DETERMINANTS OF STOCK PRICE OF COMMERCIAL BANKS IN NEPAL

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By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Determinants of Stock Price of Commercial Banks in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purpose.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Kamala Adhikari

Date:

REPORT OF RESEARCH COMMITTEE

Ms. Kamala Adhikari has defended research proposal entitled "**Determinants of Stock Price of Commercial Banks in Nepal**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidance of supervisor **Mikha Shrestha** and submit the dissertation for evaluation and Viva-Voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled "**Determinants of Stock Price of Commercial Banks in Nepal**" presented by Ms. Kamala Adhikari for the degree of Master of Business Studies. We hereby certify that the acceptable for the award of degree.

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Kamala Adhikari

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ABBREVIATIONS

AGM	:	Annual General Meeting
BVPS	:	Book value per share
C.V	:	Coefficient of Variation
DPS	:	Dividend per share
EPS	:	Earning per share
Ltd	:	Limited
MPS	:	Market price per share
NEPSE:		Nepal Stock Exchange
No	:	Number
P/E	:	Price- earnings ratio
Pvt	:	Private
R	:	Correlation coefficient
S.D	:	Standard Deviation

ABSTRACT

The study entitled “Determinants of stock price of Nepalese commercial banks” has been conducted having two samples such as five sample commercial bank Limited out of total 20 commercial banks. The major objective of this study is to analyze determination of stock price in Nepalese commercial banks. The samples have been chosen on the basis of easily availability of annual reports. The total number of observations is twenty having ten years’ annual financial data of two sampled banks. As per research design descriptive and analytical research design have been employed. The statistical tools consist of mean, standard deviation, C.V. as well as the inferential statistic consists of mainly correlation and regression analysis i.e. fixed effect model for better evaluation of undertaken variables such as market price per share, liquidity (cash reserve ratio), price earnings ratio, firm size, earnings per share and dividend per share.

The dependent variable market price per share (MPS), is positively correlated with independent variables such as price earnings ratio (P/E) and earnings per share (EPS) which implies that they move in the same direction. In other words when one increases another one also increases and vice versa. Further, it can also be observed that the dependent variable market price per share (MPS) which implies the meaning that they move in the inverse direction. In other words when one increases another one also decreases.

Keywords: Market Price per Share, Liquidity (Cash Reserve Ratio), Price Earnings Ratio, Firm Size, Earnings per Share and Dividend per Share.

CHAPTER I
INTRODUCTION

1.1 Background of the Study

The market price of the share is an important factor that impacts on investment decision of stock market investors. The share price is one of the most important indicators available to the investors for their decision to invest in or not a particular share. Market price of the share is one the most important factor which affects investment decision of investors but market price of the share depends upon many factors, such as earnings per share, dividend per share, dividend payout ratio, size of the firm, dividend yield, management and diversification, etc (Sundaram & Rajesh, 2016:45).

The determinants of share price are debatable topic among financial researchers for more than five decades. Stock market is major capital market which is the biggest source of finance to corporation and provide investment opportunities to the investor in form of share and bonds. Investment in share contains two types of returns; first one is capital gain and second is dividend but the return on share investment contain high risk because they are unconfirmed and fluctuations in share price are not explanatory(Iqbal, et. al. 2015:58).

Recently there has been great deal of interest in explaining the behavior of aggregate stock price. The simplest model of stock price determinations, which was generally accepted at least as an appropriate until a few years ago, is that the stock price equals the present value of expected future dividends, discounted at a constant rate. The dividend and net profit are the most significant determinants of stock prices for US banks. There is a positive correlation among dividend, net profit, operating earnings, book value and stock prices. However, operating earnings had a negative correlation with stock prices, suggesting that investors may have perceived lower earnings as a negative signal for bank stocks (Collins, 1957:68).

The stock market is primarily the place where these companies get listed to issue the shares and raise the fund. In case of an already listed public company, they issue more shares to the market for collecting more funds for business expansion. For the

companies which are going public for the first time, they need to start with the Initial Public Offering or the IPO. In both the cases market is that the market plays the role of a common platform for the buyers and sellers of these stocks that are listed at the stock market is that the market plays the role of a common platform for the buyers and sellers of these stocks that are listed at the stock market amount of assets, which the corporation has on behalf of each equity share. BV shows the net investment per share made in the business by the shareholder. It is the value at which an asset is carried on a balance sheet. The dividend payout ratio, book value per share, and earnings per share are significant determinants of equity share price (Almumani, 2014:74).

One of the major avenues of investment that has the potential of yielding considerable returns to investors is the investment in equity shares. It is also a source of finance for the capital requirements of firms. Returns from such equity investments are however subject to vary, depending upon the performance of the particular stock and movement in stock price. Fluctuation in stock prices may occur due to the supply and demand forces but there is no foolproof or perfect system that indicates the exact movement of stock prices. The factors behind the increase or decrease in the demand and supply of stock prices can be categorized into three main types: technical factors, fundamental factors and market sentiments. However, knowledge of such factors and their possible impact on share prices is highly appreciable as it would help investors make wise investment decisions and enable firms to enhance their market value (Thapa, 2019:85).

Determining share prices is a complex and conflicting task. Stock prices are not stable and fluctuate excessively in relation to the news about fundamentals (as dividends) primarily due to market irrationality. Thus, it is asserted that understanding the impact of various fundamental variables on stock price is very much helpful to investors as it will help them in taking profitable investment decisions (Shiller, 1981:78).

Nepal Stock Exchange, in short NEPSE, is established under the company act, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries,

such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and licensed members are the shareholders of NEPSE (NEPSE, 2022:76).

Basically, stock price is influenced by demand and supply. Both the internal and external factors determine the stock price. However, to specify exactly what factors do determine stock price is a controversial/ unpredictable issue. Stock price is the function of the several factors. The stock price fluctuates time to time and stock exchanges react to the environmental changes. However, for some environmental changes, the stock exchanges have no effect. The major objective of this study is to analyze which are the most important affecting factors on stock price of Nepalese commercial banks. More specifically, this paper is expected to answer the major influencing factors of stock price, relationship amongst MPS with the EPS, dividend yield and price-earning ratio. It also expected to explore which is the most significant factor to predict the stock price (Koirala, 2018:64).

Commercial bank is a financial institution that provides services such as accepting deposits providing business loans. It plays an important role in the economic development of the country. Commercial banks play the role of economic development through facilitating the intermediary process in between capital surplus and deficit (SEBON, 2021:54).

The focus of this study is on the factors that affect the stock price of the chosen commercial banks that is listed on the NEPSE. Stock price, which is dependent on a number of variables in this study, is the dependent variable. However, this study intends to examine the characteristics and factors that affect the performance of share price. In the secondary market, the price of the stock is often controlled by the interaction of buyers and sellers. The primary goal of the study is to determine how the variables related to the company and MPS per share relate to one another. Five commercial banks that are NEPSE-listed are chosen for analysis in this study. The following is a brief overview of various banks.

1.1.1 A Brief Profile of the Selected Commercial Banks

Nabil Bank Limited

Nabil Bank Limited is the nation's first private sector bank, commencing its business since July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Nabil bank operates through its wide network of 135 branch offices, 183 ATMs, numerous POS terminals, remittance agents spread across the nation. Mr. Anil Keshari Shah is the CEO of Nabil bank. The bank has a history of constant dividend payout ratio of more than thirty percent. In the study, the bank is denoted as NABIL the trading symbol given by NEPSE. The bonus share for the fiscal year 2077/2078 BS is 33.6% and 4.4 % Cash Dividend (https://www.nabilbank.com/).

Everest Bank Limited

Everest Bank Limited is a joint venture of Nepal and Punjab National Bank of India. It started its operation since 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the country. Punjab National Bank holds 20% equity of EBL. The bank head office is in New Baneshwor, Kathmandu. In the study, the bank is denoted as EBL the trading symbol given by NEPSE. The bonus share is 6.0% and 4.32% cash dividend for fiscal year 2077/2078 B.S. (https:// everesbankltd.com/).

Nepal SBI Bank Limited

Nepal SBI Bank Limited is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoter's namely state bank of India, Employees Provided Fund and Agriculture Development Bank of Nepal through a memorandum of understanding signed on 17th July 1992. The bank was incorporated as a public limited company at the office of the company register on April 28, 1993 A.D. and was licensed by NRB on July 6, 1993. The bank commenced its operation from 7th July 1993 A.D. In the study, the bank is denoted as SBI the trading symbol given by NEPSE. The bonus share is 3.5% and cash dividend is 1.81% in the fiscal year 2077/2078 B.S. (https://nsbl.statebank).

Sanima Bank Limited

Sanima bank is promoted by prominent and dynamic Non-Resident Nepalese (NRNs) businessman commenced its operation in 2004 as a National Level Development Bank. Since February 2012 Sanima has been functioning as an 'A' class commercial bank with its registered office at Naxal, Kathmandu. Sanima bank offers a wide range of banking products and financial services to corporate and retail customers through 58 full-fledged branches from Mechi to Mahakali and one extension counter. The paid-up capital of the bank as on 31st Ashad 2074 is Rs. 8,001,255,440.Sanima Bank is recognized as the most well managed bank among all. As a result, the bank is able to maintain its non-performing loan under 0.05% and has been the most chosen one among the investor. The bonus share is 17.00 % and Cash dividend is 0.8947 % in the fiscal year 2077/2078 B.S. (https://www.sanimabank.com).

Siddhartha Bank Limited

Siddhartha Bank Limited commenced its operation in 2002. The bank is promoted by some of the prominent personalities of Nepal. Siddhartha Bank Limited today stands as one of the consistently growing bank in Nepal. It has 180 branches all across the nation with its head office in Kathmandu which provides entire commercial banking services and remittance services. In the study, the bank is denoted as SBL the trading symbol given by NEPSE. It has total listed shares of 125,244,272.00 units. The bonus share is 14.25% and cash dividend is 0.75% according to fiscal year 2077/2078 B.S. (https://siddharthabank.com/).

1.2 Problem Statement

Stock price is determined by demand and supply. Both the qualitative factor determines the stock price, to specify exactly what factor to determine the stock is a controversial issue. The stock price fluctuates time to time and stock exchange reacts with the environmental changes. This study tries to identify the determinants of stock price and find out the degree of affection of those determinants. Determining share prices is a complex and conflicting task. Stock prices are not stable and fluctuate excessively in relation to the news about fundamentals (as dividends) primarily due to market irrationality.

The determinants of the stock prices of selected banks in Nepal showed that there is a disparity between theory and practice in terms of investing in the Nepalese stock market. Most investors seem to prefer a buy-and-hold strategy instead of actively trading their shares in the secondary market. This shows that there is a lack of professional knowledge among investors. The guidelines issued by the Nepal Rastra Bank also have an influence on the share prices of financial institutions. A small group of investors rely on the direction of the price-trends and only invest in companies whose prices are increasing, which leads to a fluctuation in the prices of shares. The pricing behaviour differs from one company to another. It was discovered that DPS, BVPS and EPS have a combined significant impact on the MPS, but individually, they do not have a consistent correlation. This suggests that there are other factors that are playing a major role in determining share prices. Some of these factors include company performance, such as earnings, interest rate, cash dividends payment, book value, risk and growth rate. Additionally, information that is disclosed, changes in management, timely AGMs, and other political and economic factors such as political stability, national economy, peace.

Only few investors of Nepalese share market are aware of the causing agent of share price. It means that most of the investors are unknown about the financial performance of the company but tend to invest on the company without proper financial analysis. It causes the unusual relation of the financial indicators - EPS, BVPS, DPS, P/E Ratio etc. with the market price of share. The market rumours relating the financial position of the company is the major analytical tool for the most of the Nepalese investors. In this context, the research problem of this study can be presented in following points:

- What are the determinants that affect change in share price of selected Nepalese Commercial Banks?
- What is the effect of earning per share on the share price of selected Nepalese Commercial Banks?
- How does dividend per share effect on the share price of selected Nepalese Commercial Banks?
- What is the effect of P/E ratio on the share price of selected Nepalese Commercial Banks?

