DETERMINANTS OF STOCK PRICE OF MICROFINANCE COMPANIES IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management, in partial fulfilment of the requirements for the Degree of Masters of Business Studies

by

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**DETERMINANTS OF STOCK PRICE OF MICROFINANCE COMPANIES 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 purposes.

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

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REPORT OF RESEARCH COMMITTEE

Ms. Sangita Bista has defended research proposal entitled "*DETERMINANTS OF STOCK PRICE OF MICROFINANCE COMPANIES 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 Teacher's name and submits the thesis for evaluation and viva voce examination.

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We have examined the dissertation entitled "*DETERMINANTS OF STOCK PRICE OF MICROFINANCE COMPANIES IN NEPAL"* presented by Ms. Sangita Bista for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

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Sangita Bista

Researcher

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

AD	:	Anno Domini
AIC	:	Akaike information criterion
ATM	:	Automated Tailor Machine
BS	:	Bikram Sambat
DER	:	Debt to Equity Ratio
e.g.	:	Example
F/Y	:	Fiscal Year
i.e.	:	That is
LDR	:	Loan to Deposit Ratio
Ltd	:	Limited
MBS	:	Master of Business Studies
NIM	:	Net Interest Margin
NPLR	:	Non-performing Loan Ratio
OLS	:	Ordinary Least Squares
ROA	:	Return on Assets
ROE	:	Return on Equity
SC	:	Schwarz criterion
SD	:	Standard Deviation
SEM	:	Structural Equation Modelling

ABSTRACTS

The main objectives of the study was to analysis of the impact of dividend policy on the stock prices of MFIs in Nepal provides valuable insights into the dynamics shaping market valuation. The regression coefficients reveal that Return on Equity (ROE) holds a statistically significant positive relationship with Market Price Per Share (MPS). This finding suggests that MFIs demonstrating higher returns on equity tend to experience higher stock prices. This positive correlation underscores the market's recognition and reward for MFIs that exhibit robust profitability, aligning with the notion that investors value firms with a history of generating strong returns for shareholders. The ANOVA results bolster the significance of the overall regression model, highlighting that the chosen independent variables collectively contribute to explaining the variability in MPS. The F-statistic of 5.890 with a p-value of .002 reinforces the importance of factors such as ROE in influencing stock prices. This statistical significance underscores the credibility of the model in capturing the impact of dividend policy on market valuation in the context of Nepalese MFIs. Correlation coefficients further elucidate the relationships between variables. The positive correlation between ROE and MPS, statistically significant at the 0.01 level, emphasizes the meaningful connection between profitability and market valuation. MFIs with higher returns on equity are perceived positively by the market, leading to higher stock prices. This positive relationship signifies that investors recognize and reward MFIs that effectively utilize equity to generate profits, contributing to a positive feedback loop in market valuation. This positive correlation serves as a testament to the importance of sound financial performance in shaping investor perceptions and influencing market dynamics. The findings contribute valuable insights for policymakers, investors, and researchers interested in understanding the nuanced interplay between dividend policy and stock prices in the Nepalese banking sector.

Key words: Retention Ratio, Dividend Yield, Earnings per Share, Return on Equity, Market Price Per Share

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The term "dividend" refers to the portion of a firm's profits that is distributed by the company to its shareholders. The shareholders receive this as a reward for their investments in the company's shares. The investors are motivated by their desire to achieve the highest possible return on their assets and to optimize their overall wealth. Conversely, a corporation is required to allocate resources in order to support its sustained expansion. If a firm distributes the majority of its earnings as dividends, it will need to rely on external resources, such as issuing debt or new shares, to meet its business requirements and support future expansion. The dividend policy of a company has an impact on both the long-term financing and the overall wealth of its shareholders. Consequently, the company must make a fair and balanced determination about the allocation between distributed profits and retained earnings when deciding to pay dividends. Given that dividends represent the entitlement of shareholders to partake in the earnings and excess funds of the firm in return for their investment in the company's share capital, it is reasonable to expect that they get a just proportion of the profits. According to Pandey (2009), it is advisable for the company to allocate a fair portion of its earnings as dividends, which should encompass a standard interest rate together with compensation for the risks undertaken, to its shareholders. The remaining funds should be retained by the company to facilitate its expansion and ensure its continued existence.

Stock Return is a calculation of the percentage rate of return within a specified period of time. The calculation requires multiple inputs, share price gains or losses; business activities like splits and spin-offs; and lastly returns of cash in the form of special and regular dividends. Common stock is sources of long-term finance and an ownership security. Common stock certificates are legal documents that indicate ownership or equality in a firm that is issued by a corporation, and they are also marketable financial assets. An element of high risk is involved in common stock investment due to its low priority of claims at liquidation. When investors buy common stock, they receive certificate of ownership as a confirmation to being a part of the organization.

The Return on Equity ratio effectively measures the rate of return that the owners of common stock of a company receive on their shareholdings. Return on equity reflects how good the company is in earning returns on the investment it got from its owners. The certificate states the number of shares purchased and their value per share (Bhalla, 1997).

A stock market is a financial market for long- term securities i.e. debt and equity backed assets are purchased and sold. Stocks ("shares" or "equity") are the most prevalent and actively traded securities in financial markets. It is viewed as a long-term source of funding. Stocks provide the holder the right to collect profit in case of an entity to achieve profits or else endure the loss as much as shares, and the right to own part of a corporation. Stock market provides platform to firm and investors whereby the investors spend their savings and the firms get to enjoy low cost long-term capital (Arkan, 2016).

Investment decision depends upon two factors, i.e. Risk and Return. They are like two sides of one coin. In the investing world, risk can be defined as the potential that an investment's actual return will be different than projected. Technically, it is measured in statistics by the standard deviation. Risk is the product of uncertainty whose magnitude is depending upon the degree of unpredictability in uncertain cash flow. Low levels of uncertainty (low risk) are coupled with low potential returns. High level of uncertainty (high risk) is connected with large potential profits. Similarly, the return on the other hand, it is the benefit of waiting and recompense for risk bearing. Researchers have revealed that the most of investors are risk averter. So it may be stated that most of individuals invest their belongings in such possibilities where there is larger returns with lower level of risk. The key challenge in investment is to select the securities having low risk but having large rewards. Even the investor can't improve the return substantially they can lower the risk by diversification of the investment funds in different assets building a portfolio. Portfolio analysis aims to minimize the risk at the given rate of return (Arkan, 2016).

Microfinance institutions in Nepal operate under the legislative framework given by the Banks and Financial Institutions Act, 2006 (BAFIA). This act oversees the establishment, operation, and regulation of various financial institutions, including microfinance institutions, assuring their conformity with the established norms and rules.

The Nepal Rastra Bank (NRB) Act of 2002 authorizes the Nepal Rastra Bank to exert monitoring, inspection, supervision, and control over all financial institutions, embracing microfinance institutions as well. The NRB, through this act, not only formulates and executes policies but also actively oversees the activities of microfinance institutions to maintain financial stability and adherence to regulatory norms.

