plan are financing priority industries like

agriculture, renewable energy, and tourism, as well as providing credit to underprivileged segments of society through microlending. In order to address the economically disadvantaged population and raise financial literacy there, Nabil Bank has also opened branch offices in a number of remote localities in the western and far-western hills.

Himalayan Bank. Ltd.

In 1993, Himalayan Bank was founded as a joint venture with Pakistan's Habib Bank Limited. In the face of fierce competition in Nepal's banking industry, Himalayan Bank has managed to hold a lead in the two main banking services it offers: loans and deposits.

The institution that is renowned throughout Nepal for its creative approaches to marketing and customer service carries on the legacy of Himalayan. HBL initially launched services including ATMs and Tele-banking along with products like the Millionaire Deposit Scheme, HBL Proprietary Card, and Premium Savings Account. Our example has been followed by other financial institutions around the nation with the introduction of comparable goods and services. Thus, in addition to updating the banking industry, they support the innovations they introduce in this nation to benefit their clients. We firmly feel that we are in the forefront of Nepal's banking industry, having the largest deposit base and loan portfolio among private sector banks and providing guarantees to correspondent banks covering the exposure of other local banks under our credit standing with foreign correspondent banks. Our assertion is amply supported by HBL's ranking as the nation's top bank in Bankers' Almanac's most recent rating.

Nepal Bank Ltd.

The first bank in Nepal, Nepal Bank Limited (NBL), is proud to have been the institution that officially launched the country's banking industry. Under the Nepal Bank Act 1937, Nepal Bank Limited was founded as the FIRST bank of Nepal on Kartik 30, 1994 (November 15, 1937 A.D.). The bank was founded with Rs. 0.842 million in paid-up capital, Rs. 2.5 million in issued capital, and Rs. 10 million in permitted capital. The government held 60% of the equity, while the private sector held 40%.

Notably, Prime Minister Juddha Shumsher Jung Bahadur Rana supported King Tribhuvan's initiative to establish Nepal Bank Limited, which aimed to institutionalize

a formal banking system in the country. Prior to the founding of NBL, trading centers and private dealers handled all financial transactions. At the time, there was no faith in this kind of official financial system. This was evident in the undersubscription of shares (of the Rs. 2.5 million floated capital, only Rs. 0.842 million could be raised). It was much harder to raise deposits and mobilize the money that was gathered.

The lack of banks in Nepal was impeding the nation's economic development. Nepal Bank Limited took this into mind, with a primary focus on resolving the public's issues and economic hardships. By offering financial services to customers, this was started in order to ease their discomfort. With time, this goal improved and grew in scope. To date, Nepal Bank Limited has adapted to technical advancements, the welfare of the country's economy, consumer service preferences, market competition, and international financial situations in order to establish itself as one of Nepal's most prestigious, thriving banks.

Everest Bank Ltd.

You can rely on Everest Bank Limited (EBL) to provide professional and effective banking services. Since its founding in 1994, the Bank has emerged as one of the nation's top financial institutions, serving a wide range of clientele. The Bank, which serves a diverse clientele, has aided in the corporate, industrial, and agricultural development of the country.

With a network of 10,098 domestic branches, 2 international branches, 13,350 ATMs, and 15,719 business correspondents, the bank currently has 39,167 delivery channels in total. The bank has two overseas locations: one in Gift City, Ahmedabad, and the other in Dubai. The Bank has two foreign subsidiaries viz. PNB Worldwide, Inc. Druk PNB Bank Ltd. and London. Bhutan. The bank maintains representative offices in Bangladesh and Myanmar. Under the terms of the Technical Service Agreement, PNB has been giving senior managerial support to Everest Bank Limited as a joint venture partner, owning 20% of the company.

Everest Bank Limited (EBL) offers user-friendly services via its extensive network connected to the ABBS system, allowing users to do business from any branch. With 117 branches, 143 ATMs, 31 revenue collection counters, and 4 extension counters spread out across the nation, the bank is incredibly effective and easily available to its clients from anywhere at any time.

1.2 Statement of the Problem

Nowadays, the majority of investors are drawn to the banking industry. Numerous studies have been carried out regarding the movement of stock prices. The goal of this study is to determine the degree of these changes and the stock price's sensitivity. The stock exchange responds to changes in the environment by adjusting the price of stocks on occasion. Among several equities, the investors were unable to distinguish between excellent and bad ones. Moreover, there aren't enough organized investors in Nepal's stock market to evaluate the risk and return data of the companies listed there. Any investor cannot make a sane investment decision in this scenario.

An investor needs to be aware of the business climate, stock price volatility, sensitivity of the stock price, dividend policy of the firm, earnings, net worth, price-earnings ratio, and government policies regarding investors in general. Additionally, investors have a tendency to ignore statistical data and technical analysis in favor of explanatory information. Since the public has not been provided with adequate information regarding the financial performance of the listed businesses, the state and vibrancy of the stock market are negatively impacted by the lack of transparency.

One of the primary sources of information for shareholders on securities trading is the broker's role. Compared to brokers on stock markets in other nations, NEPSE brokers are unable to offer the same range of services related to stock trading.

Consequently, the following research topics are addressed in this study:

- What is the state of the sample banks' stock price, profits, dividend, net worth, and price-earning ratio?
- What is the correlation between sample banks' stock price, earnings, dividends, net worth, and price-earning ratio?
- What impact do net worth, profits, dividends, and price-to-earnings ratio have on the company's stock price when compared to other banks?

1.3 Objectives of the study

The primary objective of the research is to examine the fluctuations in the share prices of specific Nepali commercial banks and their correlation with several factors, including EPS, DPS, NWPS, and P/E ratio. In addition, the following are the specific goals:

- To analyze the state of the sample banks' stock price, earnings, dividend, net worth, and price-to-earnings ratio.
- To investigate the correlation between sample banks' stock price, earnings, dividends, net worth, and price-earning ratio.
- To examine how the stock price of sample banks is affected by earnings, dividends, net worth, and price-earnings ratio.

1.4 Hypothesis

One of the most crucial components of a research study is the testing of the research hypothesis. It is a numerical assertion regarding the population parameter. We can determine whether the theory merits acceptance or rejection by conducting tests on it. Testing the properties of the proposed population parameter based on sample data is the primary objective of hypothesis testing. It determines whether or not there is a significant difference between the population parameter and sample statistic. The following are the hypotheses put out for this investigation:

H1a: The Price-Earnings ratio (P/E) and market price per share (MPS) are significantly correlated.

H1b: There is a strong correlation between Market Price per Share (MPS) and Earnings Per Share (EPS).

H1c: The relationship between Dividends per Share (DPS) and Market Price per Share (MPS) is statistically significant.

H1d: The relationship between Market Price per Share (MPS) and Book Value per Share (BVPS) is crucial.

1.5 Significance of the study

Everyone is drawn to investing in shares in order to optimize their money and receive a higher return. Therefore, analyzing the share price sensitivity on the Nepalese stock market has shown to be a successful strategy for drawing in new investors. For individual investors who are eager to deal in securities of multinational corporations and Nepalese companies, the study will be important. Understanding the share prices of the various listed firms in Nepal will also be aided by this study. Policymakers, shareholders, management, and all other stakeholders in the Nepalese share market

will find it useful. Investors may find this study useful in considering a portfolio reorganization. In a similar vein, prospective investors might base their timely investing decisions on the study's findings. The results will be significant for researchers and academics studying the Nepalese stock market in the future.

This study aids in our understanding of the potential, issues, and future directions of the Nepali stock market. Learning about the financial standing of particular banks will also be beneficial. As a result, it is anticipated that this study will be beneficial to organizations involved in the stock market and public investors.

1.6 Limitations of the study

The following are some limitation of the study:

- The study only examined the movement of stock prices as a result of changes in EPS, DPS, NWPS, and P/E ratios as an independent variable. The topic of "stock price movement" (analysis of specific banks) is much more dynamic and requires enormous resources, both financial and human.
- The market price per share, which is the dependent variable in this study, is solely calculated using the stock's annual average quarterly price.
- The primary focus of the study is the fluctuations in the stock prices of four commercial banks. Since some banks are currently merging, others have recently merged with development banks and financing firms.
- The ten-year observation period of four commercial banks, spanning from FY 2013/14 to FY 2022/23, was covered in this study.
- The outcome is solely dependent on data from secondary sources, such as the firm website, SEBON, NEPSE, NRB, and so forth.
- This research relies solely on five Nepali commercial banks as a sample.

1.7 Organization of the study

The study will be arranged into five chapters that will be presented in a way that makes it easy to satisfy the research objective and provide appropriate answers to the research questions. The study's conclusions and outcomes will be presented in an organized way. The contents of each chapter are further explained as follows: -

Chapter 1: Introduction

Background information, a description of the issues, the study's objectives, its conceptual framework, its importance, its limitations, and its organization are all included in this chapter.

Chapter II: Review of literature

This chapter contains reviews of textbooks and dissertations in addition to pertinent prior work and research to identify any gaps in the field.

Chapter III: Research methodology

The research approach that will be applied to the study is explained in this chapter. It will address the demographic and sample, data sources, data analysis, and software utilized in the research design.

Chapter IV: Data presentation and analysis

This chapter uses statistical and financial methods to present and analyze financial statements in a methodical manner. Major findings and a discussion are also included.

Chapter V: Summary, conclusion and recommendations

In a few paragraphs, this chapter attempts to finish the entire study, which is the outcome of the investigation. And lastly, based on the summary and conclusion that have been provided.

CHAPTER-II

REVIEW OF LITERATURE

A literature review is an extensive synopsis of earlier studies on a particular subject. A literature review examines academic books, papers, and other sources that are pertinent to a specific field of study. This prior research should be listed, described, summarized, impartially assessed, and made clear in the review. It need to provide a theoretical framework for the study and assist you, the author, in defining its scope. By acknowledging the work of earlier researchers, the literature review reassures the reader that the conception of your study has been sound. When a prior study in the subject is mentioned, it is considered that the author has read, assessed, and incorporated that work into the current work. Finding out what research studies have been done in one's chosen subject of study and gathering ideas for creating a research design are the goals of this chapter. Because they served as the basis for the current study, the earlier research cannot be disregarded. Stated differently, research needs to be conducted continuously. By connecting the current study with earlier research investigations, this continuity is revealed. As a result, numerous books, journals, and articles related to this subject have been examined.

2.1 Theoretical Review

In general, there are three schools of thought that address how securities are valued and how their prices behave: First, Technical Analysis (3) Random Walk or Efficient Market Analysis; and (2) Fundamental Analysis.

2.1.1 Agency Cost Theory

In finance and economics, agency cost theory—also referred to as the agency theory—examines potential conflicts of interest between a company's managers and owners, or shareholders. In 1973, Stephen A. Ross presented it in a formal work titled "The Economic Theory of Agency: The Principal's Problem." In this essay, Ross talked on the difficulties in coordinating the interests of managers, who act as agents and make decisions on behalf of shareholders, with those of shareholders, who act as principals.

According to the agency cost theory, agency costs may arise from managers' failure to constantly act in the best interests of shareholders. These expenses are caused by a number of factors, including the division of ownership and control, knowledge asymmetry, and managerial compensation packages. Expenses are frequently incurred by shareholders to keep an eye on and encourage managers to behave in their best interests.

Many academics and researchers in the domains of corporate governance and finance have since extended and expanded upon the notion. It is still a key idea in comprehending the dynamics of business decision-making and how businesses might reduce agency costs for the good of their shareholders.