1.3 Objectives of the Study

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

- To analyze the determinants that affect change in share price of selected Nepalese Commercial Banks.
- To determine the effect of earning per share on the share price of selected Nepalese Commercial Banks.
- To examine the effect of dividend per share on the share price of selected Nepalese Commercial Banks.
- To examine the effect of P/E ratio on the share price of selected Nepalese Commercial Banks.

1.4 Research Hypothesis

A research hypothesis is a conjectural statement, a logical supposition, a reasonable guess, and an educated prediction about the nature of the relationship between two or more variables that we expect to happen in our study. To achieve the objectives of this study the following hypothesis were tested.

- Ho1: There is a significant relationship between Earning per share and share price.
- Ho2: There is a significant relationship between P/E ratio and share price.
- Ho3: There is a significant relationship between dividend per share and share price.

1.5 Rationale of the Study

This study attempts to construct the relation of MPS of the Nepalese Commercial Banks to the major financial indicators like EPS, Dividend Yield, P/E ratios etc. The relation is hoped to show the current status of Nepalese Commercial Banks with respect to the determiners of the Share Price. These findings may be helpful to the potential investors to make the better investment decisions.

Since, the market price of share is the function of information this research will be beneficial to know how will share prices absorb information in the Nepalese capital market. In other words, this research help to know Nepalese investor react to the information disseminated to capital market. This thesis delivers essential information about the stock market of NEPSE which may be required to the further researcher. However, there are many studies already done in this topic of market price fluctuation due to the financial indicators or specific variables, but in the previous studies nobody has tried to look of the various sector companies market price of share.

- The study is assumed to be helpful to the investors in the NEPSE.
- The study provides literature to further researchers in this subject matter. This study helps to know about the stock price trend in Nepalese context. It can help the potential investor for taking good or right decision while making investment in shares.
- The study is helpful to know about the factors affecting share price.
- It makes investors well informed about the impact of EPS, DPS and P/E ratios on market share price of commercial bank in Nepal by which investment analysis become simple.

1.6 Limitations of the Study

A research is a vast study investigating the subject matter for solving perceived research problems. Each and every study has its own limitations. No study can be free from constraints, such as economic resources, time etc. And this study too is not an exception. Therefore, the following are the main limitations of the study:

- Among the various commercial banks, the study is based on five commercial banks listed in the NEPSE.

- This study focuses only on the analysis of relationship of MPS with EPS, DPS and P/E Ratio.
- This research only focuses on the commercial banks, which are a part of total capital market. Hence, the conclusion drawn from the study cannot generalize the total capital market
- The study is based on secondary data. So, the validity and reliability of the data depends upon their source.

CHAPTER II
LITERATURE REVIEW

2.1 Introduction

This chapter deals with the literature related to the present study. It highlights upon existing literature on some basic literature in determinants of stock price including review of the empirical evidence of previous studies. For this, several books, articles published in journals, report, and thesis are reviewed. Therefore, this chapter is divided into three parts, viz.

2.2 Theoretical Review

Determinants mean the determining factors. In simple words, they are the factors which affects the nature or outcome of something. Here, determinants of share price of Nepalese commercial banks are being discussed. The share price does not remain stable, it fluctuates each and every time.

The determinants of stock prices are often a matter of debate. Economics and financial market participants hold different views as far as the pricing of an asset is concerned. In an efficient market, stock prices would be determined primarily by fundamental factors such as earning per share, dividend per share, payout ratio, size of the firm and dividend yield, management, diversification etc. To forecast future stock prices, fundamental analysts use stock valuation ratios to derive a stock current fair value and forecast future value. If the fair value is not equal to the current stock price, fundamental analysts believe that the stock price is either over or undervalued and the market price will ultimately gravitate towards fair value. Fundamentalists do not heed the advice of the random walkers and believe that markets are weak form efficient. By believing that prices do not accurately reflect all the available information, fundamental analyst look to capitalize on perceived price discrepancies (Srinivasan, 2012:64).

Various researchers have found important internal factors that determine the share prices for different markets, viz., dividend, retained earnings, size, earning per share, dividend yield, leverage, payout ratio and book value per share. Understanding the impact of various fundamental variables on share price is very much helpful to

investors as it will help them in taking profitable investment decisions. The brief description of share price and variables that considered determinants of the share price are as below:

2.2.1. Stock Price

Stock price is the amount of money that one has to pay to purchase/receive a stock of a company. If ‘A’ buys 10 shares of a company from ‘B’, he/she pays Rs.2000 for these 10 shares, then the price of share is Rs200 (i.e.2000/10). Thus, stock price is the amount paid by a buyer to buy one stock or the amount received by the seller. The stock price is determined in stock market, by market forces i.e. demand (buyers forces) and supply (seller’s force). The demand and supply are based on the environmental forces and individual’s future expectations/assumptions. The stock (market) price is different from its par value and book value. Stocks are of two types common and preferred. The difference is while the holder of the former has voting rights that can be exercised in corporate decisions, the later doesn't. However, preferred shareholders are legally entitled to receive a certain level of dividend payments before any dividends can be issued to other shareholders something called 'convertible preferred stock'. There is also This is basically a preferred stock with an option of converting into a fixed number of common shares, usually any time after a predetermined date(Ciarandriver and Grosman, 2020:52).

2.2.2 Market Price per Share (MPS)

A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter. Generally, par values of most stocks are set at fairly low figures with compare to their market values and the market values per share of common stock is the function of current and expected future dividend of the company and the perceived risk of the stock on the part of investors (Van Horne and Wachowicz, 2000:546:66).

Common stock holders are sometimes referred to as a residual owner since in essence he or she receives what is left the residual after all other claims on the firm’s income and asset have been satisfied. All the companies issue common stock. Common stock holders are true owners of business firm. They invest money with the expectation of getting high return. The return from common stock is usually from the capital gain

earned. If they increase in value after public buy them. That is why price of common shares can be more volatile. They move up and down due to the factors like economy and company performance (Gitman,1991:73).

The market price of the shares gives the value of share and the value of the organization. The market price of shares is that the price in which the shares are traded or the amount which is paid by the buyer to the seller to purchase a stock of a company. The market price of shares varies from one company to another. Since, the common shareholders are the owner of the organizations and have least priority to claim in liquidation, the share price is highly volatile and very sensitive to the environmental factors. An organization has two types of environment, i.e. internal and external. The environment within the organization is called the internal environment and is somehow in control of the organization. Therefore, the organization tries to maintain the favorable environment to maximize the share price of the stock market. On the other hand, external environment forces are not within the control of the organization, but such forces highly affect the market price of shares. Therefore, the firm tries to adjust themselves according to the changing environmental forces, and such adjustments are intended to maximize the share price or the value of the firm (Ciarandriver and Grosman, 2020:69).

Since the market price of shares is very much sensitive to the environmental forces, the share price increases if there is favorable environment and vice versa. This increase in the share price is based on the market mechanism or market forces, i.e. demand and supply. If the earnings and dividend of an organization increases, then the investors has positive perception towards the organization and they like to buy shares of the organization, as a result demand increases; on the other hand the suppliers like to hold the shares and supply decreases, and there is gap between demand and supply so the market price of shares increases. The investors determine the price, they would like to pay for the shares of an organization and the sellers determine the price, they would like to receive by selling shares based on their assumptions towards the organization and future expectations. Such assumptions and expectations vary from individual to individual. Since different person analyzes the same situation differently with their limited knowledge(Srinivasan, 2012:72).

The market value per share or fair value of a stock is the price that a stock can be readily brought or sold in the current market place. In other words, the market value per share is the "going price" of a share of stock. The market price per share of stock usually termed simply "share price". It is simply the amount that the investors are willing to pay for one share of the company's stock. The market price of the share is mainly determined by the forces of demand and supply of a particular security in the market (NEPSE,2021:98).

The stock market and economy change every day and with it comes fluctuations in company stock prices. Many companies try to maintain their stock prices by issuing dividends to shareholders. A stock market value is largely influenced by not only the economy and the company dividends as a whole but investors prediction and expectations. The market price per share does not remain constant it changes each and every time. Thus, the market price per share of sample banks at the end of financial year is taken for this study (Piotrosb et. al. 2004:69).

2.2.3 Earnings per Share (EPS)

Earnings per share or (EPS) is an important financial measure, which indicates the profitability of a company.It refers to the ratio of the profit after tax of the company for any financial year after payment of preference dividend. Earnings per share, also called net income per share, is a market prospect ratio that measures the amount of net income earned per share of stock outstanding. In other words, this is the amount of money each share of stock would receive if all the profits were distributed to the outstanding shares at the end of the year. Higher earnings per share are always better than a lower ratio because this means the company is more profitable and the company has more profits to distribute to its shareholders. Although many investors don't pay much attention to EPS, higher EPS often makes the stock price of a company rise (Malhotra and Tandon, 2013).

Earnings per Share (EPS) is calculated by dividing a company's net revenues by the outstanding shares. This gives a number that can be used to compare the earnings of companies since it is unlikely any two companies will have the same number of shares outstanding. "Accounting earnings that represent the different revenues and expenses, including the expenses associated with non-equity source of funds (such as

interest to debt, dividend of preference shares) is known as total earning available for common stock. If this portion of income is divided by number of outstanding shares, we get earning per share (Francis, et al.; 2001: 622).

2.2.4 Dividend per Share

Dividends per share are calculated by dividing the total dividend amount paid for the financial period by the number of ordinary shares in issue. Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. Dividend is the portion of the profit after tax, which is distributed to the shareholders for their investment bearing risk in the company. How much dividend has paid by company was shown by the DPS, as well as it has a significant influence on the market price of share. The net profit after taxes belong to shareholders but the income that they really receive in the amount of earnings distributed and paid was cash dividend.

The forms of Dividend are as follows:

Cash Dividend

Payments made in cash to shareholders are termed as cash dividends. Distribution of cash dividend causes the reduction in total assets and net worth of the company. A cash dividend is that portion of the profit declared by the board of directors to be paid as dividends to the company's shareholders in return for their investments done in the company and then discharging such dividend payment liability by paying cash or through bank transfer(Piotrosb et. al. 2004:111).

Stock Dividend

Distribution of bonus shares as dividend to the stockholder is known as Stock Dividend. A stock dividend refers to bonus shares paid to shareholders instead of cash. Companies resort to such dividends when there is a cash crunch. Shareholders are allotted a certain percentage of shareholding. This increases the number of shares of the company (Malhotra and Tandon, 2013:114).

2.2.5 Dividend Yield

Dividend yield is the financial ratio that measures the quantum of cash dividends paid out to shareholders relative to the market value per share. It is computed by dividing the dividend per share by the market price per share and multiplying the result by 100. A company with a high dividend yield pays a substantial share of its profit in the form of dividends. Dividend yield of the company is always compared with the average of the industry to which the company belong. Companies distribute a portion of their profits as dividends, while retaining the remaining portion to reinvest in the business. Dividends are paid out to the shareholders of a company. Dividend yield measures the quantum of earnings by way of total dividends that investors make by investing in that company it is normally expressed as a percentage (Malhotra and Tandon, 2013:116).

2.2.6 Price- Earnings Ratio (P/E)

The price to earnings ratio or (P/E) ratio is the ratio for valuing a company that measures its current price with earning per share (EPS). It is calculated by dividing the current market price per share of a company by its earnings per share (EPS).The P/E ratio is a popular metric used by investors to determine whether a stock is overvalued or undervalued compared to its peers or the market as a whole. A high P/E ratio may indicate that a stock is overvalued and investors may be paying too much for each dollar of earnings. Conversely, a low P/E ratio may indicate that a stock is undervalued and may present a good investment opportunity. The price-to-earnings ratio can also be used to compare a company to its competitors in the same industry. Comparing different companies' P/E ratios can determine which a better investment is. Moreover, the P/E ratio can also be compared to the company's past performance to get a better idea of how the company has grown and predict how it may grow over time.