Within the regulatory framework established by the Nepal Rastra Bank, Micro Finances are a special category of financial organizations. Categorized as 'D' financial institutions under the Banking and Financial Institutions Act, 2006, these institutions play a key role in expanding financial services to the grassroots level, contributing to the overall economic inclusion.

Responsible for ensuring regulatory compliance and safeguarding financial integrity, the Microfinance Institutions Supervision Department of the Nepal Rastra Bank undertakes numerous duties. These tasks entail conducting onsite inspections, offsite supervision, and enforcement actions, collectively ensuring that microfinance institutions conform to the established norms and regulations.

1.2 Problem Statement

Dividend is the most stimulating factor, for the investment on shares of the firm, is an important aspect of financial management. Because of the dividend policy defines the distribution of earnings between paying stockholders and investments in the firm to exploit growth prospects. It influences the value of firm as well as overall financing decision such as financial structure, the flow of money, corporate liquidity and investor’s satisfaction (Richard, 2009). In the Nepalese context, the company’s listed in NEPSE are not viewed very serious regarding dividend decisions, since most of them do not have any consistent and evident (clear cut) policy on dividend distribution. In connection to Nepalese public enterprises, dividend is still viewed as the intended strategy or the non payable requirement at a period when Nepalese government is not in position to impose the public limited firms to pay a minimum rate of dividend on the equity capital contributed. So, different corporations are implementing different dividend decisions inconsistently. There is a widespread

tendency of deciding the dividend by the management of firms instead of the shareholders meeting.

i. What is the position of market price per share and retention ratio, dividend yield, earnings per share, and return on equity of sample MFI's under study?

ii. Is there any relationship between market price per share with retention ratio, dividend yield, earnings per share, and return on equity of sample MFI's under study?

iii. What is the impact of retention ratio, dividend yield, earnings per share, and return on equity on market price per share of sample MFI's under study?

1.3 Objectives of the Study

The main objective of the study is to find out the dividend policy and its impact on market price of the share. The specific objectives of the study are listed as follows:

i. To assess the position of market price per share and retention ratio, dividend yield, earnings per share, and return on equity of sample MFI's under study.

ii. To examine the relationship between market price per share with retention ratio, dividend yield, earnings per share, and return on equity of sample MFI's under study.

iii. To analyze impact of retention ratio, dividend yield, earnings per share, and return on equity on market price per share of sample MFI's under study.

1.4 Rationale of the Study

In the Nepalese perspective, there exist nearly none of the enterprises adopting consistent dividend policy. There may be causes behind it. But there is not much investigation undertaken in this regard. Therefore, considering all these facts, the study is done which will help to satisfy lack of the literature reference to dividend decision and factors affecting the dividend policy. So, the research of dividend policy is of major relevance.

Many persons and parties such as shareholders, management of banks, financial institutions, general public; depositors, who deposit funds and investors, who invest their money and other policy making bodies which are associated with banking

business will be benefited from this study. It is also thought that it will provide useful insights for future research academics.

Nowadays people are drawn to invest in shares for the aim of acquiring more return as well as to enhance their wealth. So, the dividend policy has become an efficient approach to attract new investors, to keep present investors pleased and to retain goodwill of the company. When a new firm floats shares through capital market, extremely significant congregation gathers to apply for owner's certificate. It represents people's expectation on increased return of investing in shares.

While investing in shares, the investor forgoes opportunity income that he may have earned. In capital market, the return can be obtained in two ways:

(i) By methods of dividend

(ii) By capital gains i.e. growth in share price.

As dividend is one of the essential components in every organization. The dividend is most sensitive factor in the area of investment in the common stock. If the market does not receive its expected dosage, stock price will suffer. Dividend announcement also help to solve symmetric information problem between management and shareholders. Besides this, shareholders usually assume that dividend is less hazardous than capital gain and they utilize the announcement of changes in dividend payment in appraising the worth of a security.

1.5 Limitations of Study

This study has been conducted within certain constraints, which are as follows:

i. This study is based specially on secondary data such annual reports of the MFIs under examination, journals, unpublished as well as published thesis works, other published publications and reports and associated materials from various websites.

ii. This study is based on secondary data which itself is a limiting element. This data is collected from the financial reports of sample MFIs under scrutiny.

iii. The study period only spans ten fiscal years from 2013/14 to 2022/23.

iv. Only descriptive and inferential statistical instruments are used for analysis.

v. The study covers only three MFIs of Nepal.

There are several elements that affect dividend decision and valuation of the organization. However, only those factors connected with dividend considered in the study.

CHAPTER II

LITERATURE REVIEW

This research intends to analyze the impact of dividend policy on market price of the shares of Nirdhan Utthan Laghubittiya Sanstha Limited, Chimmek Laghubitiya Sanstha Limited, Deprosc Laghubitta Bittiya Sanstha Limited. For this goal, it needs to evaluate relevant literatures in this concerned subject which will enable researcher to gain the clear-cut ideas, opinions and other notions. What others have said? What others have done? & What others have written? These all and other relevant questions are reviewed which has supplied beneficial inputs in this research job this chapter stresses about the literatures which were concerned in this connection. Therefore, in this chapter conceptual frameworks supplied by different writers and intellectuals in this subject, book, journals research work and earlier thesis related to dividend, dividend policy and impact of dividend policy are evaluated. Moreover, guidelines pertaining to dividend policy are examined and an attempt has been made to convey them effectively.

2.1 Theoretical Review

Dividends, in corporate finance, refer to the portion of profits that a company distributes to its shareholders, usually in cash. Not only do these payments reduce the company's reserves but it also reduces savings. Within the framework of economic theory, dividend decision plays an important and important and controversial role in management economics. It stands out as a financial technology segment, which is strong because of the many implications for the company. Dividend policy can affect various factors such as firm's financial structure, fund flow, corporate liquidity, share prices, investor satisfaction, overall growth and investment and finance.

2.1.1 Theories of Dividend

1) Residual Theory of Dividend

2) Stability Theory of Dividend

Residual Theory of Dividend

The residual theory of dividends, according to one school of thinking, contends that a company's payout should be seen as the amount that remains after all reasonable investment possibilities have been taken advantage of. One way to think of a

company's dividend policy is as an investing choice. This kind of behavior is indicative of a corporation believing in residual dividends. This idea states that dividend policy is a holdover from 18 investments. The availability of investment opportunities determines whether a company will pay dividends or not. This theory's premise is that, in cases where the return on reinvestment exceeds the investors' opportunity cost of funds, investors would rather see the company keep and reinvest earnings rather than distribute dividends. Under the residual dividend policy, new shares are sold to make up the shortfall for unpaid investments, and the dividend is equal to the amount remaining after investment. In the event that there are no investment opportunities, the shareholders receive a dividend equal to one-tenth of the earnings. Dividend is consequently essentially a residual i.e. % remaining after all equity investment demands are fulfilled (Irwin & Marshall, 1964).