- Principal-Agent Relationship: The relationship between a corporation's managers or executives and its shareholders, or principals, is the main emphasis of agency cost theory. Managers make decisions on behalf of shareholders, but this delegating may lead to conflicts of interest.
- Information Asymmetry: This is one of the main problems with agency cost theory. It is common for managers to know more about the day-to-day workings of the company than do shareholders. Managers may act more in their own self-interest than in the best interests of shareholders as a result of this knowledge gap.
- Managerial remuneration: The way managerial remuneration packages are created may result in agency costs. Managers might be enticed to make decisions that increase stock price in the short term at the expense of long-term shareholder value, for instance, if their primary source of compensation is stock options.
- Monitoring and Control: The costs of keeping an eye on and reining in managerial behavior fall on shareholders. This could entail setting up remuneration committees, employing outside auditors, or carrying out impartial financial audits in order to match management incentives with those of shareholders.
- Mitigation Strategies: A number of corporate governance techniques and plans have been created to lower agency costs. These consist : hiring

independent directors for the board, paying employees according to performance, and providing more financial reporting transparency.

- Residual Loss: According to agency cost theory, a certain amount of agency costs is unavoidable since it is expensive to precisely match managers' and shareholders' interests. Reducing these expenses to a manageable level is the aim.

2.1.2 Efficient Market Hypothesis (EMH)

Securities that are priced accurately all the time are in an efficient market. Current market prices properly represent available information in an effective capital market. As a result, in an efficient market, pricing is determined using all available information. According to the efficient market theory, there are three possible levels of market efficiency. The idea of perfect competition gave rise to market efficiency. It is predicated on rational investors with no transaction fees or taxes, and free and instantaneous access to information. There are three possible exit points for market efficiency as defined by the efficient market theory. Weak form, semi-strong form, and strong form are the three types. A financial theory known as the Efficient Market Hypothesis (EMH) contends that financial markets accurately reflect all information that is currently available about a security or asset. Put differently, the theory suggests that stock and asset prices adequately account for all available information and, as a result, cannot be regularly beaten by analysis or active trading. Eugene F. Fama established the idea of the Efficient Market Hypothesis in the 1960s and 1970s. American economist and Nobel laureate Fama wrote a number of significant studies on the subject.

a. Weak form

According to the weak version of the efficient market hypothesis, all information from previous price movements is fully reflected in the share prices as of right now. The stock price will not exhibit a random walk pattern. There will be less or greater random fluctuations in the stock price. Because the market has no memory, there is no point in attempting to forecast future price by examining post-price movement tendencies as they provide no hints. Weak efficiency markets are those where historical data does not predict future prices in a way that would enable a buy-hold short-term trade strategy. According to the weak form hypothesis, trend analysis is

useless since the stock price already takes into account all of the information that can be found out by looking at market trade data, including trading volume, historical price history, and short interest.

b. Semi- strong form

In addition to past price movements, the semi-strong form of the efficient market hypothesis asserts that current market prices reflect all information that is currently available to the public. Analyzing the present share price in relation to the available facts is pointless. Those who have access to the information before it is made public may benefit from higher or unusual returns than would be expected given the level of risk involved. According to the semi-strong hypothesis, the stock price must already take into account all information that is readily available to the public about a company's future. These details include historical pricing as well as basic information on the company's product range, management caliber, balance sheet composition, number of patents held, earnings projections, and accounting procedures.

c. Strong form

According to the strong version of the efficient market hypothesis, all pertinent information is reflected in current market pricing, even if it is proprietary. All information is reflected in security prices in strong, efficient markets. No one can outperform the market, meaning that no one can make extraordinary profits in that market; instead, the market prices shares at their real or intrinsic value based on underlying future cash flows. The strong form of market does not exist at all in the real world. The semi-strong variant of the efficient market hypothesis (EMH) represents the strong form of the market in the majority of industrialized nations. The EMH appears to be weaker in developing country marketplaces. In such a market, the stock price fluctuates erratically and doesn't adhere to a set pattern. The evidence is in favor of the weak efficient and semi-strong efficient market hypotheses. However, this contradicts the strongly efficient market theory, which holds that the stock price not only represents all important information about the company but also includes information that is exclusively known to insiders in the organization. The way that the market price of the shares reflects information that is available to the public determines the types of markets. The Efficient Market Hypothesis (EMH) utilizes past

data to ascertain the current share price. However, various nations may have different sets of laws governing share trading and stock market operations.

2.1.3 Fundamental Analysis

Fundamentalists believe that a share's value is determined by the capitalization rates that correspond to the expected future stream of returns. The authorized risk-adjusted cost of equity is the capitalization rate. The present value of future earnings from an equity discounted at a risk-adjusted capitalization factor, then, equals the value of a share under this model. Complete disclosure of economic and financial data is mandated. The market value of the shares cannot be accurately determined if information is not regularly, consistently, and completely disseminated. This idea is commonly applied to two models: the Dividend Discount Model and the Earnings Capitalization Model. A share's inherent value determines its market price. By purchasing stock in the undervalued firm and selling stock in the overvalued company, the shareholders hope to optimize their return. Until the equilibrium price is restored, buying pressure will drive up the price of an undervalued company and selling pressure will drive down the price of an overvalued company. To determine the intrinsic worth of a business's stocks, fundamentalists are mainly interested in examining influences, industry factors, and relevant corporate information including product demand, earnings, dividends, and management.

Fundamentalists compare value using a risk-return framework based on earning power and the state of the economy, which establishes future income and prospects for business opportunities, before making an investment decision (Francis, 2011). Fundamentalists have a tendency to gaze ahead. They are worried about things like dividends and potential earnings in the future. It has been argued that the purpose of fundamental analysis is to provide an answer to the "What" question. Fundamentalists use this study's foundation to reasonably predict a company's future earnings potential and profitability, as well as the appropriate price for its shares. We refer to this projected cost as intrinsic value. The stock's intrinsic worth is typically higher than its current market value. As a result, there is a distinction or gulf between them. Fundamentalists make investing decisions based on the belief that prices will rise when they compare this value to the present market value. Fundamentalists will buy shares in this scenario because the differential gives them a chance to profit.

In contrast, the share is expensive and should be sold by fundamentalists if the intrinsic value is less than the market value. By adhering to this criterion, they think that if the market is inefficient in pricing the shares, an over average return can be obtained. It is believed that the real price of the security is a function of anticipation, with the price acting as a function of this anticipation and changing in response to new information. The company's sales, profit, dividends, management caliber, and other economic and industrial aspects are a few of these expectations. Additional new information may be a significant order, a labor issue, a revised profit estimate, or anything similar. Finding the current discounted value of all the payments a stockholder will get from each share of stock is the goal of fundamental analysis. The fundamental analyst would advise buying the stock if that value is higher than the market price, and vice versa.

Through the application of basic analysis and the notion of intrinsic value, an investor can ascertain if a stock is trading at fair market value, is overpriced, or is inexpensive. The resulting analysis is stated to offer the intrinsic worth of the stock if all the data about a corporation's future expected growth, sales statistics, cost of operations, and industry structure, among other things, are available and reviewed.

A fundamentalist believes that a stock's market price eventually approaches its inherent worth. An investor would buy a stock if its intrinsic worth exceeded the current market price. On the other hand, the investor would sell the stock from their portfolio or initiate a short position in the stock if analysis revealed that the intrinsic value of the stock was lower than the market price. Fundamental analysis involves a number of stages. The investor needs to assess the state of the economy as a whole, both now and in the future. Make an effort to ascertain the direction and level of interest rates over the short, medium, and long terms (Nawazish, 2008).

Interest rate forecasting might be used to achieve this. It's also essential to comprehend the industry sector in question, particularly its maturity and any cyclical effects that the broader economies may have on it. Following the completion of these procedures, an analysis of the specific firm is required. The elements (low cost producer, technological superiority, distribution channels, etc.) that offer the firm a competitive edge in its sector must be included in this analysis. Additionally, a thorough examination of the company needs to be done. It is necessary to look at things like management experience and skill, performance history, revenue and cost

forecasting accuracy, growth potential, etc. A qualitative summary of the firm's position within its industry and the overall economy is provided by each of the aforementioned processes. To determine whether a quantitative analysis should be conducted, this is required. In the event that calculations are necessary, two really straightforward models can be useful for investors who wish to gain a deeper understanding of the company they are considering investing in. The dividend discount model and the price/earnings model are the two approaches that are most frequently used to calculate a company's intrinsic worth. When used correctly, both approaches ought to yield intrinsic values that are comparable.

2.2.4 Random Walk Analysis

Signaling theory is a concept from economics and information theory that explores how individuals and entities use signals to convey information to others in order to mitigate information asymmetry and make decisions in various economic and social contexts. It was initially developed by Michael Spence, an American economist, in his 1973 paper titled "Job Market Signaling."

Here are the key points of signaling theory:

- **Information Asymmetry:** Signaling theory arises from situations where there is unequal access to information between two parties, typically in the context of employment, investment, or economic transactions. One party (the sender) possesses more information about their own qualities, characteristics, or intentions than the other party (the receiver).
- **Signals:** A signal is an action, attribute, or piece of information that the sender uses to convey information to the receiver. Signals can be both observable and unobservable. Observable signals are actions or attributes that the receiver can directly observe (e.g., education credentials, work experience), while unobservable signals are harder to verify (e.g., intentions, commitment).

    Separating and Pooling Equilibriums: In signaling theory, there are two primary equilibriums:

    Separating Equilibrium: In this scenario, individuals or entities use signals to differentiate themselves from others based on their true characteristics. For example, a job applicant with a college degree

signals that they have a certain level of education. This helps employers distinguish between candidates with different qualifications.

- **Pooling Equilibrium:** In this scenario, individuals or entities with varying characteristics use similar signals, making it difficult for the receiver to differentiate between them. For instance, if many job applicants claim to be "motivated" on their resumes, it becomes a less effective signal because it does not differentiate among candidates.
- **Costly Signals:** Effective signals are often costly to produce or maintain. This cost serves as a credible indicator of the sender's true qualities or intentions. For example, obtaining a college degree requires a significant investment of time and resources, making it a costly signal of one's commitment to education.
- **Adverse Selection:** Signaling theory helps to mitigate the problem of adverse selection, where one party (typically the sender) has better information than the other (the receiver) and may exploit this information asymmetry to their advantage. By using signals, the sender can convey credible information, reducing the adverse selection problem.

Signaling theory is commonly applied in various fields, including labor economics (job market signaling), finance (investment and financial market signaling), and marketing (branding and advertising as signals of product quality). Signaling theory assumes rational behavior and may not fully account for situations involving behavioral biases or irrational decision-making. Additionally, in some cases, signals may not be entirely reliable, leading to adverse outcomes.

In essence, signaling theory provides a framework for understanding how individuals and organizations use signals to communicate information in situations where there is asymmetric information. It helps to address the challenges that arise when parties with different levels of information need to make decisions or engage in transactions.

Practical Examples of Signaling Theory:

- **Education as a Signal:** One of the classic examples of signaling theory is the role of education in the job market. A college degree can serve as a signal of an individual's abilities, work ethic, and commitment. Employers may view a

degree not only as evidence of academic knowledge but also as an indicator of qualities such as discipline and perseverance.

- **Brand as a Signal:** In marketing, a strong brand can act as a signal of product quality and reliability. Consumers often choose products from well-known brands because they believe that the brand's reputation serves as a signal of the product's attributes and performance.
- **Pricing as a Signal:** The price of a product or service can be a signal of its quality. Higher prices may signal premium quality, exclusivity, or superior features. Conversely, lower prices may signal affordability but potentially lower quality.