However, it's important to note that the P/E ratio is just one of many factors to consider when evaluating a stock. A high P/E ratio doesn't necessarily mean that a stock is overvalued, just as a low P/E ratio doesn't always indicate a good value. Other factors that can impact a stock's valuation include the company's financial health, its competitive position, industry trends, and macroeconomic conditions (Srinivasan, 2012:118).

2.2.7 Book Value Per Share (BVPS)

Book value per share (BVPS) is the ratio of equity available to common shareholders divided by the number of outstanding shares. Book value per share compares the amount of stockholders' equity to the number of shares outstanding. The book value per share (BVPS) metric can be used by investors to gauge whether a stock price is undervalued by comparing it to the firm's market value per share. If a company's BVPS is higher than its market value per share its current stock price then the stock is considered undervalued. Thus, this measure is a possible indicator of the value of a company's stock; it may be factored into a general investigation of what the market price of a share should be, though other factors concerning cash flows, product sales, and so forth should also be considered. The measurement is rarely used internally; instead, it is used by investors who are evaluating the price of a company's stock. Eventually,it's important to note that the book value of a company's assets may not reflect their true market value. For example, the market value of a company's real estate holdings may be significantly higher than their book value. Therefore, BVPS should be used as one of many tools to evaluate a company's financial health and investment potential (Malhotra and Tandon, 2013:125).

2.2.8 Net Profit

Net profit, also known as the bottom line or net income, is the amount of money a company earns after deducting all expenses, including taxes and interest, from its total revenue. It is a crucial financial metric that indicates the profitability of a business over a specific period, usually a quarter or a year. Net profit is calculated by subtracting all the expenses incurred by a business from its total revenue. These expenses include the cost of goods sold, operating expenses, taxes, interest, and any other expenses incurred by the business. The resulting figure represents the amount of money left over after all expenses have been paid period. Net profit is an essential indicator that investors, shareholders, and financial analysts use to evaluate a company's financial health and performance. The net profit figure comprehensively displays the profitability of a business, and it is used in publicly traded companies to calculate their earnings per share (EPS). A high net profit indicates that a business is generating a healthy amount of revenue and has effectively managed its expenses,

while a low net profit suggests that a business is struggling to generate revenue and may be overspending (Bhattarai, 2018:130).

2.2.9 Return on Assets (ROA)

Return on assets is a profitability ratio that provides how much profit a company can generate from its assets. In other words Return on Assets (ROA) is a financial ratio that is used to measure a company's profitability by evaluating its net income in relation to its total assets. ROA is a useful indicator for assessing a company's efficiency in utilizing its resources to generate profits. The formula for calculating ROA is simple: net income divided by total assets. The resulting number represents the percentage of profit generated for each dollar of assets the company owns.ROA is best when comparing similar companies; an asset-intensive company's lower ROA might appear alarming compared to an unrelated company's higher ROA with fewer assets and similar profit. If ROA is low the management may be inefficient while a high ROA figure shows the business is running smoothly and efficiently. Additionally, ROA can vary greatly depending on the industry in which the company operates. For example, service-based companies typically have lower ROAs than manufacturing companies due to their lower asset intensity (Ciarandriver and Grosman, 2020:136).

2.2.10 Return on Equity (ROE)

Return on Equity (ROE) is a financial metric that measures a company's profitability by calculating the amount of net income returned as a percentage of shareholders' equity. It is an important tool used by investors and analysts to evaluate a company's performance and determine its financial health. Return on Equity is a two-part ratio in its derivation because it brings together the income statement and the balance sheet, where net income or profit is compared to the shareholders’ equity. ROE reflects how efficiently a company is utilizing its resources to generate profits and is considered a key indicator of a company's ability to create value for its shareholders. A high ROE indicates that a company is generating a significant amount of profit relative to the amount of shareholders' equity invested, while a low ROE suggests that a company is not effectively utilizing its resources to generate profits. ROE is typically compared to industry benchmarks and historical performance to assess a company's

performance over time and to identify trends that may impact future profitability (Almumani, 2014:140).

2.3 Empirical Review

At the time of this thesis writing following article, newspaper and previous study are studied for fulfillment of prescribed objectives. Many researchers have analyzed their Stock Price of commercial banks finding in their research paper in this subject through investment policy of commercial banks. Under this, related articles published in different economic journals, bulletin of World Bank, dissertation papers, newspaper, researchers view and finding towards fund examined and reviewed.

2.3.1 Review of Journals and Articles

Placido and De La Jr. (2012) investigated the impact of selected financial variables on share prices of publicly listed firms in the Philippines. Employing multiple regression analysis, the study analyzed the relationship between share prices and financial indicators such as earnings per share (EPS), price-earnings ratio (P/E), return on assets (ROA), and return on equity (ROE). The study found that EPS and the P/E ratio significantly positively impacted share prices, highlighting their importance for investors. In contrast, ROA and ROE did not show a significant effect on share prices. This finding suggests that while traditional performance metrics like EPS and P/E ratio are crucial for assessing share value, ROA and ROE may not be as influential in the Philippine market. The study provides valuable insights for investors and financial analysts by demonstrating which financial variables are more relevant for stock valuation in the Philippines, thus aiding in more informed investment decisions and financial analysis. The methodology was robust, utilizing publicly available data and a rigorous statistical approach, ensuring the reliability and validity of the results. The implications of the study extend to improving investment strategies and understanding the financial dynamics of publicly listed firms in the region.

Peter and Simon (2013) explored the effect of financial performance indicators on the market price of shares in commercial banks in Kenya. Using secondary data from the annual reports of 11 commercial banks, they applied multiple regression analysis to assess the relationship between return on assets (ROA), return on equity (ROE), earnings per share (EPS), and share prices. The study revealed that ROA, ROE, and

EPS all had a significant positive relationship with share prices, indicating that these financial metrics are critical for evaluating stock performance in the Kenyan banking sector. Additionally, factors such as bank size, liquidity, and asset quality were also found to significantly impact share prices. These findings underscore the importance of financial performance indicators in stock valuation and provide insights into the factors influencing share prices in Kenya's commercial banking sector. By identifying key determinants of share prices, the study contributes to a better understanding of the financial factors driving market performance, which can help investors make more informed decisions and enhance financial analysis practices in the region.

Bhattarai (2014) examined the determinants of share price for commercial banks in Nepal. Utilizing multiple regression analysis, the study assessed how various financial variables, including earnings per share (EPS), price-earnings ratio (P/E), market capitalization, and book value per share, influenced share prices. The results indicated that EPS, P/E ratio, market capitalization, and book value per share had a significant positive impact on share prices, while dividend per share had a negative impact. Notably, EPS emerged as the most influential factor affecting share prices, highlighting its critical role for investors in Nepal. The study's findings provide important implications for both investors and policymakers by emphasizing the significance of EPS in stock valuation and offering insights into the financial dynamics of Nepalese commercial banks. The use of multiple regression analysis ensured a comprehensive examination of the relationships between variables, contributing to a nuanced understanding of the determinants of share prices in Nepal's banking sector.

Sharif et al. (2015) analyzed factors affecting share prices in the Bahrain Stock Exchange by examining the impact of various macroeconomic and company-specific variables. The study utilized quantitative methods and secondary data from sources like the Bahrain Stock Exchange and the Central Bank of Bahrain, applying multiple regression analysis to identify significant determinants of stock prices. The results indicated that company-specific variables, such as earnings per share (EPS), dividends, and market capitalization, had a significant impact on stock prices, while macroeconomic factors like inflation rate, interest rate, and exchange rate did not. This finding suggests that investors should focus on company-specific financial

metrics when evaluating stock performance on the Bahrain Stock Exchange. The study provides valuable insights into the relative importance of company-specific versus macroeconomic factors in stock valuation, which can aid investors in making more informed investment decisions based on the specific characteristics of the firms they are considering.

Pradhan and Dahal (2016) investigated factors affecting share prices of Nepalese commercial banks using data from 21 banks listed on the Nepal Stock Exchange from 2006 to 2014. The study employed multiple regression analysis to explore the relationships between share prices and independent variables such as earnings per share (EPS), return on equity (ROE), price-earnings ratio, and dividend yield. The findings revealed that EPS and ROE positively influenced share prices, while the price-earnings ratio and dividend yield had a negative impact. This suggests that while EPS and ROE are crucial for positively influencing stock prices, high price-earnings ratios and dividend yields might signal potential drawbacks. The study highlights the regulatory environment's role in shaping share prices, offering insights into how financial metrics and external regulations interact to affect stock performance. The comprehensive analysis contributes to a better understanding of share price determinants in the Nepalese banking sector and provides useful information for investors and financial analysts.

Husam et al. (2017) examined micro and macroeconomic determinants of stock prices in the Turkish banking sector. By utilizing panel data analysis and secondary data on daily stock prices, GDP, inflation rate, and interest rates, the study aimed to identify significant factors influencing stock prices. The results indicated that GDP and interest rates had a notable impact on stock prices, while inflation did not. This suggests that economic growth and interest rate fluctuations are key drivers of stock price movements in Turkey’s banking sector. The study's findings are valuable for investors and policymakers by highlighting which macroeconomic variables should be monitored for predicting stock price trends. The use of panel data analysis provided robust insights into the relationship between economic variables and stock prices, contributing to a deeper understanding of stock price dynamics in the Turkish banking sector.

Ghimire and Mishra (2018) analyzed the determinants of stock prices in the Nepalese market by evaluating the impact of company-specific and macroeconomic factors. Utilizing quantitative methods and secondary data from 16 companies listed on the Nepal Stock Exchange, the study employed multiple regression analysis to assess variables such as earnings per share (EPS), book value per share, dividend payout ratio, inflation rate, exchange rate, and interest rate. The study found that exchange rate, inflation rate, and market capitalization positively impacted stock prices, while interest rates had a negative effect. These findings suggest that both company-specific and macroeconomic factors play a role in stock price determination in Nepal. The study offers important insights for investors and policymakers by emphasizing the need to consider a broad range of factors when analyzing stock prices, contributing to a more comprehensive understanding of the dynamics in the Nepalese stock market.

Panta (2020) investigated the macroeconomic determinants of stock market prices in Nepal using data from 2010 to 2019. The study applied multiple regression analysis to assess the effects of macroeconomic variables such as inflation rate, exchange rate, interest rate, and GDP on stock market prices. The findings indicated that GDP and interest rates had a positive effect on stock market prices, whereas inflation and exchange rates had a negative impact. This highlights the significance of economic growth and interest rate levels in influencing stock prices while suggesting that high inflation and exchange rate fluctuations may adversely affect stock market performance. The study's insights contribute to a better understanding of the macroeconomic factors influencing stock prices in Nepal, providing valuable information for investors and policymakers looking to navigate the stock market.

Wagle (2021) explored the determinants of stock market prices in Nepal, focusing on commercial banks. Using multiple regression analysis and secondary data from sources such as the Nepal Stock Exchange and the Central Bureau of Statistics, the study assessed the impact of variables like exchange rates, interest rates, dividend yield, and earnings per share (EPS) on stock prices. The results showed that exchange rates, interest rates, dividend yield, and EPS significantly influenced stock prices. This suggests that investors should closely monitor these factors when making decisions about commercial bank stocks in Nepal. The study’s findings offer practical

insights for investors by emphasizing the importance of specific financial and macroeconomic variables in predicting stock price movements.

Al-Dwiry et al. (2022) examined factors affecting stock prices in commercial banks within developing markets, particularly in Jordan. Utilizing panel data regression analysis, the study explored the relationships between stock prices and variables such as earnings per share (EPS), dividend yield, book value per share, and market capitalization. The findings revealed that EPS and dividend yield positively impacted stock prices, whereas book value per share and market capitalization had a negative effect. The study also noted that the impact of liquidity on stock prices was moderated by bank size. These insights are crucial for understanding stock price dynamics in developing markets, offering guidance for investors and financial analysts focusing on commercial banks in Jordan.