Rather than paying dividends, the company keeps its earnings in order to invest in profitable projects that offer better returns. The company expands more quickly when it takes on extremely lucrative investment initiatives. It is possible to raise external stock to fund investments. However, the retained earnings are better since there are no floating expenses associated with them, in contrast to external equity. The payment of cash dividends reduces internal money available for funding successful investment possibilities, which either limits growth or necessitates the company obtaining additional expensive financing sources.

As a result, as part of a long-term financing choice, earnings may stay undistributed Investment Opportunity EPS, DPS & Investment Earning Year 19. A transfer of earnings to shareholders that the company is unable to economically reinvest is represented by the dividend. This method just views the dividend decision as a residual choice.

Stability Theory of Dividend

The term "dividend stability" describes the dividend stream's consistency. Stated differently, dividend stability refers to the dividend being paid on a consistent basis, even while the exact amount varies annually. The majority of businesses' management see dividend stability as a good policy. Additionally, consistent dividends are often preferred by shareholders over changing ones, and they are valued higher by them. If

all else remains the same, a consistent dividend could raise the share's market price (Panday, 1995).

Maintaining the position of the company's dividend payments in respect to a trend line—ideally an upward-sloping one—is what we mean by stability. There are a few grounds for thinking that rising stock prices are a direct result of a consistent dividend policy. First, since variable dividends are riskier than stable ones, investors are generally expected to place a higher value on dividends they can be certain of getting. As a result, a bigger discount factor will probably be applied to the same average dividend amount received under a changing dividend policy than it will be for payouts under a stable dividend policy. This implies that compared to a firm whose dividend fluctuates, one with a steady dividend policy will have a lower necessary rate of return or cost of equity capital. Secondly, dividend income is a major source of income for many stockholders. These investors will pay more for a stock that has a comparatively certain minimum dollar payout since they are very inconvenient with variable payments. Third, from the perspective of the company and its investors, dividend stability is preferred in order to meet legal listing requirements. Dividend payment stability comes in three different kinds. They are as follows:

a. Constant Dividend per share

b. Constant Dividend payout ratio

c. Low Regular Dividend plus extra dividend

i) Constant Dividend per share

Under the constant dividend per share policy, annual dividend payments to shareholders are made at a consistent rate, regardless of changes in earnings. The dividend rate and dividend per share are not guaranteed to remain constant by this policy. An increase in the annual dividend per share may occur when a company achieves a new level of earnings and anticipates maintaining it (Panday, 1995).

The dividend policy, which pays a fixed annual dividend, treats common shareholders in a manner similar to preference shareholders, disregarding the investment alternatives available to the company or to shareholders. The constant dividend policy is preferred by investors whose only source of income is from dividends. The

fluctuations in share prices barely phase them. Over time, this kind of activity contributes to the share's market price stabilization

ii) Constant Dividend Payout Ratio

Payout ratio is the ratio of dividends to earnings. Certain corporations may adhere to a consistent payout ratio policy, meaning they will annually pay a predetermined percentage of their net earnings. The dividend will vary in direct proportion to earnings under this policy.

The company's capacity to pay dividends is relevant to this policy. Regardless of the wishes of shareholders, no dividends will be paid if the company experiences losses. When this guideline is adhered to, internal financing via retained earnings occurs automatically. The amount of retained earnings additions and dividends at any particular payout ratio rises with rising profits and falls with falling earnings. This policy offers the benefit of shielding a business from paying out too little or too much in dividends. It also makes choosing a payout easier. It guarantees that dividends are distributed in the event of profits and withheld in the event of losses (Brandt, 1972).

iii) Low Regular Dividend Plus Extra Dividend

In line with this policy, the company pays its shareholders a predetermined, consistent dividend amount to lessen the likelihood that they would ever miss one. Additionally, in years when the market is prosperous, the corporation pays out extra dividends on top of the regular dividend. The corporation stops paying the excess payout and resumes paying dividends as usual when normal conditions are restored. With this kind of policy, a business can pay out a fixed dividend on a regular basis without ever missing a payment. It also gives shareholders a lot of flexibility to supplement their income only in situations where the business's earnings exceed expectations, all without having to commit to making sizable payments as part of a future fixed dividend.

Factors Influencing Dividend Policy

Any firm should evaluate a number of aspects before creating a dividend policy. That choice, known as the dividend, is impacted by a variety of internal and external circumstances. Any dividend strategy must take into account both non-economic and

economic variables, according to management. In practice, the financial executives examine the following factors when approaching a dividend choice.

a. Stability of Earnings

One of the key elements affecting the dividend policy is earnings stability. A company is better able to forecast its future earnings if its earnings are reasonably steady, and these companies are also more likely to distribute a larger portion of their earnings as dividends than a company with volatile earnings.

In general, businesses that sell needs see less income volatility than businesses that sell upscale or opulent things. A company with somewhat consistent earnings is frequently able to project its earnings in the near future. Because of this, a company like this is more likely to distribute a larger portion of its profits than a company with inconsistent profits. The unstable firm is likely to hold onto a larger percentage of current earnings since it cannot be guaranteed that the projected earnings in the years will be realized. It will be simpler to maintain a reduced dividend in the event that future earnings decline.

b. Financing Policy of the Company

The company's finance policy may have an impact on and influence dividend policy. The corporation will have to provide shareholders smaller dividends if it chooses to use its earnings to cover its costs. However, the corporation may choose to pay a greater dividend rate to its shareholders if it believes that borrowing money from outside sources is less expensive than financing it internally. Thus, the dividend policy of the business firm is influenced by the internal finance policy of the corporation.

c. Liquidity of Funds

When choosing a dividend, fund liquidity is a crucial factor. Guthmann and Dougall state that while it is common to refer to paying dividends "out of profits," a cash dividend can only come from bank funds. In addition to being a frequent legal necessity, the existence of profit is an accounting phenomena. The company's cash and working capital situation are also critical in determining its capacity to pay cash dividends.

Dividend payments result in cash outflows, therefore the firm's cash position and liquidity are controlled by its investment and financing decisions. The finance decisions establish the mode of financing, whereas the investment decisions determine the pace of asset expansion and the firm's cash requirements.

d. Dividend, Policy of Competitive Concerns

Another aspect which determines, is the dividend policy of other competitive firms in the market. The shareholders may choose to put their money in the other concerns rather than this one if the other concerns are offering bigger dividends than this one. As a result, each company must determine its dividend policy while taking other competitive companies' policies into consideration.

e. Past Dividend Rates

In the event that the company is already established, the dividend rate may be determined using the dividends paid out in prior years. The board should normally remember the dividend rate that has been declared in the past because it is beneficial for the company to retain dividend stability. A company that has a history of paying dividends aims to continue doing so in the future. Dividends can become a habit. The stock price will decline if the market does not receive the anticipated dosage. The vast majority of the companies polled said they would continue to pay their dividends even if they had to operate temporarily at a net loss. Additionally, managers highly agree with the assertion that a corporation should make an effort to preserve a consistent record of dividend payments, according to Baker, Farrelly, and Edelman (1985).