Criticisms and Limitations of Signaling Theory:

- **Assumption of Rationality:** Signaling theory is based on the assumption of rational behavior, where individuals and entities make decisions to maximize their utility. In reality, behavioral biases and emotions can influence decision-making, leading to deviations from the predictions of signaling theory.
- **Overemphasis on Costs:** The theory often assumes that the cost of sending a signal is a critical factor in its effectiveness. However, in some cases, individuals or organizations may use signals that are not necessarily costly but still convey valuable information.
- **Dynamic and Changing Information:** In dynamic environments, information may change rapidly. This can make it difficult for signals to remain reliable indicators of an individual's or entity's qualities over time.
- **Potential for Deception:** While signaling theory assumes that signals convey truthful information, in practice, individuals and organizations may use signals strategically to manipulate perceptions. This can lead to situations of asymmetric information where the sender's true qualities do not align with the signal.
- **Context Dependency:** The effectiveness of signals can depend on the specific context or industry. What serves as a reliable signal in one industry may not be as effective in another.

2.2 Conceptual Review

Reviewing previous research that encompasses current knowledge, including significant discoveries as well as theoretical and methodological contributions to a certain field, is what is meant by the term "review of literature." Additionally, it contains pertinent hypotheses from the relevant field of study so that all previous research may be understood, along with its shortcomings and conclusions, and new investigations can be carried out. Numerous investigations have been carried out to ascertain the factors that influence stock values across various nations. The stock market has not received nearly enough attention in the context of the Nepalese financial system. Nonetheless, a few stock market-related articles and magazines are examined and consulted.

In order to determine the reasons behind the movement of the stock price, or the NEPSE index, several papers issued by Nepal Rastra Bank, NEPSE, SEBON, and other organizations particularly relevant to the capital market have consulted.

Additionally, a variety of newspapers and periodicals, such as Aarthikabhiyan, Share Bazaar, and others, are used as a guide to find the opinions of institutional investors, other specialists, and investors. Similar to this, NEPSE's website provides basic details, data, and other information about the organization and how it operates.

In order to raise money to launch a new business, a corporation's founder will first apply for a corporate charter from the state, have shares of common stock printed, and then sell the shares to as many individuals as they like. As a result, common stock is always the first security issued by a new corporation. There is a residual claim of common investors on the corporation's assets and earnings. This implies that the firm must, by law, pay bondholders' interest, employee compensation, and supplier invoices before it can distribute any remaining profits or losses to common stockholders. Furthermore, in the event that the corporation files for bankruptcy, all outstanding debts must be settled from its assets before any remaining funds are distributed to its common stockholders, according to the law. First, limited liability protects common stockowners from being required to share in the payout of outstanding bills in the event that the business files for bankruptcy and cannot pay all of its debts. This is one benefit that common stockowners receive from their investment. Second, if earnings become extremely profitable, stockholders will

benefit from unrestricted participation in the company's profit. Third, common stock shares are securities that can be purchased and traded with a case. Lastly, at the corporation's stockholder's meeting, only common stockholders are able to cast a vote. As a result, investors can influence management.

2.2.1 Security Market

A platform that connects buyers and sellers of financial assets to enable trading is known as a security market. On the other hand, a security market is an area where securities are purchased and sold, together with the resources and individuals involved in these transactions, the supply and demand for securities for trading, and the readiness of buyers and sellers to come to a mutually agreeable price. According to Geetha and Swaaminathan (2015), market price is the average share price determined by taking the high and low of the financial year. It is the going rate for purchasing or selling an item or service. In this case, high price corresponds to the financial year's highest market price, while low price corresponds to the financial year's lowest market price.

Despite being concentrated in a small number of places, securities markets are more of a mechanism than a physical location that brings buyers and sellers of securities together to allow the exchange of securities. Put differently, individuals and institutions seeking to borrow alongside those possessing excess funds within the securities markets. Products traded on the market include securities like stocks, short- and long-term debt instruments, derivatives, etc. The primary purpose of securities markets is to facilitate the generation of new wealth by acting as a link between saving and investing. One of the mechanisms that facilitates the efficient transfer of savings from surplus spending units to deficit spending ones, who can use them more productively and/or have loss/risk evaluation, is the development of a sound securities market with its constituent financial institutions. Both issuers and investors benefit from the existence of securities markets. Regarding the advantages they offer issuers, the securities market helps the government and company raise capital. Savings must be used toward investments in sectors of the economy where capital is most productive, such as in a society where the means of production and distribution of goods and services are privately owned. Additionally, borrowing by governments is necessary for public improvements.

The efficient and inexpensive flow of capital from surplus to deficit sectors is made possible by market mechanisms. In order to investigate the empirical relationship between stock price and certain variables, such as book value per share, dividend per share, earning ratio, dividend payout, and size in terms of total assets, Almumani (2014) performed study. 49 observations, covering branches of 7 institutions, were made by the researcher during the 2005–2011 timeframe for Jordanian banks that were listed on the Amman Stock Exchange (ASE). This study examined the fundamentals of share valuation by correlation, regression, and ratio analysis. The results showed that size, price-earning ratio, book value per share, earning per share, and earning per share are important factors that affect stock price.

2.2.2 Common stock

A company's capital raised through the sale of common shares is known as its common stock. Ownership in a firm is represented by the common stocks. The company's legitimate owners are the people who own common stock, also referred to as shareholders or stockholders. Since common stocks have no maturity date, they are a reliable and permanent source of money. Dividends are paid to shareholders for the capital they contributed by buying common stocks. The Board of Directors of the corporation determines the dividend amount and rate. For this reason, the common stock is referred to as a variable income security. Since they are the business's proprietors, investors assume ownership risk and are entitled to dividends only when the claims of other parties have been met. In a similar vein, when winding up the business, they will be able to exercise their claims over assets only after the other capital providers' claims have been satisfied.

Investors purchase common stocks with the hope of occasionally receiving a portion of the profits, which were issued by the companies to raise ownership capital. The owners of common stock are the ones who legally own the company's equity and are entitled to a portion of its profits and losses. After paying loan interest and preferred stock dividends, they are free to keep all profits. As a result, they bear the risk of losing their cash while yet benefiting from all net business gains.

2.2.3 Common Stock Values

a) Par value

A share of stock's face value is its par value. Originally, it was meant to ensure that the company is paid fairly for the stock, which stands for the value of the company. The par value of the stock is its face value as determined at the moment it is first issued. The par value of the stock remains unchanged in the absence of a stock split or other action by the Board of Directors (Campbell, 1991). Typically, a new issue's par value is one hundred rupees.

b) Net Worth / Book Value

By dividing the total amount of common equity on the balance sheet by the total number of outstanding common stocks, one can determine net worth per share. This number shows the assets' worth per share after preferred stock and liabilities are subtracted. Common stock of a profitable corporation is usually valued at a price that is substantially higher than book value, with the basis for this valuation being earning power. A business will make money, most of which is distributed as dividends to shareholders and as interest to creditors. The amount displayed on the firms' books as cumulative retained earnings is increased by any reminder. The book value of the equity is the total of all cumulative retained earnings and other entries (such common stock and capital donated beyond par value) under shareholders equity. Sharpe, Alexander, and Bailey (2001) state that the book value per share is calculated by dividing the equity's book value by the total number of outstanding shares. The common equity of the company (common stock plus retained earnings) divided by the total number of outstanding shares is the accounting value of a share of common stock.

c) Market Price / Value

In secondary markets, market value is established by supply and demand, representing the general view among traders and investors regarding the stock's worth. Numerous factors affect market value, such as corporate and market risk concerns, predicted earnings and dividends, and industry and economic conditions. The market price of a company's stock reflects projections for its dividends and profitability in the future. Since book value only represents past investments made in the company that may not

have any bearing on current market values, it is typically seen as being somewhat irrelevant when determining the worth of the business.

The market price of the company's shares indicates its worth. The price at which stock is exchanged or the sum that a buyer must pay a seller in order to acquire business stock is known as the market price of stock. The market value of stocks differs amongst businesses. The share price is extremely volatile and susceptible to external and internal environmental factors because ordinary shareholders control the organization and have the lowest priority to claim in a liquidation. The internal environment of an organization is what's known as its external environment, and it controls the company in some way. In order to optimize the share price in the stock market, the business works to keep the atmosphere favorable. Conversely, the firm has no control over outside environmental conditions, yet these forces have a significant impact on share market values.

It makes sense to be familiar with a few technical terminology before delving into the main idea of what influences share price, as these phrases are often used in studies on the capital market and finance. Thus, several technical words pertaining to the capital market have been defined in this section. The cost of purchasing or receiving a stock corporation is known as the share price. In a stock market, supply and demand—that is, the forces of buyers and sellers—determine the share price. Environmental factors and people's expectations and assumptions about the future determine supply and demand Fama (2016). Francis (2011) contends that an organization's worth and the value of its shares are determined by the market price of each share. The amount that a buyer pays a seller to acquire a share of a company is known as the market price of shares, which is also the price at which the shares are exchanged.

The market value of a company's shares differs from another. Given that the market price of a share determines both the value of the organization and the shares, common shareholders own the majority of the companies. The amount that a buyer pays a seller to acquire a share of a company is known as the market price of shares, which is also the price at which the shares are exchanged. The market value of a company's shares differs from another. The share price is especially susceptible to environmental conditions and very volatile because common shareholders control the organization and have the lowest priority to claim in a liquidation. The share index provides a

proxy for the share's market price. The proxy for all listed firms in NEPSE is the NEPSE index. Thus, it's one of the NEPSE share price indicators.

2.2.4 Earning Per Share (EPS)

A company's net revenues are divided by the number of outstanding shares to get its earnings per share, or EPS. Since it is rare that any two companies will have the same number of outstanding shares, this provides a number that may be used to compare the earnings of companies. Total earning available for common stock is the accounting earnings that show the difference between revenues and expenses, including costs related to non-equity sources of funding (such interest on debt or dividends on preferred shares). The earning per share is calculated by dividing this part of income by the total number of outstanding shares (Francis, 2011).

2.2.5 Dividend Per Share

By dividing the entire dividend amount paid for the financial period by the total number of common shares in issue, the dividend per share was determined. During the accounting period, the company may pay an interim dividend. At the annual general meeting (AGM), shareholders will then be asked to approve the final dividend rate per share.

Forms of Dividend:

- Cash dividend: A cash dividend is a payment made to shareholders in the form of cash. A cash dividend distribution lowers the company's net value and total assets.
- Stock dividend: A stock dividend is a distribution of bonus shares to shareholders as a dividend. As a result, the company's outstanding shares grow.

2.2.6 Price Determination

The interaction of supply and demand, or market forces, determines the share price on the floor. The point of equilibrium between supply and demand determines the price. When this equilibrium shifts, prices are constantly adjusted to find a new, constantly fluctuating equilibrium. The price of the market then fluctuates.

The stock price fluctuates for a variety of additional reasons. Market, non-economic, and economic factors make up the majority of them. The most crucial element in determining a stock's price is its dividend. Strong correlation exists between the firm's earnings power and dividends. The relationship between dividends and company earnings is quite strong. Interest rates, in turn, have a significant impact on earning ability. Thus, variations in corporate earnings, which are a component of the economic factors influencing stock price together with interest rates and business cycle trends, are the most basic element influencing stock price fluctuation.

Non-economic factors can also have an impact. These include shifts in political circumstances, such as those involving administration, weather, and other natural elements, as well as shifts in cultural norms, technology advancements, and investor preferences. Comparably, the third type of factors that affect the stock price is the market, or internal factors of the market, taking into account the state of the market and supply-demand dynamics. In addition to these, the company's corporate performance, its policy on the capitalization of earnings, governmental regulations, and the market's signaling effect all have an impact on the stock price.