Sharma and Rathi (2023) explore the influence of macroeconomic variables on the stock prices of commercial banks in Nepal. Their study employs dynamic panel data analysis to assess how factors like GDP growth, inflation, exchange rates, and interest rates impact bank stock prices. The researchers find that GDP growth has a positive effect on stock prices, suggesting that a growing economy enhances investor confidence and boosts bank valuations. Conversely, high inflation tends to depress stock prices by increasing operational costs and eroding profit margins. Exchange rate fluctuations also affect stock prices, with depreciation generally leading to lower valuations due to the higher costs of foreign debt. Interest rates have a nuanced impact; while lower interest rates can support higher stock prices by reducing borrowing costs, the effect is moderated by the banks' risk management practices. Overall, the study highlights the complex interplay between macroeconomic conditions and stock market performance, emphasizing the importance of a stable economic environment for maintaining robust bank stock prices in Nepal.

Thapa and Joshi (2024) investigate how bank-specific factors determine the stock prices of commercial banks in Nepal, using data from 2016 to 2023. Their analysis reveals that capital adequacy is positively correlated with stock prices, as higher capital ratios are perceived as a sign of financial stability and lower risk. On the other hand, poor asset quality, indicated by high non-performing loan ratios, negatively

impacts stock prices due to increased credit risk and potential for future losses. Efficient management and strong earnings are also critical; banks demonstrating effective management practices and robust financial performance are rewarded with higher stock prices, reflecting investor confidence. Additionally, higher liquidity ratios are associated with better stock market performance, as they signify a bank's capability to handle short-term liabilities effectively. This study emphasizes the importance of internal bank factors, showing that sound financial health and operational efficiency are key drivers of stock prices in Nepal's banking sector.

Table 1

Summary and Empirical Review of Journal and Articles

Date	**Articles**	**Writers**	**Objectives**	**Methods**	**Findings**
2012	Impact of Financial Variables on Share Prices in the Philippines	Placido and De La Jr.	To investigate the effect of EPS, P/E, ROA, and ROE on share prices of firms in the Philippines.	Multiple regression analysis	EPS and P/E ratio significantly impact share prices; ROA and ROE do not. Insights help investors and analysts focus on EPS and P/E for stock valuation.
2013	Financial Performance Indicators and Share Prices in Kenya	Peter and Simon	To explore how ROA, ROE, EPS, and other factors affect share prices in Kenyan commercial banks.	Multiple regression analysis	ROA, ROE, and EPS positively impact share prices; factors like bank size, liquidity, and asset quality also significant. Insights assist in stock valuation and investment decisions.
2014	Determinants of Share Price for Banks in Nepal	Bhattarai	To assess how EPS, P/E ratio, market capitalization,	Multiple regression analysis	EPS, P/E ratio, market capitalization, and book value per share positively impact share

			and book value per share influence share prices.		prices; dividend per share has a negative impact. Highlights the importance of EPS in Nepalese market.
2015	Factors Affecting Share Prices in Bahrain Stock Exchange	Sharif et al.	To analyze the impact of macroeconomic and company-specific variables on stock prices.	Multiple regression analysis	Company-specific variables (EPS, dividends, market capitalization) significantly impact stock prices; macroeconomic factors like inflation, interest rate, and exchange rate do not.
2016	Factors Affecting Share Prices of Nepalese Commercial Banks	Pradhan and Dahal	To investigate the influence of EPS, ROE, P/E ratio, and dividend yield on share prices.	Multiple regression analysis	EPS and ROE positively influence share prices; P/E ratio and dividend yield have a negative impact. Highlights interaction between financial metrics and regulatory environment.
2017	Micro and Macroeconomic Determinants of Stock Prices in Turkey	Husam et al.	To identify significant micro and macroeconomic factors affecting stock prices in the Turkish banking sector.	Panel data analysis	GDP and interest rates impact stock prices; inflation does not. Economic growth and interest rate fluctuations are key drivers.

2018	Determinants of Stock Prices in the Nepalese Market	Ghimire and Mishra	To evaluate the impact of company-specific and macroeconomic factors on stock prices in Nepal.	Multiple regression analysis	Exchange rate, inflation rate, and market capitalization positively impact stock prices; interest rates have a negative effect. Comprehensive understanding of factors affecting stock prices in Nepal.
2020	Macroeconomic Determinants of Stock Market Prices in Nepal	Panta	To assess the effects of macroeconomic variables on stock market prices in Nepal.	Multiple regression analysis	GDP and interest rates positively affect stock prices; inflation and exchange rates have a negative impact. Insights on economic conditions affecting stock market performance.
2021	Determinants of Stock Market Prices in Nepal's Commercial Banks	Wagle	To explore how exchange rates, interest rates, dividend yield, and EPS impact stock prices.	Multiple regression analysis	Exchange rates, interest rates, dividend yield, and EPS significantly influence stock prices. Practical insights for investors focusing on commercial bank stocks in Nepal.
2022	Factors Affecting Stock Prices in Jordan's Developing	Al-Dwiry et al.	To analyze the relationships between EPS, dividend yield, book value per	Panel data regression analysis	EPS and dividend yield positively impact stock prices; book value per share and market capitalization have a

	Markets		share, and market capitalization on stock prices.		negative effect. Liquidity impact moderated by bank size.
2023	Influence of Macroeconomic Variables on Stock Prices in Nepal	Sharma and Rathi	To assess how GDP growth, inflation, exchange rates, and interest rates affect bank stock prices.	Dynamic panel data analysis	GDP growth positively affects stock prices; high inflation and exchange rate fluctuations negatively impact stock prices. Interest rates have a nuanced effect, moderated by risk management practices.
2024	Bank-Specific Factors Determining Stock Prices in Nepal	Thapa and Joshi	To investigate how capital adequacy, asset quality, management efficiency, and liquidity affect stock prices.	Multiple regression analysis	Capital adequacy positively correlated with stock prices; poor asset quality negatively impacts stock prices. Effective management and higher liquidity associated with better stock market performance.

2.3.2 Review of Thesis

Gupta (2014) conducted a study to evaluate the financial performance and key factors influencing profitability and stock prices of Nepalese commercial banks. Analyzing the financial statements of ten commercial banks from 2006 to 2010, Gupta utilized various financial ratios profitability, liquidity, and solvency to assess the banks' performance. The primary tools for data collection included balance sheets, income statements, and cash flow statements. Regression analysis was employed to determine the factors significantly affecting stock prices and profitability. The results indicated

that capital adequacy, loan portfolio quality, operational efficiency, and market share were pivotal in influencing profitability. The study highlighted performance disparities among banks, providing insights into why certain banks excelled in profitability compared to others. Gupta's findings are crucial for stakeholders seeking to make informed decisions in the Nepalese banking sector, offering a detailed look at the financial dynamics affecting stock prices.

Dahal (2013) examined the trend of stock prices for Himalayan Bank and NIC Asia Bank to understand differences in their performance. By comparing these two banks, Dahal identified factors contributing to their stock price variations and analyzed the impact of both internal and external elements. The study utilized statistical techniques including descriptive statistics, correlation analysis, and regression analysis, alongside a t-test for performance comparison. The research found a positive correlation between stock prices and financial ratios such as ROA, ROE, and P/E ratio. Additionally, bank-specific factors like size and profitability were significant in determining stock price performance. The study, through tables, graphs, and charts, provided a systematic and rigorous analysis, offering insights into the financial practices of these two Nepalese banks.

Ansari (2014) conducted research to explore the impact of dividend practices on stock prices and analyze the relationship between stock price and market price along with other financial indicators. Utilizing various statistical methods—including descriptive statistics, correlation analysis, and regression analysis—the study investigated the financial positions of sample banks. Ansari's findings revealed an inconsistent relationship between financial variables such as EPS, MPS, DPS, DPR, and others. The study emphasized that investors should focus on earnings per share and book value per share when making investment decisions in the Nepalese banking sector. By highlighting the lack of consistent patterns among financial variables, the study provided valuable insights for investors on how to evaluate bank performance effectively.

Rai (2015) compared the stock price behavior of Himalayan and Nabil Bank to identify performance similarities and differences in the stock market. The study employed a mix of quantitative and qualitative methods, including survey

questionnaires to gather investor perceptions, and secondary data sources such as annual reports and financial statements. Rai's analysis revealed fluctuations in stock prices for both banks, with one bank showing greater volatility than the other. The study also noted significant differences in trading volumes, indicating varied investor interest. This comprehensive approach provided insights into how different factors impact stock price behavior and contributed to a better understanding of market dynamics for these two banks.

Shrestha (2016) investigated the relationship between stock prices and financial variables such as EPS, P/E ratio, and ROE for NIC, Nabil, and Bok Limited banks. Using secondary data from the Nepal Stock Exchange and analyzing it through multiple regression analysis, Shrestha utilized statistical software like SPSS and Excel. The study found that EPS and P/E ratio had a significant positive impact on stock prices, while ROE showed a negligible effect. The results were presented through various statistical tests and visual aids, highlighting the importance of EPS and P/E ratio in determining stock prices. This research contributed to a better understanding of the financial metrics that influence stock prices in the Nepalese banking sector.

Pandey (2017) explored the relationship between stock prices and market prices of stocks, focusing on the direction and magnitude of this relationship. The study utilized a quantitative research design with various analytical methods, including correlation analysis, regression analysis, and time series analysis. Pandey's findings demonstrated a strong positive correlation between stock prices and market prices, indicating that an increase in stock price generally leads to a higher market price. The study also identified several influencing factors, including company size, industry competition, and economic conditions. These insights provide a valuable understanding of how stock prices interact with market prices, aiding investors in making informed decisions.

Shrestha (2018) analyzed the stock price behavior of Nepalese commercial banks, focusing on trends, variability, and influencing factors. The study utilized time series analysis, regression analysis, correlation analysis, and descriptive statistics, using tools like t-tests and F-tests for hypothesis testing. Shrestha found that stock prices

were relatively volatile and responsive to market and macroeconomic changes. The study also noted the Nepalese stock market's smaller size and lower liquidity compared to regional markets. These findings highlighted the need for investors and policymakers to consider market conditions and financial performance indicators when evaluating stock price behavior in Nepal.

Devkota (2019) investigated the determinants of market price of shares for commercial banks in Nepal, examining financial and non-financial factors. Using secondary data from financial reports and research papers, Devkota employed descriptive research design and multiple regression analysis, along with Granger causality tests and panel data analysis. The study found that capital adequacy ratios, loan loss provisions, and non-performing loans had a significant negative impact on share prices, while dividend payout ratios and bank size were less influential. These findings emphasized the importance of bank-specific factors in determining share prices and provided insights for investors and policymakers in the Nepalese market.

Thapa (2020) evaluated the share price behavior of commercial banks in Nepal, focusing on financial performance indicators like EPS, ROE, and net interest margin. Using secondary data from the Nepal Stock Exchange and financial statements, Thapa employed a descriptive research design and regression analysis. The study revealed a positive correlation between EPS, DPS, and BVPS with share prices. It suggested that banks should focus on improving financial performance indicators to enhance share prices. The research highlighted the importance of these indicators for investors and provided practical recommendations for banks to improve their stock market performance.

Timalsina (2021) analyzed stock price trends and patterns on the Nepal Stock Exchange (NEPSE) from 2010 to 2019, identifying factors affecting stock prices such as political events, macroeconomic indicators, and global market trends. Using descriptive statistics, correlation analysis, and multiple regression analysis, Timalsina found that DPS and EPS were significant factors influencing share prices, whereas BVPS had no significant impact. Political events and macroeconomic indicators like inflation and interest rates were key determinants of stock prices. The study provided

valuable insights into how external factors influence stock prices on NEPSE, aiding investors in understanding market dynamics.

Khadka (2022) examined the determinants of share prices for commercial banks in Nepal, analyzing data from financial statements over five years. Using a quantitative research design with correlation analysis, regression analysis, and hypothesis testing, Khadka found a strong relationship between profitability and share prices compared to other determinants. Changes in interest rates, political stability, and economic growth also significantly impacted share prices. The study highlighted the importance of profitability and external factors in determining share prices, providing useful information for investors and contributing to a better understanding of market dynamics in Nepal's banking sector.