f. Debt Obligations

A company that has accumulated significant debt cannot afford to increase shareholder payouts. For businesses like these who are implementing a significant debt reduction program, earning retention is crucial. Conversely, in the event that the business is debt-free, it will be able to increase its dividend payment rate.

g. Ability to Borrow

Each and every business needs funding for both expansion plans and unforeseen expenses. Because of this, the businesses must borrow money from the market. Large, well-established corporations have easier access to the capital market than newer,

smaller enterprises, allowing them to pay greater dividend rates. New businesses typically have trouble getting loans from the market, which prevents them from being able to pay dividends at a greater rate.

h. Growth Needs of the Company

The company's needs for expansion also have an impact on the dividend rate. If the business has grown significantly already, funding is not needed for additional growth. On the other hand, additional funding would be required for growth and development if the company had expansion plans. Therefore, it is simple for the business to declare a higher dividend rate when funding for expansion is not required.

i. Profit Rate

The firm's profit rate is a significant factor in determining the dividend. A foundation for contrasting the productivity of retained earnings with the alternative return that could be obtained elsewhere is the company's internal profitability rate. The projected rate of return on assets affects the relative attractiveness of handing out revenues as dividends to shareholders who will use them elsewhere vs investing them in the current endeavor. Consequently, decisions about dividends are heavily influenced by other investment options.

j. Legal Requirements

The board of directors will need to take the legal restriction into account when announcing a dividend. The Indian Companies Act, 1956, lays out specific rules for the declaration and distribution of dividends, which the company must scrupulously adhere to in order to declare dividends.

k. Policy of Control

One additional significant issue that affects dividend policy is policy of control. The corporation will have to reduce dividend payments if it determines that no further shareholders should be added. In general, it is believed that additional shareholders may lessen the management team's current authority over the company. Therefore, the dividend rate may be reduced if maintaining current control is a top priority so that the business may satisfy its financial obligations with retained earnings and avoid selling more shares to the public.

l. Corporate Taxation Policy

Corporate taxes have an impact on the company's dividend rate. The amount of residual profits that can be distributed to shareholders is decreased by high tax rates. As a result, the dividend rate is impacted. Additionally, the government may impose dividend taxes on distributions of dividends that exceed a specific threshold. This can also have an impact on the company's dividend rate.

m. Tax Position of Shareholders

Dividend decisions are also influenced by shareholders' tax situations. Large numbers of shareholders in a company that already have high incomes from other sources and are in the high income bracket will not be interested in big dividends because a significant portion of the dividend income will be taxed as income. Because of this, they favor capital gains over cash gains, or dividend capital gains, whereby we refer to the capital gain from the capitalization of reserves or the issuance of bonus shares.

The shareholders would like to receive shares and increase their ownership in the form of shares rather than cash payments (regardless of the exact percentage). There are several advantages for stockholders in this. By selling the additional shares they were given in relation to their initial holdings, they are able to make money.

They will profit financially from this. They must, of course, pay capital gains tax. However, the capital gains tax will be lower than the income tax that should have been paid when the cash dividend was announced and included in the shareholders' personal income.

n. Effect of Trade Cycle

Trade cycles have an impact on the company's dividend policy as well. For instance, the money left over after depreciation could not be sufficient to replace the assets during an inflationary period. Retained earnings are therefore necessary to maintain the company's earning potential.

o. Attitude of the Interested Group

A company may have a particular set of influential and motivated shareholders. These individuals have a particular viewpoint on dividend payments and a voice in the creation of policies pertaining to them. Shareholders are unlikely to receive a higher

dividend rate if they are not interested in it. However, in the face of numerous obstacles, they will succeed in forcing the corporation to declare a higher dividend rate if they are interested in a higher rate.

2.1.2 Agency Theory

Agency theory, proposed by economist and Nobel laureate Michael C. Jensen and Harvard Business School professor William H. Meckling, is a conceptual framework that explores the relationship between principals (owners or shareholders) and agents (managers or executives) within an organization. The seminal work "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure" by Jensen and Meckling, published in the Journal of Financial Economics in 1976, laid the foundation for this theory.

The core premise of agency theory is rooted in the separation of ownership and control in modern corporations. As organizations grow and become more complex, shareholders delegate decision-making authority to professional managers, creating a principal-agent relationship. This delegation, while essential for efficient operations, introduces the potential for agency problems and conflicts of interest.

The principal-agent relationship is characterized by an inherent misalignment of interests, as agents may prioritize personal goals over the interests of the principals. Agency costs, as introduced by Jensen and Meckling, refer to the expenses associated with mitigating these conflicts and ensuring that agents act in the best interests of the principals.

Key components of agency theory include the identification of contractual arrangements, monitoring mechanisms, and incentive structures designed to align the interests of principals and agents. Jensen and Meckling argued that the design of effective contracts, such as executive compensation agreements, can serve as a tool to align the goals of managers with those of shareholders. Additionally, monitoring mechanisms, such as financial reporting and audits, play a crucial role in reducing information asymmetry and agency costs.

Agency theory has broad implications for corporate governance, executive compensation, and organizational design. It provides a theoretical framework for understanding how organizations can structure their systems to minimize agency costs and enhance overall performance. Over the years, agency theory has influenced

various fields, including finance, management, and economics, and remains a fundamental concept in the study of corporate governance and organizational behavior.

Agency theory delves into the challenges arising from the separation of ownership and control in corporations and seeks to provide insights into how these challenges can be addressed. The principal-agent problem is at the heart of agency theory, highlighting the potential conflicts of interest that may arise when agents, or managers, make decisions on behalf of principals, or shareholders. The work by Jensen and Meckling emphasizes that managers may pursue their own objectives, which may not align with the interests of shareholders, leading to agency costs.

To mitigate agency costs and align the interests of principals and agents, agency theory proposes various mechanisms. One crucial aspect is the design of incentive structures, particularly executive compensation packages. Aligning managerial compensation with firm performance through stock options, bonuses, and other performance-based incentives is seen as a way to encourage managers to act in the best interests of shareholders.

Monitoring mechanisms are another key element of agency theory. These mechanisms include internal controls, external audits, and boards of directors, which serve as overseers of managerial actions. Effective monitoring helps reduce information asymmetry and provides assurance to shareholders that managers are acting in the organization's best interests.

Over time, agency theory has evolved to incorporate more nuanced perspectives, acknowledging that the relationship between principals and agents is complex and influenced by various factors such as firm size, industry dynamics, and regulatory environments. Researchers and practitioners continue to explore how agency theory can inform corporate governance practices and contribute to the development of optimal organizational structures that balance the interests of all stakeholders.

2.1.3 Bird in Hand Theory

The "bird in hand" theory, often associated with the field of finance and dividend policy, was first introduced by Myron J. Gordon and John Lintner in their seminal work "Growth, Corporate Financing, and the Bird-in-the-Hand Fallacy," published in the Journal of Business in 1959. The theory is a part of the broader Modigliani-Miller

theorem, which explores the relationship between a firm's capital structure and its market value.