2.3 Review of Previous Studies

A summary of significant empirical research that has an impact on market price per share that is firm-specific is given in this section. As a result, different academics looked at the movement of commercial banks' stock prices from different angles:

The factors influencing the stock prices of particular European banks have been studied by Figeac (2017). Using multiple regression analysis and descriptive statistics, this study looks at the asset-based factors that influence the stock values of the ten biggest commercial European banks from 2007 to 2016. The results of this study show that the following factors primarily explain the stock prices of these banks: (1) industry-specific factors such as the Herfindahl Index; (2) bank-specific characteristics such as Return on Average Equity and Equity/Assets Ratios; and (3) macroeconomic factors such as Gross Domestic Products, Household Disposal Income, Labor Productivity, and Industry Productivity. This study takes a close look at this traditional subject from an academic standpoint and, at the same time, presents a compelling case for a different, powerful method of identifying potential new factors influencing the stock prices of European commercial banks.

Karki (2018) investigated the macroeconomic aspects of Nepal's stock market performance. It looks at annual data for four macroeconomic variables—real GDP, inflation, interest rate, and broad money supply—from 1994 to 2016 and seeks to identify how each variable affects stock prices, which are represented by the Nepalese capital market's NEPSE Index. Empirical findings show that real GDP, inflation, and money supply all positively affect stock market performance, but interest rates have a negative impact. More crucially, there is no cointegrating evidence between the stock market index and macroeconomic variables, indicating that the macroeconomic variables do not explain changes in stock prices in Nepal. The Nepalese stock market's random walk hypothesis is supported by this.

Prayogo and Lestari (2018) calculated the stock price at the Indonesia Stock Exchange's Banking Sub-Sector Company. An investor must conduct research on projected earnings as well as investment dangers before using their funds to purchase stocks or shares. One indication that can be used in this research is the stock price. The purpose of this study is to examine the impact of stock price as measured by Return on Assets (ROA), Earnings per Share (EPS), and Price to Earning Ratio (PER) at companies in the banking subsector listed on the Indonesian Stock Exchange. This is explanatory study that uses a quantitative approach and hypotheses to describe the causal relationships between one variable and another. Panel data regression is a method of data analysis employed in this study. The study's conclusion is that ROA has a negligible but unfavorable impact on stock price. Although this situation is uncommon, it is conceivable given that the Indonesian Stock Exchange is in an emerging or medium market, where the government frequently intervenes. Many Stock Exchange regulations are not being properly applied as a result of the interference. Terms: stock price, price to earnings ratio, return on assets, earnings per share, and panel data regression. Regression analysis was performed on the data, which came from the annual reports of the institutions that were sampled. The findings showed that while dividend yield, debt ratio, and dividend payout ratio demonstrated a strong inverse correlation with share price, earning per share, price-earnings ratios, and firm size had a substantial positive association with share price. The study's main finding is that the three most important variables affecting share price in Nepalese financial companies are company size, earnings per share, and price-earnings ratio.

In 2020, Saud and Shakya conducted an analysis of stock market prediction, which aims to forecast the future value of stocks traded on stock exchanges. In order to make trading decisions that maximize profits, stock market participants attempt to forecast the price of the stock in the future. The best models for predicting stock values are those that use deep learning. In order to predict the stock prices of the two strongest and most well-known commercial banks listed on the Nepal Stock Exchange (NEPSE), this paper compared the stock price prediction performance of three deep learning models: Vanilla RNN, LSTM, and GRU. It also conducted a novel analysis of the parameter look-back period used with recurrent neural networks. It is discovered from the conducted experiments that GRU excels in predicting stock prices. Furthermore, appropriate look-back time values have been proposed by the research to be applied with LSTM and GRU for improved stock price prediction performance.

In his 2020 study, Bajracharya looked at the variables that affected Nepalese commercial banks' share prices from 2006–07 to 2015–16. The study's findings indicates a favorable and statistically significant association between the market price per share and internal characteristics such as earnings per share, dividends per share, and price earnings ratio. On the other hand, the market price per share and the external component "inflation rate" had a substantial negative association. Keywords: Price-earnings ratio (PE), market price per share (MPS), earnings per share (EPS), dividend per share (DPS), and inflation rate (INF). Numerous empirical investigations have been carried out to determine the factors that influence share prices in various markets. This has led to the identification of numerous internal and external factors that are anticipated to have an effect on share prices. Thus, the market share prices of Nepalese commercial banks, which are the dependent variable, are predicted to be influenced by both external and internal factors, including market capitalization, bank rate, inflation rate, and DPS, PE, and ROA.

The impact of the following stock characteristics on the market stock price of Jordan's 13 commercial banks between 2005 and 2018 was determined by Shammout (2020): Earnings Per Share (EPS), Book Value Ratio (BVR), Dividends Per Share (DPS), Dividends Payout Ratio (DPR), Market to Book Ratio (MBR), Price Earnings Ratio (PER), and Yield Per Share (YPE). The effect of the controlling and independent factors on the dependent variable has been demonstrated using multiple linear

regression. The study discovered that a stock's market price at Jordanian commercial banks is significantly influenced by its attributes. Additionally, each book value ratio, dividend per share, market to book ratio, price-earnings ratio, and yield per share was found to have a statistically significant effect on the market price at the commercial banks in Jordan. Nevertheless, neither the dividend payment ratio nor the earnings per share had a statistically significant impact on the market price of Jordanian commercial banks. The study suggests that before making significant investment decisions that could impact their future wealth through stock price forecasts, investors, analysts, and decision-makers should incorporate the characteristics of stocks in their analysis.

According to Huy, Loan, and Anh's (2020) analysis, changes in the stock prices of commercial banks in emerging nations like Vietnam are a good indicator of the overall health of the economy and the bank system. In addition to supporting company plans, financial risk management, and economic policies for economic growth and stabilizing macroeconomic forces, good business management necessitates that we take into account the effects of several macro factors on stock price. The effects, both positive and negative, of seven (7) macroeconomic factors on the stock price of Vietnam's joint stock commercial bank Vestcom Bank (VCB) between 2014 and 2019 were examined and reviewed in this article. Quantitative research findings in a seven-factor model demonstrate that rising GDP growth, lending rates, and risk-free rates have a major impact on rising VCB stock prices, with the largest impact coefficients going to rising GDP growth and declining exchange rates coming in second and third, respectively, and a minor decline in the S&P 500 coming in last. Many developing nations' commercial bank systems might utilize the research findings and suggested policy as a guide for creating their own policies.

Bhattarai (2020) investigates the factors influencing Nepalese commercial banks' market share prices between 2013–14 and 2017–18. The secondary panel data specific to the banks were gathered from 12 sample commercial banks using a convenient sampling method. The Ministry of Finance's Economic Survey was used to gather data on macroeconomic variables, with the share price of Nepal Markets serving as a stand-in for the dependent variable. As independent factors, the dividend payout ratio, dividend yield, earnings per share, price-earnings ratio, bank size, GDP growth rate, and inflation rate were examined. Descriptive, correlational, and casual comparative

research designs were used in the study. The OLS and Fixed Effects models were used to analyze the data in accordance with the model diagnosis test. The results from both models were essentially the same. There is a statistically substantial negative correlation between the dividend payout ratio and market share price. In relation to the market share price, the dividend yield, earnings per share, and price-earnings ratio were all positive and statistically significant. The market share price was not influenced by the size of the bank, the rate of inflation, or the growth rate of the GDP. The report has advised commercial bank management to step up efforts to effectively manage five bank-specific elements in order to prevent a negative impact on share price.

Ahmed et al.'s (2021) study examined the factors that influence price volatility and stock market development in a sample of three additional nations and the Association of Southeast Asian Nations (ASEAN). The study especially investigates the impact of institutional quality measures on the volatility and development of the stock market. We use annual data from 1991 to 2014 and apply the completely modified ordinary least square method, panel cointegration test, and heterogeneous non-cause test to meet the study's aims. The considerable long-run link among the variables is confirmed by our empirical findings. In a similar vein, our findings regarding long-term elasticities on stock market development and volatility show that institutional freedom indicators like trade freedom, sound money, regulation, and government size have a major positive impact on stock market development, and they also have a significant negative impact on stock price volatility when combined with the legal system. Furthermore, we discover strong short-term causal relationships between the macroeconomic variables and price volatility and stock market development. Based on these findings, our research indicates that the institutional freedom indicators in ASEAN plus three nations successfully reduce stock price volatility in addition to fostering the growth of the stock market.

With financial turmoil acting as an intervening variable, Sholichah et al. (2021) investigate the relationship between stock prices and Risk Profile, Good Corporate Governance (GCG), Earnings, Capital (RGEC), and Earnings per Share (EPS). The data used was secondary data, specifically the annual reports of commercial banks in Indonesia for the years 2012–2018, with a sample of 23 banks out of a total population of 81 banks. The sampling technique employed was purposive sampling

based on specific criteria. In order to describe or explain quantitative data, this kind of research uses an explanatory, quantitative descriptive methodology. The AMOS Program was used to analyze the data using the structural equation model (SEM). The findings indicated that stock prices are influenced by RGEC, EPS, and financial distress. Testing the direct effect is the foundation for this, as shown by a p-value less than 0.05. A p-value larger than 0.05 in the mediation test indicates that the impact of RGEC and EPS on stock prices cannot be mediated by financial distress. In order to make money, investors should consider the implications of this research while analyzing changes in stock prices based on RGEC, EPS, and financial distress. Furthermore, there are a number of cautionary indicators that point to a company's current or impending financial difficulty. Failure can be avoided by being aware of these indicators.

According to Wagle (2021), investing in equities shares is one of the most important financial avenues that can yield large profits for investors. However, investors may become confused by the extraordinary volatility of stock prices, which can also cause issues for government authorities and policymakers. Using a set of dependent and independent variables, the goal of this study is to determine the empirical factors that affect the stock market price in commercial banks from 2015–16 to 2019–20. The study uses data from annual reports and a secondary source to analyze 130 observations from 26 (out of 27) commercial banks in Nepal. The research design used was a combination of descriptive and causal-comparative. Regression analysis, correlation, mean, and standard deviation techniques have all been applied to that. The Market to Book (M/B), Price-earnings (P/E), and Earning Yield (E/Y) proportions were found to have a statistically significant positive correlation with the stock market price. On the other hand, the stock market price is positively but marginally impacted by the Dividend Yield percentage (D/Y). The study's conclusions are helpful to government officials, academics, worried bankers, and inquisitive investors since they provide them with additional knowledge about the prospects and returns of the nation's stock market.

Huy and Hang (2021) look at the Risk Management Information System (RMIS), which is growing in importance as a component of the MIS system used by the Vietnamese banking industry both now and in the future. For the Asia Commercial Bank (ACB) instance, this study primarily employs a variety of quantitative

methodologies, including OLS regression. According to research findings, the variables that have the biggest effects on ACB beta CAPM and stock price include GDP growth (G), CPI, and risk-free rate (Rf). Additionally, this report offers suggestions for improving management information systems (MIS) to upgrade banks' roles in the country's economic development. After that, we are able to recommend appropriate programs for long-term management techniques. Our study is limited to the bank industry, but we can also expand to other markets and sectors.

The behavior of the stock price in Nepalese commercial banks is examined by Niraula (2021). MPS is the dependent variable in this study, and the experiment factors include size, EPS, PE ratio, DY ratio, MPS, BV per share, and ROA. The secondary data was gathered during a five-year period, from 2015–16 to 2019–20, from commercial banks' annual reports. Using SPSS version 23, a descriptive and analytical research design is utilized to examine and evaluate the data. Convenience sampling is used to select 18 commercial banks as a sample from a population of 27. The influence of independent variables on MPS has been demonstrated using a multiple linear regression model. The outcome shows that the size of banks, the PE ratio, and EPS all have a positive and statistically significant impact on MPS. Other factors barely make a difference.