Paudel (2023) investigated the impact of macroeconomic variables on the stock prices of commercial banks in Nepal, focusing on factors like GDP growth, inflation, exchange rates, and interest rates. Employing dynamic panel data analysis, the study revealed that GDP growth had a positive effect on stock prices, enhancing investor confidence. Conversely, high inflation negatively impacted stock prices by increasing operational costs. Exchange rate fluctuations led to lower valuations due to higher foreign debt costs, while interest rates had a nuanced effect, supported by the banks' risk management practices. This study emphasized the importance of macroeconomic stability for robust bank stock prices in Nepal.

Wagle (2024) analyzed the role of bank-specific and macroeconomic factors in determining stock prices of commercial banks in Nepal. Using a comprehensive dataset covering multiple years, Wagle employed multiple regression and panel data analysis to assess the impact of variables such as capital adequacy, liquidity, and economic indicators. The study found that higher capital adequacy and strong liquidity positively affected stock prices, reflecting financial stability and risk management. However, macroeconomic factors like interest rates and economic growth were less impactful than previously thought. The research provided updated insights into the key drivers of stock prices, offering guidance for investors and financial analysts navigating the Nepalese banking sector.

2.4 Research Gap

The above reviewed studies definitely contributed somewhat to the understanding of behavior of Nepalese stock market. They certainly made a kind of impression on the Nepalese secondary market and other related things that has been helpful. Despite extensive research on stock price determinants for Nepalese commercial banks, several research gaps remain. Most studies, such as Gupta (2014) and Devkota (2019), primarily focus on financial indicators like EPS, P/E ratios, and capital adequacy, often overlooking broader economic factors or qualitative aspects influencing stock prices. While Gupta (2014) highlights profitability and market share, and Devkota (2019) examines capital adequacy and loan loss provisions, there is limited exploration into the interactive effects of both internal financial metrics and external macroeconomic conditions over time.

Research such as Shrestha (2018) and Pandey (2017) has identified macroeconomic factors like inflation and political events as influential but lacks a longitudinal perspective that integrates recent economic changes or global market trends. Recent studies, like Sharma and Rathi (2023) and Wagle (2024), attempt to bridge this gap by including macroeconomic variables but may not fully address the dynamic nature of the Nepalese financial market, which has undergone significant changes in the past decade.

Moreover, while Khadka (2022) and Thapa (2020) emphasize profitability and financial performance indicators, there is insufficient focus on how emerging factors such as digital transformation and regulatory changes impact stock prices. Additionally, the integration of newer methodologies and data analytics techniques could enhance understanding of stock price behavior in the context of rapidly evolving financial landscapes. Thus, future research should explore these overlooked aspects, incorporating both traditional financial indicators and contemporary macroeconomic and technological influences to provide a more comprehensive analysis of stock price determinants in Nepal.

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the methodology that is employed in this study which is divided into five sections. Section one provides a description of study plan and research design, sections two describes the population and sample design, section three deals with nature and sources of data along with the data collection procedure, section four provide data analysis tools and finally, section five presents research framework and definition of variables of the study.

3.2 Research Design

Research design refers to a series of stage in concluding a study. Analytical and Descriptive research design is used in this study to determine the determinants of stock price. It is analytical in the sense that it uses different analytical tools to analyze the investor's preferences toward factor affecting stock price similarly it is descriptive in the sense that it clarifies different aspects of investor's preferences. As this study is a descriptive research study, secondary data have been extensively used as well as analytical research study have also been employed. The analytical research study includes the annual reports of the related banks and other information published by Nepal Rastra Bank, Nepal Stock Exchange Ltd., and other related agencies for the year 2013/14-2022/23.

3.3 Population and Sample Design

The number of class 'A' commercial banks licensed by the NRB reached 20 at mid-April, 2023. Due to 20 numbers of commercial banks it is very difficult to collect detail information from each bank. Among them, five commercial banks are selected as sample for study purpose. Following are the list of commercial banks that they are taken as sample of study.

i. Nabil Bank Limited
ii. Everest Bank Limited
iii. Nepal SBI Bank Limited
iv. Sanima Bank Limited
v. Siddhartha Bank Limited

3.4 Nature and Sources of Data Collection

The study is based on the secondary data which are gathered from five commercial banks in Nepal. Data collection is an important aspect for any type of research study. Data is the source from where researchers can get relevant information to answer the research questions. To gather applicable information researcher use secondary data as a sources. The secondary data is published and the data collected by someone else in the past. The researcher uses the published and collected data by someone else to solve our problems but the problem might be different from others. Mainly the study is conducted on the basis of secondary data. The main source of secondary data collection is from Nepal Rastra bank, Nepal stock exchange, economic survey published by ministry of finance, the annual reports and financial statement of respective firm. The sources of data collection can be listed below as:

- Bulletins and report periodically published by Nepal Rastra Bank.
- Website of sample commercial bank.
- Financial Statement of concerned bank.
- Articles and other related materials published in newspaper
- Other related books
- Dissertation of Master degree submitted to TU

3.5 Methods of Analysis

The data collected is classified and tabulated in order to make it easily understandable. The data is classified in chronological order, i.e., on the basis of time intervals. Mainly financial tools and statistical tools are used to analyze the data.

3.5.1 Financial Tools

Financial analysis is concerned with analyzing financial statements of a firm to identify its relative strength and weakness associated with various aspects of financial performance. Following financial indicator tools related to objectives are also considered.

Earnings Per Share (EPS)

EPS refers the rupee amount earned per share of common stock outstanding. It means that profitableness of the stockholder investment. The EPS shows the profitability of

the banks on a per share basis. The higher earning indicates the better achievement in terms of profitability of the banks by mobilizing their funds and vice-versa. In other words, the EPS indicates the strength and weakness of the banks.

EPS can be computed by dividing the earning available to common stockholders by the total number of common stock outstanding.

$$\text{EPS} = \frac{Earning\ Available to Common\ Stockholder}{No.of\ Common stock outs\tan ding}$$

Dividend Per Share (DPS)

DPS indicates the rupee earning distributed to common stockholders per share held by them. It measures the dividend distributed to each equity stockholders. DPS shows the proportion of earning distributed to the stockholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the financial institution, which consequently helps to increase the market value of share.

It is calculated by dividend the total dividend distributed to equity shareholders by the total number of equity share outstanding. Thus:

$$\text{DPS} = \frac{Total\ of Dividend\ Paid\ to\ Shareholders}{No.of\ Common stock outs\tan ding}$$

Market Price Per Share (MPS)

Market Price per share (MPS) is that value of stock, which can be obtained by a firm from the market. Market value of share is one of the variables, which is affected by the dividend per share and earning per share of the firm. If earning per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value. If the firm is growing, its earning power will greater than cost capital. For such firms market value of share will be higher than the book value. If the firms earning capacity is lower than the cost of capital the MPS will be lower than the book value.

In this study market price of share is closing market price per share on which the share has trade in NEPSE.

MPS= closing MPS in NEPSE.

Price-Earning Ratio (P/E Ratio)

Price -Earning Ratio is the ratio between MPS & EPS. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings. The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market value of a stock given the EPS and the greater confidence of investor in the firm's future.

This ratio is computed by dividend MPS to EPS.

Thus,

$$\text{P/E ratio} = \frac{MPS}{EPS}$$

3.5.2 Statistical Tools

Statistics (as used in sense of data) are numerical statement of facts capable of analysis and interpretation and the science of statistics is a study of the principals and methods used in the collection, presentation, analysis and interpretation of numerical data in any sphere of inquiry. To conduct the study following statistical tools are being used:

Arithmetic Mean ($\overline{X}$)

Arithmetic mean is the most popular and widely user measured of representing the entire data by one value called average. Arithmetic means has been used to compute the company wise and individual average calculation for various variables and ratios. Its value can be obtained by adding together all the items and by dividing this total by the number of items.

Symbolically,

Arithmetic Mean

$$\overline{X} = \frac{X_1 + X_2 + X_3 + \ldots\ldots\ldots + X_n}{N} = \frac{\sum X}{N}$$

Standard Deviation (S.D.)

The standard deviation concept was introduced by Kearl person in 1823.It is by far the most important and widely used measure of studying dispersion. Standard deviation is the positive square root of the mean of the square deviation from the arithmetic mean. The standard deviation measures the absolute dispersion or

variability of a distribution. The high amount of dispersion reflects high standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite.

Symbolically,

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

Coefficient of Variation (C.V.)

The coefficient of variation reflects the relation between standard deviation and mean. The relative measured of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as C.V. It is used for comparing variability of two distributions. Lower value of coefficient of variation is preferable since it denotes the lower degree of dispersion.

Symbolically,

$$\mathrm{CV} = \frac{\sigma \times 100}{\bar{X}}\%$$

Correlation of Coefficient (r)

Correlation is a tactical device, which helps to analyze the covariance of two or variables. "Correlation is the relationship between (or among) two or more variables (i.e., only one variable dependent and one or more variables independent)"(Shrestha, 2059). Correlation analysis is the statically tools that we can use to describe the degree to which one variable is linearly related to another. So, on the basis of correlation theory we can study the cause, affect relationship between two or more set of variables.

The formula for calculating simple correlation coefficient (r) by Karl Pearson's model is

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

Where,

N = Number of observation

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of squared observation in series X

$\sum Y^2$ = Sum of squared observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Value of the coefficient of correlation as obtained by the above formula shall always lies between +1 and -1. Where, r = 1 it means there is perfect positive correlation between the variables. Where r = -1 it means there is perfect negative correlation between the variables. Where r =0, it means there is no relation between the variables. However in practice, such the value of 'r' as +1 and -1 and 0 are rare.

The Coefficient of Determination (R) 2

The coefficient of determination is a measure of the degree of linear association or correlation between two variables, one of which happens to be independent and being dependent variable. It measures the percentage total variation in dependent variable explained by independent variable. Coefficient of determination can have value ranging from zero to one. If coefficient of determination is equal to 0.81, which indicates that the independent variables used in regression model, explain 81% of the total variation in the dependent variable. A value of one can occur only if the unexplained variation is zero, which simply means that all the data point in the scatter diagram fall exactly on the regression line.

Regression Analysis

Sir Francis Gasto first introduced the concept of regression. Regression analysis is a tool of determining the strength of relationship between two variables. In other words the regression is a statistical method for investing relationships between them. It helps to predict or estimate the value of one variable when value of other variables is known.

Simple Regression

The analysis, which is used to explain the average relationship between two variables, is known as simple linear regression analysis. In this study, the following regressions have been analyzed.

Dividend per share on Earning per share

$Y=a+bx$

Where,

y = Dividend per share

a = Regression constant

b = Regression coefficient

x = Earning per share

This model has been constructed to examine the relationship between dividend per share (dependent variable) and earning per share (independent variable). It enables to determine whether the variable of earning per share is the influencing factor to dividend decision or not.

Market price per share on earning per share

$y= a+bx$

Where,

y = market price per share

a = Regression constant

b = Regression coefficient

x = earning per share

The given model can test the relationship between market price per share and earning per share.

Dividend per share on Market price per share

$Y = a +bx$

Where,

Y = market price per share

a = Regression constant

b = Regression coefficient

x = Dividend per share

This model has been used to determine whether market price to stock is influenced by the dividend per share (+ - 1) year or not.

3.6 Research Framework and Definition of Variables

The research framework provides a structured approach to investigate stock price determinants of Nepalese commercial banks. It involves defining and examining key variables: dependent variable (stock price), and independent variables (earnings per share (EPS), price-earnings ratio (P/E), return on equity (ROE), capital adequacy, and macroeconomic factors such as inflation and interest rates). The framework also incorporates control variables like bank size and market share. By establishing relationships among these variables through regression analysis, the framework aims to elucidate how financial performance and macroeconomic conditions impact stock prices, providing insights into the dynamics of the Nepalese banking sector.