The core premise of the bird in hand theory is grounded in the idea that investors value current dividends more highly than the potential for future capital gains. The metaphorical "bird in hand" represents the certainty of receiving dividends today, while the "two in the bush" symbolize the uncertain future capital gains that may or may not materialize. In essence, the theory suggests that investors prefer a certain stream of dividends today rather than speculative expectations of future gains.

Gordon and Lintner argued that, in a world of uncertainty, investors are more inclined to value the immediate and tangible benefits of dividends. According to the bird in hand theory, companies paying out dividends are perceived as more favorable by investors, as they provide a concrete and reliable return on investment. This preference for dividends is seen as a reflection of risk aversion, as investors place a higher value on the certainty of current income.

The bird in hand theory has been a subject of extensive discussion and critique within the field of finance. Critics argue that the theory oversimplifies investor behavior by assuming a universal preference for immediate dividends over potential capital gains. They contend that investors are not homogenous and may have different risk tolerances, time horizons, and investment objectives. In reality, some investors might prioritize the growth potential of a company and be willing to forgo current dividends for the prospect of higher future stock prices.

Despite these criticisms, the bird in hand theory remains a foundational concept in the study of corporate finance. It has contributed to shaping discussions around dividend policy, corporate decision-making, and the interaction between firm value and financial choices. Over time, researchers and practitioners have developed more nuanced models that incorporate a range of factors influencing investor behavior, allowing for a more comprehensive understanding of how firms navigate the trade-offs between dividends and retained earnings.

2.2 Empirical Review

The previous research as well as a number of articles pertaining to this topic are included in this section. They are gathered from a variety of international periodicals

and journals. This will further contribute to expanding our comprehension of the problems associated with our research.

Sharma (2023) investigated how Nepalese commercial banks' dividend policies were impacted by collateralizable assets, net asset growth, liquidity, leverage, and profitability. This study looked at how Nepalese commercial banks' dividend policies were affected by collateralizable assets, net asset growth, liquidity, leverage, and profitability. To evaluate the importance, regression models and correlation coefficients are estimated. According to the analysis, the dividend per share is negatively impacted by collateralizable assets. It suggests that a rise in collateralizable assets causes the dividend per share to fall.

Bhatti et al. (2023) investigated the dividend policy and its effect on market price through an empirical research of the chemical industry. This study looked into the impact of the dividend policy in the chemical industry on market prices. The Levin li Chu, Hauseman, Wald, VIF, Tolerance, Durban Watson, Normality, and Homosedacity tests were employed in this investigation. This analysis indicated that all explanatory factors are relevant, with the exception of profit after taxes.

Goet and Kharel (2022) investigated into how the market price per share of Nepalese commercial banks was affected by factors including net worth per share, earnings per share (EPS), dividends per share (DPS), and price-earnings ratio (PER). Examining the effects of variables including dividends per share, earnings per share, price-earnings ratio, and net worth per share on Nepalese commercial banks' market price per share was the aim of the study. Regression, correlation, and descriptive analysis were employed in this investigation. The study's conclusions indicate that while there is a minimal positive correlation between market price per share, profits per share, and net worth per share of commercial banks, there is a large positive correlation between earnings per share and dividends per share and price earnings ratio.

Gyawali (2022) examined the effects of variables affecting Nepalese commercial banks' stock prices. Examining the effects of variables on Nepalese commercial banks' stock prices was the aim of this study. There have been several models of linear regression applied. The outcome demonstrates that DPS, EPS, and P/E ratio have a positive and statistically significant impact on stock price. The inflation rate

has a negative and negligible impact on the stock price, while ROA and GDP have a positive but not statistically significant effect.

Ahmed et al. (2021) analyzed the focused on price volatility and stock market development drivers. This study set out to investigate how institutional quality measures affected the volatility and development of the stock market. This research employed a heterogeneous noncausality test, a fully modified ordinary least square approach, and a panel cointegration test. The results have demonstrated a strong long-term correlation between the variables.

Niraula (2021) investigated The behavior of stock prices in Nepalese commercial banks, Examining the stock price behavior of Nepalese commercial banks was the goal of this study. The model of multiple linear regression has been applied. The outcome shows that the size of banks, the PE ratio, and EPS all have a positive and statistically significant impact on MPS. Other factors barely make a difference.

Sholichah et al. (2021) investigated the effects of risk profile, good corporate governance (GCG), earnings, capital (RGEC), and earnings per share (EPS) on stock prices with financial crisis acting as an intervening variable. This study looked at the relationship between stock prices and risk profile, earnings per share (EPS), good corporate governance (GCG), and earnings capital (RGEC). The AMOS Program was used to analyze the data using the structural equation model (SEM). The findings indicated that stock prices are influenced by RGEC, EPS, and financial distress.

Wagle (2021) examined the equity share investments are among the major investment avenues that offer investors substantial returns.. The purpose of this study was to determine the empirical factors influencing the price of commercial banks' stock on the market. Regression analysis, correlation, mean, and standard deviation are the methods employed in this study. The market to book ratio (M/B), price-earnings ratio (P/E), and yield-to-yield ratio (E/Y) were found to have a strong positive correlation with the stock market price.

Bajracharya (2020) analyzed the factors influencing the share prices of Nepalese commercial banks. This study looked at how market capitalization, bank rate, and inflation affected Nepalese commercial banks' market share values. Multiple regression analysis, correlation, mean, and standard deviation have all been used in

this study. The study's conclusion was that there was a substantial negative correlation between the market price per share and the external factor inflation rate.

Bhattarai (2020) investigated the variables influencing Nepalese commercial banks' market share prices. Examining the variables influencing commercial banks' market share prices was the goal of this study. The model diagnosis test guided the use of the OLS and Fixed Effects models for data analysis. The results indicate a statistically significant negative correlation between the dividend payout ratio and market share price.

Huy, Loan, and Anh (2020) investigated how the stock prices of developing-nation commercial banks fluctuated. This study set out to examine and assess the effects of seven macroeconomic variables on the stock price of Vietnam's joint stock commercial bank, Vietcombank (VCB). Standard deviation, correlation, multiple regression analysis, and a seven-factor model were all used in this study. According to the study's findings, the VCB stock price increased significantly when GDP growth, lending rates, and risk-free rates increased. The exchange rate decreased, which had the second-highest impact coefficient, and the stock price somewhat decreased.

In 2020, Saud and Shakya conducted an analysis of stock market predictions in an effort to estimate the future worth of stocks that are traded on stock exchanges. Examining stock market predictions for estimating the future value of stocks traded on stock exchanges was the aim of this study. Multiple regression analysis, correlation, and standard deviation were used in this investigation. According to this study, GRU performed the best at predicting stock prices.