Goet and Kharel (2022) looked into how the market price per share of Nepalese commercial banks was affected by factors including net worth per share, earnings per share (EPS), dividends per share (DPS), and price-earnings ratio (PER). The influence and correlation of factors influencing stock price behavior have been evaluated using the panel data (40 observations) of four commercial banks. Secondary panel data spanning 10 years (2011/2012-2020/2021) were used in this investigation. The results of this study show that earnings per share has a minimal positive association with the market price per share, earnings per share, and net worth per share of commercial banks, but a large positive link with the dividends per share and price earnings ratio.

The effect of dividend policy on the market price of joint venture banks' shares in Nepal was studied by Karanjit (2023). This study used a more descriptive research design with a casual comparative methodology. In Nepal, there are twenty-six commercial banks. Five joint venture banks were selected as a sample. Secondary data were employed in this investigation. The secondary data from fiscal years 2013–14 through 2022–23 was gathered from annual reports. Descriptive and inferential

analysis were employed in the study to examine how dividend policy affected share market prices. Between MPS and EPS, DPS, and DPR, there was a positive connection that was statistically significant at the 0.05 level (2-tailed). This indicates that 73.60 percent of the independent variable is explained by the dependent variable. MPS benefits from the EPS, DPS, and DPR. While MPS and DPR are insignificant, EPS and DPS are significant.

2.4 Research Gap

Numerous investigations on share price have been carried out, with the view that it is an essential phenomenon in the stock market (Goet & Kharel, 2022). Each of them has its own limits in addition to numerous valuable findings. The majority of research mostly use secondary data, which is also out of date. The stock market has seen numerous modifications as time has gone on (Lamsal, 2024). As a result, there are now more listed businesses in NEPSE. This research project differs somewhat from other research projects in terms of time, goal, population, sample, and subject matter. Due to the increase in listed companies in NEPSE, the population and sample will differ. Even though share price has been the subject of numerous studies because it is thought to be a significant phenomenon in the stock market, it is evident that share prices fluctuate abnormally and that there are insufficient studies to determine how volatile the share prices of commercial banks are in the stock market.

Previous thesis titles have focused on the behavior of stock prices, factors that influence share prices, and risk and return analyses of specific firms' shares; however, no research has been done on the factors that influence commercial banks in Nepal's dividend policy (Niraula, 2021). This research project's goal is to use secondary data to investigate and evaluate the dynamism in the stock prices of commercial banks listed on the NEPSE. Using secondary data and a variety of facts, the current study attempts to assess the behavior of commercial banks' stock prices (Wagle, 2021). The current research will benefit investors, interested parties in academia, and policymakers alike. I hope that our study will benefit future researchers in the same sector.

CHAPTER-III

RESEARCH METHODOLOGY

The several sequential processes that a researcher must take when examining an issue with specific goals in mind are referred to as research methodology.

3.1 Research design

Since the study examines the relationship between firm-specific characteristics and market price per share, it has employed a descriptive and causal comparative research approach. This study is cross-sectional. A framework of methodologies and strategies selected by a researcher to integrate different study components in a reasonably logical way to effectively address the research topic is known as research design. The data used in this study was taken straight off of the sample banks' yearly reports. The data spans the years 2013–14 to 2022–2023 A.D. The study design makes use of secondary data that is extracted from its sources.

3.2 Population and sample, and sampling design

This study's population consists of particular commercial banks. One private commercial bank, one joint venture bank, one commercial bank, and one government bank are chosen from a total of twenty commercial banks. Convenience sampling has been used in the study's bank selection process. One kind of non-probability sampling called convenience sampling takes a sample from the areas of the population that are easily accessible. Convenience sampling is widely available and has been utilized for generations, despite its drawbacks. Its many benefits make it one of the reasons it is most frequently utilized. The majority of researchers find this approach to be the most appealing because it is incredibly quick, simple, accessible, and affordable (Dusovskiy, 2018).

Table 3.1

List of Commercial Banks to be studied

S.N	Name of Banks	Year	Study Periods
1	Nabil Bank Ltd.	2013/14 to 2022/23	10
2	Himalayan Bank. Ltd.	2013/14 to 2022/23	10
3	Nepal Bank Ltd.	2013/14 to 2022/23	10
4	Everest Bank Ltd.	2013/14 to 2022/23	10
	Total		40

3.3 Nature and sources of data

Secondary sources provide the information and data that are required. The information is derived from the NEPSE, SEBON, and sampling banks' annual reports, trade reports, and publications. Additional information on relevant websites and national periodicals of the NRB.

3.4 Methods of analysis

The majority of the data required for the study came from surveys and secondary sources. An array of statistical and financial instruments has been employed to scrutinize the data under investigation. Earnings per share (EPS), dividend per share (DPS), market price per share (MPPS), book value per share (BVPS), and price earning ratio (P/E ratio) are the financial instruments that are used. Regression analysis, standard deviation, correlation coefficient, and average/arithmetic mean are the statistical methods used. Based on ten years of data from the fiscal years 2013–14 to 2022–23, a variety of financial and statistical tools have been utilized to analyze the facts and discover the factors influencing the stock prices of commercial banks in NEPSE. Descriptive approaches have also been employed in this process.

3.5 Research framework and definition of variables

The research framework is a versatile analytical tool that can be used in a variety of situations. It is employed to structure concepts and draw distinctions in study. Both independent and dependent variables were included. An independent variable is one that the researcher has control over and that influences the changes of other variables. The impact of changing the independent variable is displayed by the dependent variables. Market price is considered a dependent variable, whereas dividends, earnings, price-earnings ratio, and net worth are considered independent variables. Figure displays the research framework, which explains the independent and dependent variables employed in the study.

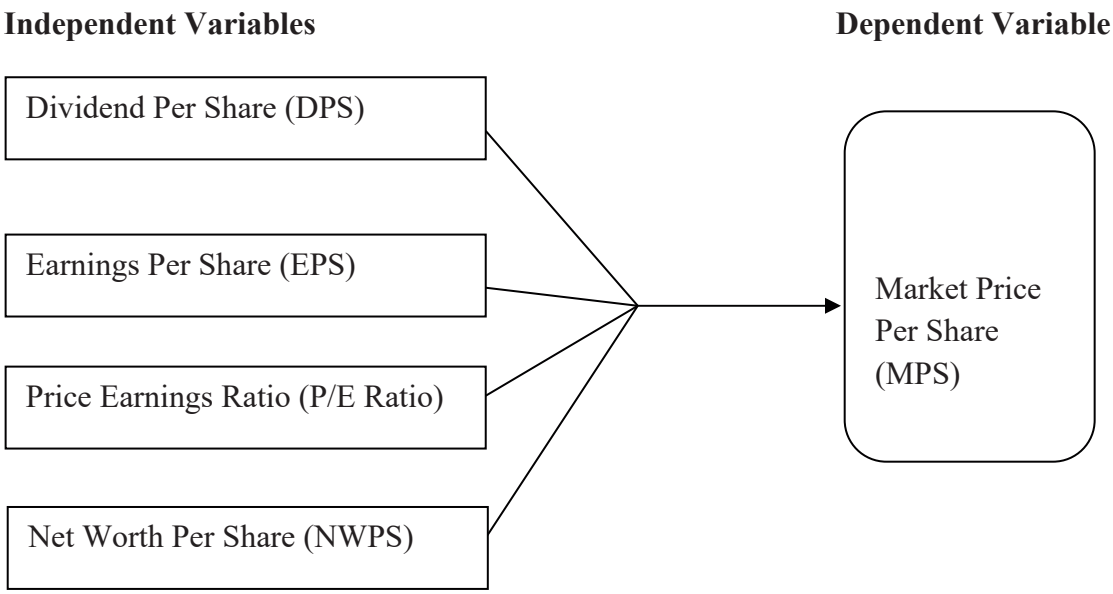

Figure 3.1: Research framework

Source: Goet and Kharel (2022)

3.5.1 Definition of Variables

1. Market Price Per Share (MPS)

The closing price of the stock at which it was traded on the Nepal Stock Exchange Ltd. throughout the research period is known as the market price per share. In this research model, the dependent variable is market price per share.Market Capitalization Overall

$$\text{MPS} = \frac{\text{Total Market Capitalization}}{\text{No. of Shares Outstanding}}$$

2. Dividend Per Share (DPS)

The total declared dividends for each issued ordinary share is known as the dividend per share. Divided by the total number of outstanding shares issued, it represents the total dividends distributed to shareholders for a given year. For the purposes of this analysis, each company's declared cash and stock dividends have been taken into consideration. It is one of the study's independent variables.

Total amount of dividend = Cash Dividend +Stock Dividend % * Next Year's MPS

$$DPS = \frac{Total\ Dividend\ Paid}{\text{No.of Shares Outstanding}}$$

3. Earnings Per Share (EPS)

The amount of a company's profit allotted to each outstanding share of common stock is known as earnings per share. It is among the determinants of a business's

profitability. Greater profitability and improved fund mobilization by financial institutions are indicated by increased earnings, and vice versa. The study's independent variable is EPS.Banks' Total Earnings

$$\text{EPS} = \frac{\text{Total Earning of the Banks}}{\text{No. of Shares Outstanding}}$$

4. Price Earnings Ratio (P/E ratio)

The price-earnings ratio looks at how much a company's stock is currently worth in relation to its earnings. It also represents what investors anticipate will happen to the company's earnings over time, which has an impact on the stock price. In this study, it serves as an independent variable as well.Earning Price Per Share = Market Price Per Share P/E Ratio

$$\text{P/E Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Price Per Share}}$$

5. Net Worth Per Share (Book Value per Share) (NWPS)

The true worth of the business is reflected in the NWPS. It is the simple division of the number of outstanding shares by the net worth (share capital plus retained earnings/genera reserve). It is one of the study's independent variables as well.Net Worth Per Share (NWPS) = Outstanding Shares

$$\text{NWPS} = \frac{\text{Net Worth}}{\text{No. of Shares Outstanding}}$$

3.6 Data analysis tool and techniques

to research the connections between price-earnings ratio, net worth, dividends, earnings, and stock price. The study employed several statistical and financial tools to analyze its characteristics.

arithmetic Average or Mean

A set of values is represented as an average. It is the amount that is calculated by squaring the total number of items in a series by the sum of the individual numbers of all the items. In statistical analysis, it is a helpful tool. You may compute it with the following formula.

$$\text{Mean } (X) = \frac{\Sigma X}{n}$$

Where,

$\overline{X}$ = Arithmetic Mean

ΣX = Sum of Elements

n = Number of Observation

Standard Deviation

A metric called the standard deviation is used to express how much a group of data values vary or are dispersed. The size of the deviation will increase with a larger standard deviation. A modest variation indicates both strong observational uniformity and series homogeneity. The following formula can be used to compute it.

$$\sigma = \sqrt{\frac{\Sigma X^2}{n} - \left(\frac{\Sigma X}{n}\right)^2}$$

Where,

σj =Standard deviation of returns on stock 'j' during the time period n

N=No. of observations

Correlation Coefficient (r)

The statistical method used to characterize how closely one variable is related to another linearly is called correlation analysis (Levin & David, 1994). It is helpful for determining how strongly and how much a linear relationship there is between two variables. A positive correlation is one when there is a direct proportionality between the variables' values. Conversely, if the variables' values are inversely proportionate, the correlation is considered negative; yet, the correlation coefficient always stays between +1 and -1. The formula that follows can be used to find the correlation coefficients (r) between two versions, x and y.

$$r = \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X^2)][n\Sigma Y^2 - (\Sigma Y^2)]}}$$

Where,

r = The correlation coefficient between two variables X and Y.