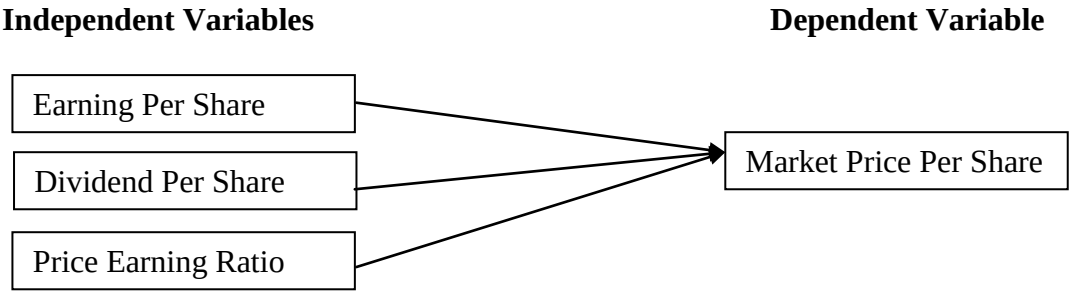

Figure 1: *Conceptual Framework*

Source*: Pradhan, R & Dahal, S. (2016), Nepalese Journal of Management*

3.6.1 Independent Variables

Those variables whose value are not dependent in the value of others is independent variable. An independent variable is a variable that is manipulated or changed by the experimenter or researcher. It is the variable that is hypothesized to cause a change in the dependent variable. The independent variable is also referred to as the predictor variable or the explanatory variable. There are three independent variables used in the study.

Earnings Per Share (EPS)

EPS refers the rupee amount earned per share of common stock outstanding. It means that profitableness of the stockholder investment. The EPS shows the profitability of

the banks on a per share basis. The higher earning indicates the better achievement in terms of profitability of the banks by mobilizing their funds and vice-versa. In other words, the EPS indicates the strength and weakness of the banks.

Dividend Per Share (DPS)

DPS indicates the rupee earning distributed to common stockholders per share held by them. It measures the dividend distributed to each equity stockholders. DPS shows the proportion of earning distributed to the stockholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the financial institution, which consequently helps to increase the market value of share.

Price-Earning Ratio (P/E Ratio)

Price- earning ratio is the ratio between MPS & EPS. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings. The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market value of a stock given the EPS and the greater confidence of investor in the firm's future.

3.6.2 Dependent Variable

The variable whose value is dependent in the value of other is dependent variable. Dependent variable is a variable that is influenced by the independent variable. It is the variable that is being studied and measured to observe the effect of changes in the independent variable. The dependent variable is also referred to as the outcome variable or the response variable. Market price per share is the only dependent variable used in our study.

Market Price Per Share (MPS)

Market Price per share (MPS) is that value of stock, which can be obtained by a firm from the market. Market value of share is one of the variables, which is affected by the dividend per share and earning per share of the firm. It is the earning per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value. If the firm is growing, its earning power will greater than cost capital. For such firms market value of share will

be higher than the book value. If the firms earning capacity is lower than the cost of capital the MPS will be lower than the book value.

CHAPTER IV
RESULTS AND DISCUSSION

This chapter enlightens the basic descriptive information about all the used variables (report the mean, standard deviation and covariance for each variable). Also, the section using different statistical test and what the results indicated. In this chapter, the relevant data and information regarding dividend policy of commercial banks are presented and analyzed comparatively.

This chapter presents the relevant data and analyzes and evaluates those data to get the conclusion. The chapter begins with the descriptive analysis of the variables followed by the statistical description and explanatory analysis.

4.1 Results

There are four subsections in secondary data analysis. At first subsection, there is the study of pattern of MPS and DPS in sample banks. In second subsection, there is descriptive study that includes, number of observations, mean and standard deviation. Correlation analysis in third subsection helps to find out the relation between the variables. And finally, in fourth subsection, there is the regression analysis. The findings and analysis are presented in tabular form with reports and the discussion.

4.1.1 Analysis of Market Price per Share (MPS)

Market Price per Share (MPS) is the price of share on which shares are traded in the secondary market. Market values share is one of the variables, which is affected by the dividend per share and earning per share of the firm. If the earning per share and dividend per share is high, the market value of share will also high.

Table 2

Analysis of Market Price per Share

Year	Nabil	SANIMA	NSBI	EBL	SBL
2013/14	1355	160	511	1033	345
2014/15	1815	432	784	1591	300
2015/16	2535	640	960	2631	810
2016/17	1910	479	704	2120	678
2017/18	2344	515	1040	3385	869
2018/19	1523	388	770	1353	485
2019/20	921	290	621	663	300
2020/21	800	293	519	666	318
2021/22	765	239	431	675	296
2022/23	1359	441	460	738	504
Mean	1522	364.5	685.5	1521.1	467.1
SD	591.15	144.63	193.49	877.61	220.23
CV	38.83	39.68	28.23	57.7	47.15

(Sources: Annual Report of Sample Banks from 2013/14 to 2022/23)

Table 2 shows that the NABIL has average MPS of Rs. 1522 and its standard deviation is 591.15. The C.V. is 38.83%, which indicates that there is 38.83% fluctuation in MPS. The bank has highest MPS in the year 2015/16 i.e. 2535 and lowest MPS of the bank in the year 2021/22 i.e. Rs. 765. NABIL has failed to maintained its average MPS in the year 2013/14, 2014/15, 2020/21, 2021/22 and 2022/23 and MPS in year 2017/18 are higher than average. There is decreasing trend of MPS.

In comparison, the study found that NABIL has higher MPS i.e. Rs. 1522.00 and SANIMA have lower i.e. Rs. 364.5 in average. The C.V. of NSBI has lower value i.e. 28.23% to other sample banks. So, it is less uniformity of market price compare to other sample banks. Average MPS increasing is good for the commercial bank.

4.1.2 Analysis of Dividend per Share (DPS)

Dividend per share is the rupee earnings distributed per share to common stockholders. Dividend per share shows the portion of earning distributed to the shareholders on per share basis. The dividend per share (including cash and bonus) on share capital of the companies under study is stated in the table below:

Table 3

Analysis of Dividend Per Share

Year	Nabil	SANIMA	NSBI	EBL	SBL
2013/14	60	13	30	30	8.42
2014/15	65	15	35	60.63	22.11
2015/16	65	25	40	62	23.16
2016/17	36.84	23	34.74	36.57	21.05
2017/18	45	15.76	41	70	39
2018/19	48	20	40	34.76	14
2019/20	34	16	40	20	13.16
2020/21	34	25.5	19	25	25.26
2021/22	35.26	16	18.5	10.53	15
2022/23	42.40	13.50	19.38	10.32	16
Mean	45.31	18.13	34.82	40.95	19.7
SD	12.89	4.66	9.43	19.58	8.14
CV	28.45	27.7	27.08	47.81	41.32

(Sources: Annual Report of Sample Banks from 2013/14 to 2022/23)

Table 3 shows that NABIL has average DPS of Rs. 45.31. Its standard deviation is 12.89 and coefficient of variation is 28.45%. NABIL has failed to maintain its average DPS in the year 2017/18, 2020/21, 2021/22 and 2022/23. The coefficient of variation for NABIL 28.45% which indicates a significant fluctuation in dividend payment. SANIMA has average DPS of Rs. 18.13 and its standard deviation is 4.66. The coefficient of variation shows that there is 27.7% fluctuation in DPS. The bank has higher DPS in year 2020/21 is 25.5 and lowest DPS is in the year 2013/14 i.e. 13. In comparison, the study found that NABIL has declared more dividend i.e., Rs. 45.31 and SANIMA has declared fewer dividends i.e. 18.13 in average. The C.V. of

EBL has higher value i.e. 47.81% to other commercial banks. So, it has less uniformly to pay dividend. Higher dividend per share create positive attitude of the shareholders toward the other which consequently helps to increase the market value of share.

4.1.3 Price Earnings Ratio (P/E Ratio)

P/E ratio reflects the price, which is currently paid by the market for each rupee of currently reported earnings per share. Price earnings ratio helps to judge the investors' expectations about the performance of finance company. P/E ratio can be calculated by dividing market value per share by earning per share. Higher the price earnings ratio, it is better for owners. Following table shows P/E ratio of sample banks.

Table 4

Analysis of P/E Ratio

Year	Nabil	SANIMA	NSBI	EBL	SBL
2013/14	16.21	13.57	18.5	11.67	16.91
2014/15	19.08	26.74	17	17.32	10.07
2015/16	30.29	32.7	23.6	30.58	20.97
2016/17	33.37	30.74	22.8	27.17	17.95
2017/18	39.55	26.64	35.5	83.94	20.93
2018/19	25.44	15.21	26.3	41.66	18.24
2019/20	18.6	12.27	17.4	20.23	11.34
2020/21	15.82	12.48	19.6	17.5	13.79
2021/22	21.15	13.29	25.3	22.72	13.52
2022/23	40.48	22.91	20.9	37.06	19.35
Mean	23.72	19.85	21.92	28.59	15.73
SD	7.74	7.86	5.97	20.3	3.63
CV	32.63	39.6	27.24	71	23.08

(Sources: Annual Report of Sample Banks from 2013/14 to 2022/23)

Table 4 shows that NABIL has average P/E ratio of 23.72 times and its standard deviation is 7.74. The C.V. is 32.63%, which indicates that there is 32.63% fluctuation in P/E ratio. The bank has highest P/E ratio in the year 2022/23, which is

40.48 times and lowest P/E ratio in the year 2020/21, which is 15.82 times.

In comparison, we found that EBL has higher P/E ratio i.e. 28.59 times and SBL has less P/E ratio i.e. 15.73 times in average. SBL has the lowest PE ratio of 15.73 times and its standard deviation is 3.63%.

4.1.4 Earnings per share (EPS)

Earnings per share refers the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholders' investment. The higher earning indicates the better achievements of the profitability of the company and vice versa.

Table 5

Analysis of Earnings Per Share

Year	Nabil	SANIMA	NSBI	EBL	SBL
2013/14	83.23	11.79	27.6	88.55	46.36
2014/15	95.14	16.15	46.2	91.88	198.53
2015/16	83.68	19.57	40.7	86.04	18.08
2016/17	57.24	15.58	30.9	78.04	7.48
2017/18	59.27	19.33	29.3	40.33	44.59
2018/19	59.86	25.51	29.3	32.48	38.77
2019/20	51.84	23.64	35.7	32.78	39.98
2020/21	50.57	23.47	26.4	38.05	26.99
2021/22	36.16	17.99	17	29.71	20.68
2022/23	33.57	19.25	22	19.91	26
Mean	64.77	18.7	32.22	60.1	47.52
SD	17.19	4.25	7.95	25.8	51.72
CV	26.54	22.72	24.68	42.93	108.83

(Sources: Annual Report of Sample Banks from 2013/14 to 2022/23)

Table 5 shows that the Joint venture sector NABIL has average EPS of Rs 64.77 and its standard deviation is 17.19. The C.V. of the bank is 26.54%, which indicates that there is 26.54% fluctuation in EPS. The bank has highest EPS in the year 2014/15, which is 95.14 and lowest EPS in the year 2022/23, which is 33.57. Similarly,

SANIMA has average EPS of Rs 18.7 and its standard deviation is 4.25 and C.V is 22.72 % which indicates 22.72% fluctuation in EPS. Whereas, NSBI has the highest average EPS of Rs 32.22 and standard deviation of 7.95 with C.V 24.68%.