Shammout (2020) examined the effect of stock characteristics as measured by Price Earnings Ratio (PER), Yield Per Share (YPE), Market to Book Ratio (MBR), Earnings Per Share (EPS), Dividends Per Share (DPS), Dividends Payout Ratio (DPR), and Book Value Ratio (BVR) on the market stock price. Multiple regression analysis, correlation, and standard deviation were used in this investigation. The study discovered that a stock's market price at Jordanian commercial banks is significantly influenced by its attributes.

Silwal and Napit (2019) investigated the factors influencing the stock market price in Nepalese commercial banks. This study set out to investigate the factors that influence Nepalese commercial banks' stock market prices. Multiple regression analysis,

correlation, and standard deviation were used in this investigation. The study's findings indicate that there is a positive correlation between stock price and book value per share, price earnings ratio, and return on equity.

Thapa (2019) investigated the variables that affect Nepal's stock price. Examining the variables affecting Nepal's stock price was the goal of this study. A basic linear regression model was used in this investigation. The results of this study showed that while interest rate (IR) and price to earnings ratio (PER) demonstrated a strong inverse correlation with share price, earning per share (EPS) and dividend per share (DPS) demonstrated a substantial positive association with share price.

Bhattarai (2018) examined the impact of macroeconomic and firm-specific factors on Nepalese commercial banks' share prices. This study's objective is to investigate how macroeconomic and firm-specific factors affect Nepalese commercial banks' share prices. The method of multiple regression has been applied. The study discovered that the following factors affected the share prices of banks in Nepal: ROE, ROA, EPS, DPS, P/E Ratio, MS, GDPR, ER, and IR.

Karki (2018) investigated the macroeconomic elements influencing Nepal's stock market performance. This study set out to determine how these factors affected stock prices, as measured by the Nepalese capital market's NEPSE Index. Multiple regression analysis, correlation, and standard deviation were used in this investigation. The findings showed that there is a favorable correlation between real GDP and stock market performance.

Prayogo and Lestari (2018) investigated the factors influencing the stock price at the Indonesia Stock Exchange's Banking Sub-Sector Company. The purpose of this study is to examine how Indonesian stock prices are influenced by Return on Assets (ROA), Earnings per Share (EPS), and Price to Earnings Ratio (PER). Panel data regression analysis was the method of data analysis employed in this study. The study's conclusion was that, while not statistically significant, ROA has a negative impact on stock price.

Singh (2018) analyzed one of the key metrics for gauging a company's success is its stock price. This paper's goal was to investigate the factors that affect share price. The random effect model is used in the panel data regression. The study's findings indicate that the first lag of stock prices, the debt ratio, and EPS are important factors that

influence stock prices. Firm size, PE ratio, and dividend payout are unimportant factors.

Figeac (2017) investigated the factors that influence the stock prices of particular European banks. This study set out to investigate the factors that influence European bank stock values. Multiple regression analysis and descriptive statistics were used in this investigation. The study's conclusion showed that factors unique to these banks, such as return on equity and equity/asset ratios, account for the majority of the variation in stock prices.

Gautam (2016) investigated the effects of firm-specific variables on stock price volatility and stock return in Nepalese commercial banks. In this work, regression analysis has been used. According to the analysis, there is a positive correlation between stock return and leverage, market capitalization, dividend payout, and dividend yield.

Sapkota (2016) examined the factors influencing Nepalese commercial banks' share prices. Examining the effects of earnings per share, dividends per share, price earnings ratio, and gross domestic product on the share price of Nepalese commercial banks is the goal of this research. Correlation analysis and regression models have been applied. According to the findings, surplus and stock return have a positive relationship with GDP, price-earnings ratio, earning per share, and dividend per share.

Table 1

Summary of Empirical Review

Author (Date)	Objectives	Methodology	Findings
Sharma (2023)	The study examines the effect of collateralizable assets, growth in net assets, liquidity, leverage, and profitability on dividend policy of	The correlation coefficients and regression models are estimated to test the significance.	The study showed that collateralizable assets have a negative impact on dividend per share. It indicates that an increase in collateralizable assets leads to a decrease in

	Nepalese commercial banks.		dividend per share.
Bhatti, Patoli and Kumar (2023)	This study investigates the dividend policy in the chemical industries and how it affects market prices.	On the dataset, the Levin li chu, Hauseman, Wald, VIF, Tolerance, Durban Watson, Normality, and Homosedacity tests were run.	This study found that except for Profit after Tax, all explanatory factors are shown to be significant.
Gyawali (2022)	To examine the impact of factors influencing the stock price of Nepalese commercial banks.	Descriptive and causal-comparative research design has been used to analyze and interpret this data.	The result shows that there is a positive and statistically significant effect of DPS, EPS, and P/E ratio on the stock price.
Goet and Kharel (2022)	This study investigates the impact of variables such as Dividends Per Share (DPS), Earnings Per Share (EPS), Price-Earnings Ratio (PER), and Net Worth Per Share on the Market Price Per Share of Nepalese commercial banks.	In this study, descriptive, correlation, and regression analysis was used.	The findings of this study show that Earnings per share has a significant positive relationship with the Dividends Per Share and Price Earnings Ratio but a negligible positive relationship with Market Price Per Share, Earnings Per Share, and Net Worth Per Share of commercial banks.

Sholichah et al. (2021)	To examine and analyze the effect of Risk Profile, Good Corporate Governance (GCG), Earnings, Capital (RGEC), and Earnings per Share (EPS) on stock prices with financial distress as an intervening variable.	The sampling technique used purposive sampling based on certain criteria and data used was secondary data, that is, annual reports of commercial banks in Indonesia.	The results show that financial distress cannot mediate the effect of RGEC and EPS on stock prices as indicated by a p-value greater than 0.05. The implication of this research is very important for investors to analyze stock price changes based on RGEC, EPS, and financial distress to gain profits.
Akhtar and Saleem (2021)	To analyze the relationship between market discipline and charter value of local commercial banks that are registered on the Pakistan Stock Exchange.	The relation between market discipline and charter value of local commercial banks that are registered on the Pakistan Stock Exchange.	This result, although looks inconsistent with the general perception that the oil market causes the capital market, yet makes sense within the context of the global oil market and global economic activity.
Huy and Hang (2021)	To improve Risk Management Information System (RMIS) that is becoming an important element in the MIS system of the banking sector in	This study mainly uses a combination of quantitative methods including OLS regression for the case of Asia	Research results indicate that GDP growth (G), CPI, and Risk-free rate (Rf) have the highest effects on both ACB beta CAPM and stock price.