Regression Analysis

The statistical method known as regression establishes an estimated functional link between variables in order to invest relationship between them. When the values of other variables are known, it can be helpful to anticipate or estimate the value of one variable. In this work, multiple regression analysis has been employed. One dependent variable and two or more independent variables make up a multiple regression analysis. The independent variable in this study is EPS, whereas the dependent variable is MPS. The following represents the regression equation:

$MPS = \beta_0 + \beta_1 EPS + \beta_2 DPS + \beta_3 PER + \beta_4 NWPS + e$

Where,

β_0 = Constant term

MPS = Market price per share

EPS = Earning price per share

DPS = Dividend price per share

PER = Price earning ratio

NWPS= Net worth price per share

The impact of independent variables on the MPS of a Nepalese commercial bank was examined using the model summary, analysis of variance (ANOVA), and beta coefficients results.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

Presenting and analyzing data is one of the most crucial aspects of the research project. In this section, the research attempts to determine the theoretical statement's mathematical proof. Selected commercial banks' secondary data served as the foundation for the results.

All of the gathered data is presented in this chapter along with an interpretation. Data on the market price of chosen companies' shares, dividends paid in cash and stock, the earning per share P/E ratio, the NEPSE index, and many other relevant keywords are presented and examined in the study. To make the results easy to read and comprehend, tables and figures have been employed. As a sample, four commercial banks that are listed on NEPSE are used. The following metrics were analyzed using the proper tools: regression analysis of chosen firms, standard deviation, correlation coefficient, EPS, DPS, P/E ratio, NWPS, regression analysis of other related data displayed in tables and figures.

4.1 Data Presentations

Market Price Per Share (MPS)

The price of a company's shares may move as a result of changes in the MPS, which is based on a number of variables including industry performance, investor mood, and different macroeconomic conditions. Over the course of the five years, as each bank's share increased and fell, the average MPS of four chosen commercial banks altered; these changes are shown in table 4.1.

Table 4.1

Market Price per Share

Year	EBL	NABIL	HBL	NBL
2013/14	1591	1815	700	171
2014/15	2631	2535	941	459
2015/16	2120	1910	813	305
2016/17	3385	2344	1500	470
2017/18	1353	1523	886	364
2018/19	663	921	551	281
2019/20	666	800	552	336
2020/21	675	765	540	249
2021/22	738	1359	484	443
2022/23	439	824	299.2	268
Average MPS	1,485.50	1,532.70	762.00	711.8
SD	949.86	618.88	302.87	144.93

Sources: Annual Report of Selected Banks, 2013/14 2022/23

The average MPS of four commercial banks from FY 2013/14 to FY 2022/23 is displayed in table 4.1. The MPS of every commercial bank has been seen to fluctuate. With an average MPS of NPR 1532.70 per share, Nabil Bank has the highest MPS, followed by EBL, HBL, and NBL, with MPS of 1485.50, 762.00, and 711.80, respectively. When compared to other commercial banks, EBL has a greater standard deviation (949.86) indicating high risk, while HBL has a smaller standard deviation (302.87) indicating low risk. Bank NABIL and NBL have standard deviations of 618.88 and 144.93, respectively.Per Share Earnings (EPS)

The amount of a company's profit allotted to each outstanding share of common stock is known as earnings per share. It is among the determinants of a business's profitability. Greater profitability and improved fund mobilization by financial institutions are both indicated by higher earnings and vice versa. Table 4.2 displays the EPS of four chosen commercial banks over the five-year period.

Table 4.2

Earnings Per Share

Year	EBL	NABIL	HBL	NBL
2013/14	91.88	91.05	34.19	198.53
2014/15	86.04	76.12	33.09	18.08
2015/16	78.04	57.24	33.37	7.48
2016/17	65.97	59.27	43.02	44.59
2017/18	32.48	59.86	33.56	38.77
2018/19	32.78	51.84	23.12	39.98
2019/20	38.05	50.57	32.44	26.99
2020/21	29.71	36.16	27.6	20.68
2021/22	19.91	33.57	28.07	23.43
2022/23	26.30	18.64	18.26	20.29
Average EPS	56.34	59.89	32.89	46.49
SD	28.37	18.84	5.74	54.90

Sources: Annual Report of Selected Banks, 2013/14 2022/23

The average EPS for four commercial banks from FY 2013/14 to FY 2022/23 is displayed in table 4.2. The EPS of every commercial bank has been seen to fluctuate. The greatest average earnings per share (EPS) for NABIL was discovered to be Rs. 59.89. Again, the greatest average earnings per share (EPS) for EBL was discovered to be NPR 56.34. Similarly, it was discovered that the average profit margin of Himalayan Bank Limited was the greatest at Rs. 32.89 per share, and the average profit margin of Nepal Bank Limited was the highest at Rs. 46.49 per share.

In comparison to other banks, NBL's standard deviation is larger at 54.90, indicating high risk, and HBL's standard deviation is lower at 5.74, indicating low risk. Similarly, the standard deviations of NABIL and EBL are 18.84.42 and 28.37, respectively.Each share's dividend (DPS)

The total declared dividends for each ordinary share issued is the dividend per share. Divided by the total number of outstanding shares issued, it represents the total dividends distributed to shareholders for a given year. For the purposes of this

analysis, each company's declared cash and stock dividends have been taken into consideration. Table 4.3 displays the DPS of four chosen commercial banks over a five-year period.

Dividend Per Share (DPS)

The total declared dividends for each ordinary share issued is the dividend per share. Divided by the total number of outstanding shares issued, it represents the total dividends distributed to shareholders for a given year. For the purposes of this analysis, each company's declared cash and stock dividends have been taken into consideration. Table 4.3 displays the DPS of four chosen commercial banks over a five-year period.

Table 4.3

Dividend Per Share

Year	EBL	NABIL	HBL	NBL
2013/14	10	65	15	0
2014/15	12	65	21.05	0
2015/16	30	36.84	42.11	0
2016/17	70	45	31.58	0
2017/18	33	48	26.32	0
2018/19	0	34	15.79	0
2019/20	5	34	22	15
2020/21	5	35.26	20	12
2021/22	6	38	26	14
2022/23	20.68	30	19.11	0
Average DPS	20.10	46.11	24.83	4.10
SD	21.29	12.80	8.06	6.64

Sources: Annual Report of Selected Banks, 2013/14 2022/23

The average DPS of four commercial banks from FY 2013/14 to FY 2022/23 is displayed in table 4.3. The DPS of every commercial bank has been seen to fluctuate. The average DPS of NABIL was determined to be the highest at NPR 46.11 per share.

HBL, EBL, and NBL had DPSs of 24.83, 20.10, and 4.10, respectively, after that. In comparison to other banks, the standard deviation of EBL bank is larger at 21.29, indicating high risk, whereas it is lower at 6.64 for NBL, indicating low risk. Similarly, the standard deviations of NBL and NABIL are 8.06 and 12.80, respectively.P/E ratio, or price-to-earnings ratio

Price Earnings Ratio (P/E ratio)

The price-earnings ratio looks at how much a company's stock is currently worth in relation to its earnings. It also represents what investors anticipate will happen to the company's earnings over time, which has an impact on the stock price. Table 4.4 displays the P/E Ratio for four representative commercial banks during a five-year period.

Table 4.4

Price Earnings Ratio

Year	EBL	NABIL	HBL	NBL
2013/14	17.32	19.93	20.47	0.86
2014/15	30.58	33.30	28.44	25.39
2015/16	27.17	33.37	24.36	40.78
2016/17	51.31	39.55	34.87	10.54
2017/18	41.66	25.44	26.40	9.39
2018/19	20.23	17.77	23.83	7.03
2019/20	17.50	15.82	17.02	12.45
2020/21	22.72	21.16	19.57	12.04
2021/22	37.07	40.48	16.92	18.91
2022/23	16.69	44.21	16.39	13.21
Average PER	27.72	26.31	22.82	13.74
SD	12.46	9.58	5.96	12.14

Sources: Annual Report of Selected Banks, 2013/14 2022/23

The average P/E ratio for four commercial banks from FY 2013/14 to FY 2022/23 is displayed in table 4.4. Everest Bank's P/E ratio peaked in 2017–18 at 51.31, and it fell to 11.67 in 2013–14. Nabil Bank's P/E ratio peaked in 2017–18 at 39.55, and it fell to 15.82 in 2020–21. Once more, Himalayan Bank's highest P/E ratio was 34.87 in

2017–18, while its lowest ratio was 16.35 in 2013–14. The NBL's P/E ratio peaked in 2016–17 at 40.78, and it fell to 0 in 2013–14.

Everest Bank has the highest average P/E ratio, at NPR 27.72 per share, followed by NABIL, HBL, and NBL, with P/E ratios of 26.31, 22.82, and 13.74, respectively. The standard deviation of NBL is higher than that of other chosen commercial banks, measuring 230.66, indicating high risk, while the standard deviation of HBL is lower than that of other banks, measuring 4.95, indicating low risk. The comparative values of NABIL and EBL's standard deviations are 9.24 and 10.66.Shares' Net Worth per Share (NWPS)

The true worth of the business is reflected in the NWPS. It is the simple division of the number of outstanding shares by the net value (share capital plus retained earnings/general reserve). Table 4.5 displays the NWPS for four chosen commercial banks during a five-year period.

Table 4.5

Net Worth Per Share

Year	EBL	NABIL	HBL	NBL
2013/14	291.53	275.00	192.02	(932)
2014/15	291.19	251.00	209.92	21
2015/16	335.60	259.00	208.81	59
2016/17	320.07	244.00	196.12	104
2017/18	251.42	270.00	180.31	142.4
2018/19	201.01	256.00	174.24	285.6
2019/20	218.58	257.00	187.73	298.5
2020/21	219.24	256.00	187.67	266.2
2021/22	232.11	251.00	188.43	262.9
2022/23	239.16	232.00	169.72	246.1
Average NWPS	273.00	258.80	191.83	(62.24)
SD	50.51	9.73	11.17	522.01

Sources: Annual Report of Selected Banks, 2013/14 2022/23

The average NWPS of four commercial banks from FY 2013/14 to FY 2022/23 is displayed in table 4.5. EBL has the highest average NWPS of NPR 273.00 per share, followed by NABIL, HBL, and NBL with NWPS of 258.80, 191.83, and (62.24)

respectively. With a score of 522.01, the standard deviation of NBL is more than that of other chosen commercial banks, indicating high risk. The standard deviation of NABIL is lower than that of other having 8.73 displays a bank and little risk. HBL and EBL have respective scores of 11.17 and 50.51.

4.2 Correlation Analysis

To determine the relationships between the variables, correlation analysis was examined. The relationship between the many independent and dependent variables related to the research is ascertained using Pearson's Correlation analysis. Any two variables' linear correlation is measured.

The following five traditional rules form the foundation of correlation interpretation:

- (r = 0 to .20) indicates negligible or no correlation
- (r = .20 to .40) indicates positive but low degree of correlation
- (r = .40 to .60) indicates positive moderate degree of correlation
- (r = .60 to .80) indicates positive and marked degree of correlation
- (r = .80 to .1.00) indicates positive and high degree of correlation

Every variable is handled equally, meaning that dependent and independent variables are not distinguished. When two variables tend to vary in the same direction at the same time, they are said to be correlated. A direct or positive correlation exists when there is a tendency for both variables to increase or decrease together. Inverse or negative correlation occurs when one variable tends to increase while the other tends to decline.