4.1.5 Descriptive Statistical analysis

Table 6

Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
MPS	50	1.2	3385.0	888.124	719.9383
DPS	50	8.42	70.00	30.4570	16.16045
P/ER	50	10.07	83.94	23.3272	11.88529
EPS	50	7.48	198.53	42.2634	32.15815
Valid N (listwise)	50				

(Source: SPSS worksheet)

Based on table 6 it was observed that the provided table summarizes the descriptive statistics for key financial variables across 50 observations. For Market Price per Share (MPS), the data shows a substantial range from 1.2 to 3385.0, with an average of approximately 888.12 and a high standard deviation of 719.94. This high standard deviation indicates significant variability in market prices among the sampled shares. Dividend per Share (DPS) ranges from 8.42 to 70.00, with a mean of 30.46 and a standard deviation of 16.16. This suggests that while dividends vary, the degree of variation is less pronounced compared to MPS. The Price to Earnings Ratio (P/E Ratio) ranges from 10.07 to 83.94, with an average of 23.33 and a standard deviation of 11.89. This variability in the P/E ratio reflects differences in how much investors are willing to pay for earnings. Earnings per Share (EPS) shows a range from 7.48 to 198.53, with a mean of 42.26 and a standard deviation of 32.16. The large range and high standard deviation for EPS highlight considerable differences in earnings performance among the entities in the sample. Overall, the data reveal substantial

variability in these financial metrics, indicating diverse financial conditions and stock performance within the sample.

4.1.5.1 Correlation Analysis of Dependent and Independent Variable

Table 7

Bivariate Pearson's' Correlation Analysis

Variables	MPS	DPS	P/ER	EPS
MPS	1.000			
DPS	.797	1.000		
P/ER	.622	.436	1.000	
EPS	.400	.468	-.099	1.000

(Source: SPSS worksheet)

Based on table 7 it can be observed that the correlation matrix for the financial variables Market Price per Share (MPS), Dividend per Share (DPS), Price-to-Earnings Ratio (P/E Ratio), and Earnings per Share (EPS) reveals several important relationships. The variable MPS shows a strong positive correlation with DPS, at 0.797, indicating that as the dividend per share increases, the market price per share also tends to rise. This suggests that investors may perceive higher dividends as a sign of financial strength, driving up the market price. Similarly, MPS is moderately to strongly correlate with the P/E Ratio at 0.622, signifying that higher market prices per share are associated with higher price-to-earnings ratios, reflecting a willingness to pay more for earnings.

The correlation between DPS and P/E Ratio is more moderate, at 0.436, suggesting a weaker but positive relationship. This implies that while there is a connection between higher dividends and higher P/E ratios, it is not as strong as the relationship between MPS and DPS. Furthermore, MPS has a moderate positive correlation with EPS, at 0.400, indicating that higher earnings per share are somewhat related to higher market prices per share. This relationship, though positive, is not as robust as the correlation between MPS and DPS.

The DPS and EPS show a moderate positive correlation of 0.468, indicating that higher earnings per share are somewhat linked to higher dividends per share. However, the correlation between P/E Ratio and EPS is very weak at -0.099, showing a minimal or negligible relationship. This suggests that changes in earnings per share do not significantly influence the P/E ratio, highlighting that investors' valuations of earnings may not fluctuate significantly with changes in EPS.

4.1.5.2 Regression Analysis of Dependent and Independent Variable

Table 8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	**Change Statistics**			
					R Square Change	F Change	df1	df2	Sig. F Change
1	.868[a]	.754	.737	368.8915	.754	46.878	3	46	.000

a. Predictors: (Constant), EPS, P/ER, DPS

Based on table 8 it can be observed the regression analysis reveals that the model used to predict Market Price per Share (MPS) shows a strong and significant relationship with the predictors: Dividend per Share (DPS), Price-to-Earnings Ratio (P/E Ratio), and Earnings per Share (EPS). The model's R-value of 0.868 indicates a strong positive correlation between the predicted and actual MPS values, suggesting that the predictors collectively account for a significant portion of the variation in MPS. This is further supported by the R Square value of 0.754, which means that approximately 75.4% of the variance in MPS is explained by DPS, P/E Ratio, and EPS. The Adjusted R Square value of 0.737, which adjusts for the number of predictors, reinforces the model's robustness, indicating that the predictors provide a good fit for the data.

The Standard Error of the Estimate, at 368.8915, measures the average deviation of the observed MPS values from the predicted values, with a lower value reflecting a better model fit. The model's effectiveness is highlighted by the R Square Change of

0.754, showing that the inclusion of these predictors significantly improves the explanation of MPS variability compared to a model with no predictors. The high F Change statistic of 46.878, coupled with a significance level of 0.000, confirms that the model is statistically significant, demonstrating that the predictors together offer a meaningful improvement in predicting MPS. The degrees of freedom for the model (df1 = 3) and for the error (df2 = 46) also support the robustness of the model. Overall, the regression analysis indicates that DPS, P/E Ratio, and EPS are effective predictors of MPS, with the model providing a substantial and statistically significant explanation of market price variability.

Table 9

Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19137522.163	3	6379174.054	46.878	.000[b]
	Residual	6259724.308	46	136080.963		
	Total	25397246.471	49			

a. Dependent Variable: MPS
b. Predictors: (Constant), EPS, P/ER, DPS

The regression analysis provided offers a detailed breakdown of how well the model predicts the Market Price per Share (MPS) using Dividend per Share (DPS), Price-to-Earnings Ratio (P/E Ratio), and Earnings per Share (EPS) as predictors.

The Sum of Squares for the Regression component is 19,137,522.163, which reflects the total variation in MPS that can be explained by the predictors in the model. This substantial value indicates that the predictors account for a significant amount of the variability in MPS. The degrees of freedom for this regression model is 3, corresponding to the number of predictors in the model. The Mean Square for the regression, which is calculated by dividing the Sum of Squares by its degrees of freedom, is 6,379,174.054.

The Residual Sum of Squares is 6,259,724.308, representing the portion of the variability in MPS that is not explained by the model. The degrees of freedom for the

residuals is 46, corresponding to the total number of observations minus the number of predictors minus one (50 - 3 - 1). The Mean Square for the residuals is 136,080.963, calculated by dividing the Residual Sum of Squares by its degrees of freedom.

The Total Sum of Squares is 25,397,246.471, which represents the total variability in MPS without any predictors. This value is the sum of the Regression and Residual Sum of Squares.

The F-statistic of 46.878 is obtained by dividing the Mean Square for the Regression by the Mean Square for the Residuals. This high F-value indicates that the regression model is statistically significant, meaning that the predictors significantly improve the prediction of MPS. The Significance level (Sig.) of 0.000 confirms that the model is highly significant, as the probability of observing such a large F-statistic by chance is extremely low.

Table 10

Regression Analysis of DPS, P/E, EPS and MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-591.377	141.834		-4.170	.000
	DPS	23.494	4.415	.527	5.322	.000
	P/ER	24.910	5.330	.411	4.674	.000
	EPS	4.327	2.006	.193	2.157	.036

a. Dependent Variable: MPS

Notes:

(i) Figures in parentheses are t- values.

(ii) The double asterisk (**) sign indicates that result is significant at 1 percent level and single asterisk (*) sign indicates that result is significant at 5 percent.

The regression analysis reveals the relationship between the Market Price per Share (MPS) and three key financial predictors: Dividend per Share (DPS), Price-to-Earnings Ratio (P/E Ratio), and Earnings per Share (EPS). The model's constant is -591.377, with a standard error of 141.834, indicating that the expected MPS when all predictors are zero is significantly different from zero, as evidenced by the t-value of -4.170 and a p-value of 0.000.

Among the predictors, DPS has the highest unstandardized coefficient of 23.494, suggesting that for each unit increase in DPS, the MPS is expected to increase by approximately 23.494 units, assuming other variables are constant. The standardized coefficient for DPS is 0.527, highlighting its substantial impact on MPS. This predictor's significance is confirmed by a t-value of 5.322 and a p-value of 0.000, indicating a strong and reliable effect.

The P/E Ratio has an unstandardized coefficient of 24.910, implying that each one-unit increase in the P/E Ratio is associated with a 24.910 unit increase in MPS. The standardized coefficient of 0.411 shows a moderate positive effect on MPS. This predictor also demonstrates statistical significance, with a t-value of 4.674 and a p-value of 0.000, underscoring its importance in the model.

EPS shows an unstandardized coefficient of 4.327, indicating that each additional unit of EPS correlates with a 4.327 unit increase in MPS. The standardized coefficient of 0.193 suggests that EPS has a smaller, though still positive, effect compared to DPS and P/E Ratio. The t-value of 2.157 and a p-value of 0.036 confirm that EPS is a statistically significant predictor, albeit with a less pronounced impact.

Model 1

$$\mathbf{MPS=\alpha + \alpha_1 P/E + \alpha_2 EPS + \alpha_3 DPS + \varepsilon}$$

This is the model formed with the combination of MPS and P/E which indicate that the model explains 1 percent of variability of data in dependent variable is due to independent variable and rest is affected by various factors in the economy. Similarly, the positive coefficient of P/E indicates that there is negative relationship between P/E and MPS whereas P value 0.76 indicates that the model is insignificant. Positive sign of coefficient shows that MPS and P/E move in the same direction.

This is the model formed with the combination of MPS and EPS which indicate that the model explains 55 percent of variability of data in dependent variable is due to independent variable and rest is affected by various factors in the economy. Similarly, the positive coefficient of EPS indicates that there is negative relationship between EPS and MPS whereas P value 0.00 indicates that the model is significant. Positive sign of coefficient shows that MPS and EPS move in the same direction.

This is the model formed with the combination of MPS and DPS which indicate that the model explains 6 percent of variability of data in dependent variable is due to independent variable and rest is affected by various factors in the economy. Similarly, the negative coefficient of DPS indicates that there is negative relationship between DPS and MPS whereas P value 0.29 indicates that the model is insignificant. Negative sign of coefficient shows that MPS and DPS move in the inverse direction.

This is the model formed with the combination of MPS and P/E which indicate that the model explains 60 percent of variability of data in dependent variable is due to independent variable and rest is affected by various factors in the economy. The P value 0.00 indicates that the model is significant.

This is the model formed with the combination of MPS, P/E and EPS which indicate that the model explains 55 percent of variability of data in dependent variable is due to independent variable and rest is affected by various factors in the economy. The P value 0.00 indicates that the model is significant.

This is the model formed with the combination of MPS, DPS, EPS and P/E which indicate that the model explains 55 percent of variability of data in dependent variable is due to independent variable and rest is affected by various factors in the economy. The P value 0.00 indicates that the model is significant.

This is the model formed with the combination of MPS, EPS and DPS which indicate that the model explains 56 percent of variability of data in dependent variable is due to independent variable and rest is affected by various factors in the economy. The P value 0.00 indicates that the model is significant.

This is the model formed with the combination of MPS, P/E, EPS and DPS which indicate that the model explains 91 percent of variability of data in dependent variable is due to independent variable and rest is affected by various factors in the economy. The P value 0.00 indicates that the model is significant.

4.2 Major Findings

The findings of the data presentation of this study are as follows:

- NABIL's average market price per share (MPS) is Rs. 1,522, with a standard deviation of Rs. 591.15, resulting in a coefficient of variation (C.V.) of 38.83%. This suggests a 38.83% fluctuation in MPS. The highest MPS was Rs. 2,535 in 2015/16, while the lowest was Rs. 765 in 2021/22. NABIL has struggled to maintain its average MPS in several years, and the trend indicates a decline.
- In contrast, NABIL's average dividend per share (DPS) is Rs. 45.31, with a standard deviation of 12.89 and a C.V. of 28.45%, showing significant fluctuation in dividend payments. SANIMA's average DPS is lower at Rs. 18.13, with a C.V. of 27.7%. The study reveals that NABIL's dividend payments are less consistent compared to SANIMA. Higher DPS can positively affect market value, which indicates that NABIL's higher average DPS might be favorable compared to SANIMA's lower DPS.
- NABIL's average price-to-earnings (P/E) ratio is 23.72, with a standard deviation of 7.74 and a C.V. of 32.63%, indicating notable fluctuation. The highest P/E ratio was 40.48 in 2022/23, and the lowest was 15.82 in 2020/21. Comparatively, EBL has a higher average P/E ratio of 28.59, while SBL has a lower average of 15.73. The P/E ratio's variability suggests fluctuating investor expectations and market conditions.
- NABIL's average earnings per share (EPS) is Rs. 64.77, with a standard deviation of 17.19 and a C.V. of 26.54%. The highest EPS was Rs. 95.14 in 2014/15, and the lowest was Rs. 33.57 in 2022/23. SANIMA's average EPS is Rs. 18.7, with a C.V. of 22.72%. In comparison, NSBI has the highest average EPS of Rs. 32.22, with a C.V. of 24.68%. The variations in EPS highlight differing levels of profitability among the banks.