	Vietnam in recent years and in the future.	Commercial Bank (ACB).	
Niroula (2021)	To examine the behavior of stock price in Nepalese commercial banks.	This research uses MPS as the dependent variable and experimental variables as EPS, PE Ratio, DY ratio, Size, MPS, BV per share, and ROA.	The result indicates that there is a positive and statistically significant effect of EPS, PE ratio, and size of banks on MPS. Other variables have negligible effects.
Wagle (2021)	To identify the empirical variables that influence the stock market price in commercial banks.	The descriptive and causal-comparative research design was employed. For that, mean, standard deviation, correlation, and regression analysis techniques have been used.	The finding of this study is valuable to curious investors, concerned bankers, academicians, and government authorities, which help them to know more about the stock market's returns and likelihood in the country.
Huy, Dat and Anh (2020)	To explore stock price in commercial banks in developing	By data collection method to perform	This research finding and recommended policy also can be used as a reference

	countries such as Vietnam will reflect the business health of the bank system and the whole economy.	regression equation and evaluate quantitative results.	in policy for the commercial bank system in many developing countries.
Shammout (2020)	To study the significant impact of stock characteristics on its market price at the Jordanian commercial banks.	Descriptive and causal-comparative research design has been used to analyze and interpret this data.	The study recommends that investors, analysts, and decision-makers use the characteristics of stocks when carrying out analyses before making important investment decisions that can affect their wealth in the future through forecasting stock prices.
Huy, Loan amd Anh (2020)	To analyze the fluctuation of stock price in commercial banks in developing countries such as Vietnam will reflect the business health of the bank system and the whole economy.	Good business management requires us to consider the impacts of multiple macro factors on stock price, and it contributes to promoting business plans, financial risk management, and economic policies	The results of quantitative research, in a seven-factor model, show that the increase in GDP growth and lending rate and risk-free rate has a significant effect on increasing VCB stock price with the highest impact coefficient, the second is decreasing the exchange rate, finally is a slight decrease in S&P500.

		for economic growth and stabilizing macroeconomic factors.	
Sauda and Shakya (2020)	To analyze stock market prediction as an attempt to determine the future value of a stock traded on a stock exchange.	This paper has performed a novel analysis of the parameter look-back period used with recurrent neural networks and also compared stock price prediction performance of three deep learning models.	The research work has suggested suitable values of the look-back period that could be used with LSTM and GRU for better stock price prediction performance.
Thapa (2019)	To examine the influencing factors of stock price in Nepal.	Nepal Stock Exchange Ltd. over the period of 2008 to 2018 AD. The information was collected from questionnaires and financial statements of concerned organizations and	The conclusions revealed that earning per share (EPS), dividend per share (DPS), effective rules and regulations, market whims and rumors, company profiles, and success depend upon luck have a significant positive association with share price, while interest rate (IR) and price to earnings

		analyzed using a simple linear regression model.	ratio (PER) have a negative association.
Silwal and Napit (2019)	To determine the stock market price in Nepalese commercial banks.	It is based on pooled cross-sectional data of ten banks for 10 years whose stocks are listed in the Nepal stock exchange.	It reveals that book value per share is the most influential factor that determines stock price in Nepal.
Prayogo and Lestari (2018)	To analyze the influence of stock price seen from Return on Assets (ROA), Earnings per Share (EPS), and Price to Earnings Ratio (PER).	This is explanatory research that describes causal relations between one variable and another variable by using hypothesis and quantitative approach.	The results revealed that earnings per share and price-earnings ratios and size of the company have a significant positive association with share price, while dividend yield, debt ratio, and dividend payout ratio showed a significant inverse association with share price.
Bhattarai (2018)	To examine the firm-specific and macroeconomic variables' effects on Share Prices of Nepalese commercial	The descriptive and causal comparative research design has been used for the study.	The study concludes that the major factors firm-specific: ROE, ROA, EPS, DPS, P/E Ratio, size, and macroeconomic: MS, GDPR, ER, and IR affect

	banks and insurance companies.		the share prices of banks and insurance companies in the Nepalese context.
Singh (2018)	To examine the stock price as one of the main indicators for measuring firm performance and also the only factor determining shareholders' wealth.	In this study, the panel data regression using a random effect model.	To test the second set of hypotheses, oil price, growth rate in GDP, and consumer price index are considered as independent variables as they affect the performance of businesses and so do the stock prices.
Figeac (2017)	To examine the determinants of stock prices of selected European banks.	This study examines the determinants for stock prices of the 10 largest commercial European banks in terms of assets, with descriptive statistics and multiple regression analysis, over the period from 2007 to 2016.	This study's results reveal that these banks' stock prices are mainly explained by (1) bank-specific characteristics including Return on Average Equity and Equity/Assets Ratios, (2) industry-specific factors like the Herfindahl Index, and (3) macroeconomic-specific factors including Gross Domestic Products, Household Disposal Income, Labour Productivity, and Industry Productivity.

Sapkota (2016)	To examine the determinants of share price of Nepalese commercial banks.	In this study, the panel data regression using random effect model.	It shows that an increase in price earning ratio and gross domestic product leads to an increase in stock return and excess return.
Gautam (2016)	To examine the impact of firm-specific variables on stock price volatility and stock return in the context of Nepalese commercial banks.	This study employs causal comparative research design which deals with the panel data regression using random effect model.	The study reveals a positive relationship between leverage, market capitalization, dividend payout, and dividend yield with stock return, indicating that higher market capitalization, leverage, dividend payout, and dividend yield ratio lead to higher stock return.

2.4 Research Gap

This study aims to generate some thoughts about the dividend policy, identify potential new contributions, and gather information, ideas, and recommendations in this area. Since they served as the basis for the current study, the earlier research in this area cannot be disregarded. Put differently, research needs to be ongoing. By connecting the current study with earlier research investigations, the continuity of the research is guaranteed. The company's financial health depends on the different funding decisions made. One of the most important considerations to be taken is the dividend.

Numerous research projects have been undertaken in Nepal. It is therefore imperative to confirm the continued validity of their findings. Both inside and beyond Nepal, there have been numerous developments. The majority of research projects carried out in Nepal rely on secondary data. An executive survey pertaining to finance is required. in order to get more qualitative information about dividends that cannot be

ascertained by using secondary data? This study seeks to conduct an opinion poll among the financial executives of several MFIs in Nepal in addition to the analysis of secondary data. Furthermore, the preceding research on dividends ages and needs to be updated and verified. due to the quick changes that Nepal's financial markets are experiencing.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the technique used for the current investigation. It also emphasizes the sources and constraints of the data used in this investigation. A method for methodically resolving the research challenge is called "research methodology." Stated differently, research methodology denotes the procedures and techniques used throughout the entirety of the investigation. The term "research methodology" describes the several sequential actions that a researcher must do in order to analyze a problem while keeping specific goals in mind. In other words, it refers to the procedures, principles, and processes that must be followed throughout analysis in order to offer the gathered data with insightful analysis.

3.2 Research Design

Descriptive and casual comparative research designs are used in this study. Since secondary data has been analyzed primarily, this study's research design is based on descriptive and informal comparative analysis. A conceptual framework used to conduct research is known as the research design. A plan for data gathering and analysis is called a research design. It is a deliberate plan of action that is suggested to be completed sequentially while conducting research. The researcher can monitor his progress and determine whether he is heading in the right way to accomplish his goal with the aid of study design. This study's research design is more descriptive and analytical, utilizing a variety of phenomena that are connected to and have an impact on stock market price and dividend decisions. Primary data are gathered through questionnaire surveys, and secondary data and information are gathered from other trustworthy sources.