Table 4.6

Correlation Analysis

		MPS	EPS	DPS	PER	NWPS
MPS	Pearson Correlation	1				
	Sig. (2-tailed)					
EPS	Pearson Correlation	.398**	1			
	Sig. (2-tailed)	.004				
DPS	Pearson Correlation	.375**	-.137	1		
	Sig. (2-tailed)	.007	.342			
PER	Pearson Correlation	.681**	.412**	-.190	1	
	Sig. (2-tailed)	.000	.003	.187		
NWPS	Pearson Correlation	.293*	-.232	.571**	-.096	1
	Sig. (2-tailed)	.039	.105	.000	.508	

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

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

Table 4.6 shows the relationship between dependent and independent variables.

a. Relationship between EPS and MPS of Nepalese commercial bank

First off, there is a somewhat favorable association between MPS and EPS, as shown by the positive correlation of 0.398 (significant at the 0.01 level). This implies that MPS typically rises in tandem with an increase in EPS.

b. Relationship between DPS and MPS of Nepalese commercial bank

Second, while the link between MPS and DPS is marginally less than that between MPS and EPS, it is still positive at 0.375 (significant at the 0.01 level). This suggests that the link between DPS and MPS is positive but not very strong.

c. Relationship between PER and MPS of Nepalese commercial bank

Thirdly, there appears to be a high positive association between MPS and PER, as evidenced by the correlation's notable strength of 0.681 (significant at the 0.01 level). This suggests that there is a significant propensity for MPS to grow along with PER.

d. Relationship between NWPS and MPS of Nepalese commercial bank

Finally, there is a somewhat positive link between MPS and NWPS, as shown by the positive but comparatively weaker correlation of 0.293 (significant at the 0.05 level). This implies that, while to a smaller amount than the link between EPS and PER, there tends to be a comparable increase in MPS when NWPS increases.

4.3 Regression Analysis

This section presents the findings of the regression analysis that was computed. Regression analysis makes the assumption that there is a causal link between two or more variables, whereas correlation analysis makes no such assumption. A single dependent variable is the subject of a simple linear regression, whereas a single dependent variable is the subject of multiple linear regressions, which illustrate the effects of several independent variables. The degree of association between two variables is all that correlation analysis can reveal. Regression analysis is therefore performed in order to gain a deeper comprehension of the degree of correlation between two or more variables. The impact of several independent factors on a single dependent variable is examined using multiple regression analysis. Thus, to examine the effects of different independent variables, multiple regression analysis is employed.

Analysis of multiple linear regression is used to forecast how independent factors will affect financial performance. Here is the equation that represents the impact of independent variables:

All variables regression (ROA)

Table 4.7

Model summary of all variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858a	.736	.706	465.81857

a. Predictors: (Constant), NWPS, PER, DPS, EPS

The R-Square, also known as the variables' coefficient of determination, is 0.736. The model can account for roughly 73.60% of the volatility in bank share prices, according to the R-Square, which is another indicator of the model's overall quality. This indicates that roughly 73.60% of the dependent variable's systematic variance can be explained by the model. That is to say, variables not included in the model account for roughly 26.40% of the fluctuations in the market prices of the banks that were sampled. The corrected R-square, or roughly 70.60%, which represents the percentage of total variance explained by the model, supports this outcome.

Table 4.8

ANOVA of all variables

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26567710.69	4	451192.920	24.488	.000[b]
	Residual	9547425.313	35	36884.364		
	Total	1989193.500	39			

a. Dependent Variable: MPS

b. Predictors: (Constant), NWPS, PER, DPS, EPS

Similar results may be found from the Fishers ratio, also known as the F-Statistics, which demonstrate the validity of the estimated model and are shown in Table 4.8.

The F is around 24.488, and the p-value, or F(sig), is equal to 0.000. This implies a significant relationship between the explanatory factors and the dependent variable. In other words, they have a significant influence on how share price market values behave. In addition, the Durbin-Watson statistics value of 1.606 indicates that the error factor is autocorrelation-free and independent.

Table 4.9

Coefficients of all variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1189.657	387.874		-4.120	.000
	EPS	2.461	5.361	.653	1.086	.283
	DPS	10.431	16.301	.391	5.055	.000
	PER	41.731	17.380	.539	7.091	.000
	NWPS	215.252	1.469	.359	1.724	.092

a. Dependent Variable: MPS

The market price per share (MPS) is the dependent variable in the regression model, and the coefficients of all the variables are shown in Table 4.9. After adjusting for other factors in the model, the coefficients reveal information about the direction and degree of the link between each independent variable and the dependent variable. First, -1189.657 is the intercept, which is denoted as "Constant." This shows the predicted MPS value in the case where all independent variables have a zero value.

Second, the unstandardized coefficient (B) for the independent variable EPS (earning price per share) is 2.461, with a standard error of 5.361. 0.653 is the standardized coefficient (Beta). At the 0.05 significance level, EPS is not statistically significant in predicting MPS, according to the t-value of 1.086 and the corresponding p-value of 0.283.

Thirdly, the unstandardized coefficient for the independent variable dividend price per share, or DPS, is 10.431, with a standard error of 16.301. 0.391 is the standardized coefficient. At the 0.05 significance level, DPS is statistically significant in predicting MPS, as indicated by the t-value of 5.055 and the corresponding p-value of 0.000.

Fourth, the unstandardized coefficient for the independent variable Price Earning Ratio (PER) is 41.731, with a standard error of 17.380. 0.539 is the standardized coefficient. At the 0.05 significance level, the t-value of 7.091 and the corresponding p-value of 0.000 show that PER is statistically significant in predicting MPS.

Finally, the unstandardized coefficient for the independent variable NWPS (Net worth price per share) is 215.252, with a standard error of 1.469. 0.359 is the standardized coefficient. At the 0.05 significance level, NWPS is not statistically significant in predicting MPS, according to the t-value of 1.724 and the corresponding p-value of 0.092.

4.4 Major Findings

- Variations have been observed in each commercial bank's MPS. With an average MPS of NPR 1532.70 per share, Nabil Bank has the highest MPS, followed by EBL, HBL, and NBL, with MPS of 1485.50, 762.00, and 711.80, respectively. When compared to other commercial banks, EBL has a greater standard deviation (949.86) indicating high risk, while HBL has a smaller standard deviation (302.87) indicating low risk. Bank NABIL and NBL have standard deviations of 618.88 and 144.93, respectively.
- It has been determined that NABIL has the highest average EPS, at Rs. 59.89 per share. Again, the greatest average earnings per share (EPS) for EBL was discovered to be NPR 56.34. Similarly, it was discovered that the average profit margin of Himalayan Bank Limited was the greatest at Rs. 32.89 per share, and the average profit margin of Nepal Bank Limited was the highest at Rs. 46.49 per share. Compared to other banks, NBL's standard deviation is larger at 54.90, indicating high risk, and HBL's is lower at 5.74, indicating low risk. In the same way, the standard deviations of NABIL and EBL are 18.84.42 and 28.37, respectively.
- The average DPS of NABIL was determined to be the highest at NPR 46.11 per share. HBL, EBL, and NBL had DPSs of 24.83, 20.10, and 4.10, respectively, after that. In comparison to other banks, the standard deviation of

EBL bank is larger at 21.29, indicating high risk, whereas it is lower at 6.64 for NBL, indicating low risk. Similarly, the standard deviations of NBL and NABIL are 8.06 and 12.80, respectively.

- Everest Bank's P/E ratio peaked in 2017–18 at 51.31, and it fell to 11.67 in 2013–14. Nabil Bank's P/E ratio peaked in 2017–18 at 39.55, and it fell to 15.82 in 2020–21. Once more, Himalayan Bank's highest P/E ratio was 34.87 in 2017–18, while its lowest ratio was 16.35 in 2013–14. The NBL's P/E ratio peaked in 2016–17 at 40.78, and it fell to 0 in 2013–14.
- Everest Bank has the highest average P/E ratio, at NPR 27.72 per share, followed by NABIL, HBL, and NBL, with P/E ratios of 26.31, 22.82, and 13.74, respectively. The standard deviation of NBL is higher than that of other chosen commercial banks, measuring 230.66, indicating high risk, while the standard deviation of HBL is lower than that of other banks, measuring 4.95, indicating low risk. The comparative values of NABIL and EBL's standard deviations are 9.24 and 10.66.
- It was discovered that the average NWPS of EBL was the highest at NPR 273.00 per share. NWPS of NABIL, HBL, and NBL were next, with respective values of 258.80, 191.83, and (62.24). With a score of 522.01, which indicates high risk, NBL's standard deviation is higher than that of other chosen commercial banks. Conversely, NABIL's standard deviation is lower than that of other banks, with 8.73, indicating low risk. Bank HBL and EBL have standard deviations of 11.17 and 50.51, respectively.
- There is a somewhat favorable association between MPS and EPS, as indicated by the positive correlation of 0.398 (significant at the 0.01 level). This implies that MPS typically rises in tandem with an increase in EPS.
- In a similar vein, MPS and DPS have a positive correlation of 0.375 (significant at the 0.01 level), however it is marginally weaker than that of MPS and EPS. This suggests that the link between DPS and MPS is positive but not very strong.
- Similarly, there appears to be a high positive association between MPS and PER, as seen by the correlation's notable strength of 0.681 (significant at the 0.01 level). This suggests that there is a significant propensity for MPS to grow along with PER.

- Similarly, there is a somewhat favorable link between MPS and NWPS, as shown by the positive but comparatively lesser correlation of 0.293 (significant at the 0.05 level). This implies that, while to a smaller amount than the link between EPS and PER, there tends to be a comparable increase in MPS when NWPS increases.
- The model can account for roughly 73.60% of the volatility in bank share prices, according to the R-Square, which is another indicator of the model's overall fitness. This indicates that roughly 73.60% of the dependent variable's systematic variance can be explained by the model.
- The p-value, or F(sig), is equal to 0.000, and the F is around 24.488. This implies a significant relationship between the explanatory factors and the dependent variable. In other words, they have a significant influence on how share price market values behave.
- The unstandardized coefficient (B) for the independent variable EPS (earning price per share) is 2.461, with a standard error of 5.361. 0.653 is the standardized coefficient (Beta). At the 0.05 significance level, EPS is not statistically significant in predicting MPS, according to the t-value of 1.086 and the corresponding p-value of 0.283.
- Similarly, the unstandardized coefficient for the independent variable DPS (dividend price per share) is 10.431 with a standard error of 16.301. 0.391 is the standardized coefficient. At the 0.05 significance level, DPS is statistically significant in predicting MPS, as indicated by the t-value of 5.055 and the corresponding p-value of 0.000.
- Similarly, the unstandardized coefficient for the independent variable Price Earning Ratio (PER) is 41.731, with a standard error of 17.380. 0.539 is the standardized coefficient. At the 0.05 significance level, the t-value of 7.091 and the corresponding p-value of 0.000 show that PER is statistically significant in predicting MPS.
- Lastly, the unstandardized coefficient for the independent variable NWPS (Net worth price per share) is 215.252, with a standard error of 1.469. 0.359 is the standardized coefficient. At the 0.05 significance level, NWPS is not statistically significant in predicting MPS, according to the t-value of 1.724 and the corresponding p-value of 0.092.