- In comparison, EBL has a higher average P/E ratio of 28.59, while SBL's average is lower at 15.73. SBL’s P/E ratio has the lowest value of 15.73 and a standard deviation of 3.63%. NABIL's average EPS is Rs. 64.77, with a standard deviation of 17.19 and a C.V. of 26.54%, showing notable fluctuation. Its highest EPS was Rs. 95.14 in 2014/15, and the lowest was Rs. 33.57 in 2022/23. SANIMA's average EPS is Rs. 18.7, with a C.V. of 22.72%, while NSBI’s average EPS is Rs. 32.22, with a C.V. of 24.68%.
- The observations include 20 data points with MPS ranging from 225 to 1760. P/E ratios range from 12.88 to 103.94, while EPS varies from 6.04 to 61.90, and DPS from 5.75 to 37.52. The average MPS was 707.75. The averages for P/E ratio, EPS, and DPS were 30.98, 27.56, and 21.62, respectively. The standard errors for these variables were 83.84 for MPS, and 4.69, 3.21, and 2.23 for P/E, EPS, and DPS, respectively.
- The standard deviation for MPS was 374.94, while it was 21, 14.35, and 9.98 for P/E, EPS, and DPS, respectively. The variance of MPS was 140,577.57. MPS shows a positive correlation with P/E and EPS, meaning they move together in the same direction. Conversely, there is also an observed negative correlation, suggesting that an increase in one may correspond with a decrease in the other.
- There is a positive relationship between EPS and DPS, indicating they influence each other similarly. P/E shows no correlation with DPS and a negative correlation with EPS, meaning P/E and EPS move inversely. DPS and EPS positively correlate with each other, indicating they tend to increase or decrease together.
- The regression model combining MPS and P/E explains only 1% of the variability in MPS, with a positive coefficient suggesting a direct relationship between MPS and P/E, though its P-value of 0.76 indicates insignificance. In contrast, the model with MPS and EPS accounts for 55% of MPS variability, with a positive coefficient and a significant P-value of 0.00. The MPS and DPS model explains 6% of variability, with a negative coefficient and an insignificant P-value of 0.29. Models incorporating combinations of MPS, P/E, EPS, and DPS explain up to 91% of variability, with significant P-values of 0.00, indicating high model significance.

4.3 Discussion

The outcome of this study aligns with the findings of earlier empirical research conducted by Bhattrai (2014) and Pradhan (2016), which showed a positive correlation between earnings per share and P/E ratio, as well as a negative correlation between dividend per share and the market price of commercial banks in Nepal. The finding of this study that p/e ratio has significant impact on market price is consistent with the findings of Bhattarai (2014) but this study conclude that EPS and dividend per share has insignificant impact at 0.05 level of significance which is inconsistent with the result of Bhattarai (2014) .

The finding of this study that revealed EPS has insignificant impact on share price of banks is consistent with the findings of Ghimire and Mishra (2018) which concludes that the variable market to BV, P/E ratio are the significant determinants of stock price which affects the stock price in direct manner. Likewise, DPS, BV also have significance positive influence in stock price but EPS has minimum influence in the stock price. The findings of this study is consistent with the result of Thapa (2020)which concludes that there is positive relationship of market price per share with earning per share and price-earnings ratio.

The findings of this study is also consistent with the results of previous unpublished MBS thesis of Khadka (2022) and Timilsina (2021). Thus, this study concludes that earning per share has positive correlation with market price. Dividend per share has negative correlation with market price. But as discussed above eps and dividend per share has insignificant impact on market price of banks. Price earning (P/E) ratio has significant impact on market price of Nepalese commercial banks.

CHAPTER V
SUMMARY AND CONCLUSION

This is the final chapter consists of two sections: first section draws the conclusion of the study and the second section provides implications for future research.

5.1 Summary

This study is conducted to describe the major factors affecting the stock price of Nepalese commercial banks. The study of the determinants of stock prices has been a subject of great interest these days. Moreover, it is a subject of immense curiosity especially a banking sector to identify the factors that influence share prices. The shares of commercial banks offer the investment opportunities to Nepalese investors because these shares are more frequently traded in the market than as compared to others in Nepalese context. More specifically this study is conducted to examine the relationship of independent variables such as earning per share, dividend per share and price-earnings ratio with the dependent variable i.e. market price of the share. To fulfill the objective of the research study descriptive research design, correlational research design and casual comparative research design is used. Convenient sampling method is used and only five commercial banks data for recent ten years has been used for data analysis.

As per the literature review the major determinants of the stock price of Nepalese commercial banks are earning per share, dividend per share, dividend policy, price earnings ratio, return on equity, Dividend per share etc. In this study specially, the relationship of market price of share of Nepalese commercial banks with earning per share, Dividend per share and price -earnings ratio has been tested.

The result of correlation analysis shows that earning per share and price-earnings ratio has positive relationship with market price. It means that when earning per share and price-earnings ratio increase market price also increase and vice-versa. But Dividend per share has negative relationship with market price which means that if Dividend per share increases market price decrease and vice-versa.

5.2 Conclusion

The study of determinants of stock price of Nepalese commercial banks has been a subject of great interest these days. Moreover, it is a subject of immense curiosity especially a banking sector to identify the factors that influence stock prices. The shares of commercial banks offer the investment opportunities to Nepalese investors because these shares are more frequently traded in the market than as compared to others in Nepalese context. Specially, this study examined the effect of earning per share, dividend per share and P/E ratio in stock price of commercial banks listed on Nepal stock exchange limited.

The findings of the study over the period revealed that earning per share and P/E ratio have positive correlation with share price while Dividend per share has negative correlation with stock price. It means if earning per share and price earnings ratio increases, the price of the share will also increase and vice-versa. And of Dividend per share increases, price of the share will decrease and vice-versa. Since the p-value of coefficient of market price on earning per share and Dividend per share (>0.05), empirically is considered insignificant. P/E ratio has significant positive impact on market price of share of Nepalese commercial banks (p-value <0.05). The study concludes that price-earnings ratio is the major determinant of stock price of Nepalese commercial banks.

The results of this study uncovered new evidence in Nepalese perspective, which are considered to be valuable to the market participants. Thus, findings of this study seem to be particularly useful for equity investors and fund managers as they can watch out for these significant factors while estimating stock returns and predicting stock prices.

5.3 Implications

This study also has implications pointing to interesting avenues for future research. Some implication and suggestion for future research are discussed below:

- This study examined the internal factors that affect the stock price of Nepalese commercial banks listed on NEPSE. The variables chosen were firm specific variables and may not be only variables that affect stock prices. It is

recommended that further research could be conducted to establish whether macro-economic variables affect the stock price for firms listed in NEPSE

- This study has been conducted in the context of Nepalese commercial banks, with short period of time and with small sample size. Future studies may deal with wide area of firms with long period of time.
- There is need to conduct event study on determinants of stock price for listed commercial banks at NEPSE and by extension, on emerging markets. In addition, research could be conducted on factors affecting in the market returns in Nepal. Despite a lot of literature in this area, internal factors like (EPS, BVPS, DPS, P/E ratio) are vital element of commercial bank in Nepal. This thesis revealed much on the factors affecting the stock price in Nepalese commercial banks and hence has contributed immensely in the area of banking sector in Nepal.
- This study acts as a guide to potential investors in Nepal to focus on the factors discussed above before making investment decisions. Nepal is an economy with lots of opportunities and it is imperative to conduct studies which will benefit the investors to make rational decisions in investment.

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APPEDICES

APPENDIX I

Market Price per Share

Year	Nabil	SANIMA	NSBI	EBL	SBL
2013/14	1355	160	511	1033	345
2014/15	1815	432	784	1591	300
2015/16	2535	640	960	2631	810
2016/17	1910	479	704	2120	678
2017/18	2344	515	1040	3385	869
2018/19	1523	388	770	1353	485
2019/20	921	290	621	663	300
2020/21	800	293	519	666	318
2021/22	765	239	431	675	296
2022/23	1359	441	460	738	504

(Sources: Annual Report of Sample Banks from 2013/14 to 2022/23)

Dividend Per Share

Year	Nabil	SANIMA	NSBI	EBL	SBL
2013/14	60	13	30	30	8.42
2014/15	65	15	35	60.63	22.11
2015/16	65	25	40	62	23.16
2016/17	36.84	23	34.74	36.57	21.05
2017/18	45	15.76	41	70	39
2018/19	48	20	40	34.76	14
2019/20	34	16	40	20	13.16
2020/21	34	25.5	19	25	25.26
2021/22	35.26	16	18.5	10.53	15
2022/23	42.40	13.50	19.38	10.32	16

(Sources: Annual Report of Sample Banks from 2013/14 to 2022/23)

P/E Ratio

Year	Nabil	SANIMA	NSBI	EBL	SBL
2013/14	16.21	13.57	18.5	11.67	16.91
2014/15	19.08	26.74	17	17.32	10.07
2015/16	30.29	32.7	23.6	30.58	20.97
2016/17	33.37	30.74	22.8	27.17	17.95
2017/18	39.55	26.64	35.5	83.94	20.93
2018/19	25.44	15.21	26.3	41.66	18.24
2019/20	18.6	12.27	17.4	20.23	11.34
2020/21	15.82	12.48	19.6	17.5	13.79
2021/22	21.15	13.29	25.3	22.72	13.52
2022/23	40.48	22.91	20.9	37.06	19.35

(Sources: Annual Report of Sample Banks from 2013/14 to 2022/23)

Earnings Per Share

Year	Nabil	SANIMA	NSBI	EBL	SBL
2013/14	83.23	11.79	27.6	88.55	46.36
2014/15	95.14	16.15	46.2	91.88	198.53
2015/16	83.68	19.57	40.7	86.04	18.08
2016/17	57.24	15.58	30.9	78.04	7.48
2017/18	59.27	19.33	29.3	40.33	44.59
2018/19	59.86	25.51	29.3	32.48	38.77
2019/20	51.84	23.64	35.7	32.78	39.98
2020/21	50.57	23.47	26.4	38.05	26.99
2021/22	36.16	17.99	17	29.71	20.68
2022/23	33.57	19.25	22	19.91	26

(Sources: Annual Report of Sample Banks from 2013/14 to 2022/23)

Appendix II

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
MPS	50	1.2	3385.0	888.124	719.9383
DPS	50	8.42	70.00	30.4570	16.16045
P/ER	50	10.07	83.94	23.3272	11.88529
EPS	50	7.48	198.53	42.2634	32.15815
Valid N (listwise)	50				

Correlations

		MPS	DPS	P/ER	EPS
Pearson Correlation	MPS	1.000	.797	.622	.400
	DPS	.797	1.000	.436	.468
	P/ER	.622	.436	1.000	-.099
	EPS	.400	.468	-.099	1.000
Sig. (1-tailed)	MPS	.	.000	.000	.002
	DPS	.000	.	.001	.000
	P/ER	.000	.001	.	.247
	EPS	.002	.000	.247	.
N	MPS	50	50	50	50
	DPS	50	50	50	50
	P/ER	50	50	50	50
	EPS	50	50	50	50

Model Summary

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.868[a]	.754	.737	368.8915	.754	46.878	3	46	.000

a. Predictors: (Constant), EPS, P/ER, DPS

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19137522.163	3	6379174.054	46.878	.000[b]
	Residual	6259724.308	46	136080.963		
	Total	25397246.471	49			

a. Dependent Variable: MPS

b. Predictors: (Constant), EPS, P/ER, DPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-591.377	141.834		-4.170	.000
	DPS	23.494	4.415	.527	5.322	.000
	P/ER	24.910	5.330	.411	4.674	.000
	EPS	4.327	2.006	.193	2.157	.036

a. Dependent Variable: MPS

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