4.5 Discussion

According to Prayogo and Lestari's (2018) findings, the size of the company, price-earnings ratios, and earnings per share have a significant positive correlation with share price, whereas dividend yield, debt ratio, and dividend payout ratio had a significant negative correlation. our demonstrates how the findings of Prayogo and Lestari (2018) and our investigation are at odds. According to Shammout's (2020) research, a stock's market price at Jordanian commercial banks is significantly influenced by its attributes. The market price at the Nepalese commercial banks was found to be significantly impacted by each of the following study metrics: yield per share, market to book ratio, price-earnings ratio, and book value ratio. Nevertheless, neither the dividend payment ratio nor the earnings per share had a statistically significant impact on the market price of Jordanian commercial banks. On the other hand, this study discovered that the market price per share is not significantly impacted by any of the variables: dividend per share (DPS), earnings per share (EPS), net worth per share (NWPS), and price-earnings ratio (P/E ratio).

Similarly, this study discovered that the market price per share is not significantly impacted by any of the variables: dividend per share (DPS), earnings per share (EPS), net worth per share (NWPS), and price-earnings ratio (P/E ratio). On the other hand, Niraula (2021) shows that EPS, PE ratio, and bank size have a positive and statistically significant impact on MPS, whereas the effects of other factors are minimal. According to Wagle's (2021) research, there is a noteworthy positive correlation between the stock market price and the Market to Book (M/B), Price-earnings (P/E), and Earning Yield (E/Y) ratios. On the other hand, the stock market price is positively but marginally impacted by the Dividend Yield percentage (D/Y). The market price per share has a positive and significant correlation with the price-earnings ratio (P/E) and dividend per share (DPS), according to this study as well.

According to Bhattarai's (2020) research, there was a favorable and statistically significant correlation between the market share price and the dividend yield, earnings per share, and price earnings ratio. The market share price was not influenced by the size of the bank, the rate of inflation, or the growth rate of the GDP. However, this finding is consistent with Bhattarai's (2020) research. The market price per share, dividend per share, and price-earning ratio all have a strong and positive link,

according to this study. The relationship between the market price per share, earnings per share, and net worth per share is also favorable but not statistically significant.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The price at which a share of stock is currently trading on the market is referred to as the stock price. When shares of a publicly traded firm are issued, they are assigned a value that, in theory, corresponds to the company's overall worth. A stock's price will fluctuate in response to various circumstances, such as shifts in the overall economy, shifts in specific industries, conflict, political developments, and changes in the environment. The primary question presented by this study is whether or whether there is a relationship between price earnings ratio and share market price and earnings per share, dividend per share, and net worth per share. The primary goal of this study is to assess market price-influencing components within the Nepali setting in order to address the aforementioned issue. 1) To ascertain the current state of the stock price, earnings, dividend, net worth, and price-to-earnings ratio. 2) To investigate the connection between price-earning ratio, earnings, dividends, net worth, and stock price. 3) Regression analysis was performed to predict the dependent variable MPS with the aid of independent variables EPS, DPS, NWPS, and P/E Ratio and to determine the strength of relationship between variables in order to analyze the effect of earnings, dividend, net worth, and price earnings ratio on the stock price of the company.

The primary objective of the research is to examine the fluctuations in the share prices of specific Nepali commercial banks and their correlation with several factors, including EPS, DPS, NWPS, and P/E ratio. More precisely, it looks at how firm-specific factors affect Nepalese commercial banks' share prices. The relationship between determinants and share price is still unclear. On the securities listed in NEPSE, a few studies have been conducted. The majority of research that focus on the capital market have to do with things like risk and return, dividend policy, capital structure analysis, and financial performance assessment. In order to achieve their own and organizational goals, investors, planners, researchers, students, and policy makers will find great value in the current study. The goal of this study is to establish

a relationship between the MPS of Nepalese commercial banks and key financial metrics such as EPS, DPS, PER, and NWPS.

The given outputs provide a thorough examination of the link between the market price per share (MPS) and a number of independent variables, such as the net worth price per share (NWPS), earning price per share (EPS), dividend price per share (DPS), and price-earning ratio (PER). Different levels of correlation between MPS and the independent variables were found using correlation analysis. In terms of relationships, MPS showed a somewhat weaker positive association with NWPS, a significantly strong positive correlation with PER, and a moderately positive correlation with EPS and DPS.

Regression analysis then offered more information about these variables' ability to predict MPS. DPS and PER demonstrated substantial positive associations with MPS, however EPS and NWPS did not show up as significant predictors. In particular, statistically significant coefficients and standardized coefficients were shown for DPS and PER, suggesting that they had a significant effect on MPS. The coefficients for EPS and NWPS, on the other hand, did not show statistical significance, indicating a lack of predictive ability with respect to MPS.

These results have important ramifications for comprehending MPS determinants in relation to the factors under investigation. They specifically highlight how crucial elements like price-earning ratio and dividend price per share are in determining market price per share. Earnings price per share and net worth price per share, however, do not appear to be significant, indicating that their ability to forecast MPS in this model may be restricted.

5.2 Conclusion

In this study, the share prices of a subset of Nepali commercial banks were tracked along with many variables (EPS, DPS, NWPS, and P/E ratio) of banks that are listed on the Nepal Stock Exchange Limited. The study conducted between 2013/14 and 2022/23 yielded significant positive associations between earnings per share and dividends per share as well as price earning ratio. However, the market price per share, earning per share, and net worth per share of commercial banks only showed marginally positive associations. The study comes to the conclusion that the main factors influencing the share price of Nepalese commercial banks are dividend per share, earnings per share, net worth per share, and price earnings ratio.

The results of the research provided insight into the complex interactions that exist between market price per share (MPS) and a number of independent factors, including net worth price per share (NWPS), earning price per share (EPS), dividend price per share (DPS), and price-earning ratio (PER). Complex relationships between MPS and the independent factors were revealed by correlation analysis. Notably, PER showed a strong positive link with MPS, whereas EPS and DPS showed only moderately strong correlations. There was a somewhat smaller positive connection between MPS and NWPS.

Regression analysis was utilized to obtain additional insights into the predictive ability of these variables with respect to MPS. DPS and PER had a considerable impact on MPS, whereas EPS and NWPS did not show up as significant predictors. For DPS and PER, the standardized coefficients and statistically significant coefficients highlight their importance in calculating MPS. These results highlight the crucial roles that price-earning ratio and dividend price per share play in affecting the dynamics of market price per share. On the other hand, the fact that earnings price per share and net worth price per share do not exhibit significant differences indicates that they have limited ability to explain MPS in this model framework.

To sum up, the integration of regression and correlation analysis offers a thorough comprehension of the factors that influence MPS. By clarifying the variables influencing changes in market price per share, this explanation aids in financial analysis and decision-making processes and helps stakeholders navigate the challenges associated with stock valuation and investment strategies.

5.3 Recommendations

Based on the findings of the analyses conducted, here are some recommendations:

- In light of the noteworthy positive correlation between market price per share (MPS) and dividend price per share (DPS), corporations ought to contemplate the adoption or enhancement of dividend policies as a means of augmenting shareholder value and exerting a constructive influence on MPS.
- The price-earning ratio (PER) has been shown to be a reliable indicator of MPS. Given that PER fluctuations have the potential to have a substantial influence on MPS, investors and financial experts should keep a careful eye on PER developments. Gaining knowledge about the variables influencing PER changes can help predict future MPS movements.

- Even though the investigation did not find a statistically significant correlation between MPS and earning price per share (EPS), increasing profits performance is still essential for luring investors and maintaining long-term growth. Businesses must to concentrate on methods for increasing profitability and producing steady profits development.
- Even though our investigation did not find a significant correlation between MPS and net worth price per share (NWPS), it is still important to understand how the market views a company's financial stability and net worth. To enhance investor confidence in their financial stability, companies ought to endeavor to uphold a robust balance sheet and foster good communication with stakeholders.
- In addition to the variables examined in this study, industry-specific factors and market trends should be taken into account as they may have an impact on MPS. Making educated investment decisions and comprehending MPS variations can be made easier with the help of industry comparisons and sector-specific updates.
- It's critical to continuously monitor and review financial performance metrics, such as EPS, DPS, PER, and NWPS, in order to spot trends, gauge the success of financial plans, and make timely modifications that maximize shareholder value and competitiveness in the market.

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APPENDIX

Market Price per Share

Year	EBL	NABIL	HBL	NBL
2013/14	1591	1815	700	171
2014/15	2631	2535	941	459
2015/16	2120	1910	813	305
2016/17	3385	2344	1500	470
2017/18	1353	1523	886	364
2018/19	663	921	551	281
2019/20	666	800	552	336
2020/21	675	765	540	249
2021/22	738	1359	484	443
2022/23	439	824	299.2	268

Earnings Per Share (EPS)

Year	EBL	NABIL	HBL	NBL
2013/14	91.88	91.05	34.19	198.53
2014/15	86.04	76.12	33.09	18.08
2015/16	78.04	57.24	33.37	7.48
2016/17	65.97	59.27	43.02	44.59
2017/18	32.48	59.86	33.56	38.77
2018/19	32.78	51.84	23.12	39.98
2019/20	38.05	50.57	32.44	26.99
2020/21	29.71	36.16	27.6	20.68
2021/22	19.91	33.57	28.07	23.43
2022/23	26.30	18.64	18.26	20.29

Dividend Per Share (DPS)

Year	EBL	NABIL	HBL	NBL
2013/14	10	65	15	0
2014/15	12	65	21.05	0
2015/16	30	36.84	42.11	0
2016/17	70	45	31.58	0
2017/18	33	48	26.32	0
2018/19	0	34	15.79	0
2019/20	5	34	22	15
2020/21	5	35.26	20	12
2021/22	6	38	26	14
2022/23	20.68	30	19.11	0

Price Earnings Ratio (P/E ratio)

Year	EBL	NABIL	HBL	NBL
2013/14	17.32	19.93	20.47	0.86
2014/15	30.58	33.30	28.44	25.39
2015/16	27.17	33.37	24.36	40.78
2016/17	51.31	39.55	34.87	10.54
2017/18	41.66	25.44	26.40	9.39
2018/19	20.23	17.77	23.83	7.03
2019/20	17.50	15.82	17.02	12.45
2020/21	22.72	21.16	19.57	12.04
2021/22	37.07	40.48	16.92	18.91
2022/23	16.69	44.21	16.39	13.21

Net Worth per Share (NWPS)

Year	EBL	NABIL	HBL	NBL
2013/14	291.53	275.00	192.02	(932)
2014/15	291.19	251.00	209.92	21
2015/16	335.60	259.00	208.81	59
2016/17	320.07	244.00	196.12	104
2017/18	251.42	270.00	180.31	142.4
2018/19	201.01	256.00	174.24	285.6
2019/20	218.58	257.00	187.73	298.5
2020/21	219.24	256.00	187.67	266.2
2021/22	232.11	251.00	188.43	262.9
2022/23	239.16	232.00	169.72	246.1

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CHAPTER-I INTRODUCTION 1.1 Background of the study The nation's economy has historically depended heavily on commercial banks. They are essential to the growth of commerce and industry. They are serving as both the nation's resources, which are essential for a country's economic development, and the stewards of its wealth. For investors, the stock market offers the finest potential for investing. Furthermore, a long-term venture capital fund is needed to finance many valuable enterprises. The majority of investors are tempted to take on risk and are hesitant to link their savings to a long-term obligation. An attractive and less dangerous investment is a liquid stock market. Because they can simply and rapidly sell shares if they wish to withdraw their savings before the project matures, investors are encouraged to put their money into long-term projects. Simultaneously, firms are able to easily get capital by issuing additional shares.

The price at which a share of stock is currently trading on the market is referred to as the stock price. When shares of a publicly traded firm are issued , they are **assigned a** value **that**

, in theory, corresponds to the company's overall worth.