"The guidelines for gathering the necessary data are outlined in a research design. The project's general operational pattern, or framework, specifies which sources of information must be gathered and how that information should be obtained. A well-designed study will guarantee that the data gathered is pertinent to the research topics and was gathered using economical, objective methods.

3.3 Nature and Source of Data

Secondary data sources are used in this research, including the Annual Reports of the banks that are being studied, the Economic Report that Nepal Rastra Bank releases, the annual stock prices on the Nepal Stock Exchange (NEPSE), the Economic Survey from the HMG Ministry of Finance, the World Bank's Financial Status Report, the Financial Reports from the Nepal Stock Exchange and Securities Exchange Board, and finance companies websites that deal with financial issues and dividend policies. Furthermore, relevant data from media and periodicals regarding the banks' dividend policies and practices is integrated into the study.

3.4 Population and Sample

There are 65 microfinance Companies operating in Nepal by the end of March 2023, including government-owned, privately held, and joint venture businesses. It is not feasible to research every one of them in relation to the study topic because of time and resource constraints. As a result, sampling from the population will be done.

Three microfinance institutions have been chosen for this investigation. The following samples are to be chosen:

In Nepal, there are 65 microfinance organizations active in the country. The sampling is done in accordance with the topic, which suggests that the study should be conducted among actively traded and dividend-paying banks. Three MFIs in total were chosen through random sampling for the study. In this work, the convenient sampling method is employed.

3.5 Research Framework and Definition of Variables

The entire research foundation is built upon the Conceptual Framework. The market price per share is the dependent variable, and the independent variables are the retention ratio (RR), dividend yield, earnings per share (EPS), and return on equity (ROE).

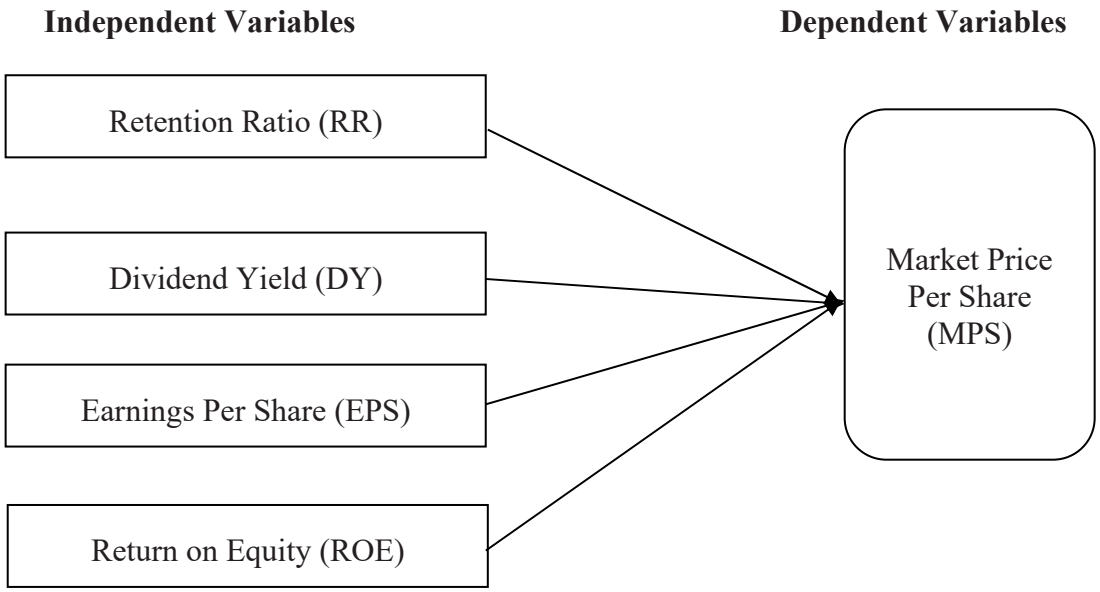

Figure 1 Conceptual Framework

Source: Masum (2014)

3.5.1 Independent Variables

Independent variables are those in a model that have an influence on other variables but are not impacted by any other variables; rather, they remain unaffected. The following are the independent variables listed in the theoretical framework:

(a) Retention Ratio

One important statistic that has a big impact on how a company shapes its dividend policy and how much its stock is worth is its retention ratio. This ratio is useful in determining how much of a company's earnings are reinvested in the company instead of being paid out as dividends to shareholders. The company's strategic approach to allocating profits for growth prospects, research and development, and other expansion activities is demonstrated by the retention ratio.

By deducting the dividend paid to shareholders from the entire net income and dividing the result by the total net income, one can determine the retention ratio. It is essentially the percentage of profits that a business decides to reinvest in its operations. A greater retention ratio shows that the company is strongly committed to future growth and value creation and that it is reinvesting a larger share of its income.

It is essential to comprehend the retention ratio since it provides insight into the company's prospects for the future and its capacity for long-term growth. Businesses with greater retention rates might put more emphasis on internal investments, which could boost their competitiveness, asset base, and level of innovation. Conversely, reduced retention ratios can indicate that the business is placing more of an emphasis on paying dividends to its shareholders.

Retention Ratio = Retained Earnings / Net Income

(b) Dividend Yield (DY)

The dividend yield is the ratio of dividends per share to market price per share. Based on the share's market value, the dividend is determined. The dividend that investors get as a percentage of the market price per share in the stock market is known as the dividend yield.

This ratio has a significant impact on market price per share because even a slight variation in dividend per share can have a significant impact on share market value. Purchasing the stock with the higher dividend yield is worthwhile. Higher dividend yields consequently come at a steep price in the market. Important advice from Dividend is to allocate funds for the purchase of shares on the secondary market. Divide the dividend per share by the stock's market price to arrive at this ratio. Thus,

$$\text{DY Ratio} = \frac{\text{Dividend Per Share}}{\text{Market Price Per Share}}$$

(c) Earnings Per Share (EPS)

One of the elements influencing a company's dividend policy and stock price is earnings per share. The computation of earnings per share (EPS) can be useful in determining the earning capability of the company. The rupee amount earned per outstanding share of common stock is referred to as earnings per share. It gauges how profitable the investment made by the stockholders was. The earning per share displays the banks' profitability as an integral of share. By mobilizing their capital, the banks are able to achieve improved profitability, which is indicated by increased earnings and vice versa. The calculation of earnings per share is used to compare the earning potential of the various institutions involved. Thus,

$$\text{EPS} = \frac{\text{Earnings Available to Common Stockholders}}{\text{Number of Common Stock Outstanding}}$$

c) Return on Equity (ROE)

Return on Equity, or ROE, is a key metric that affects how a company sets its dividend policy and how its stock price moves. Return on Equity (ROE) is a measure of a business's profitability compared to the equity held by its shareholders. It sheds light on how well the firm uses the investments made by its shareholders to produce earnings.

Divide the net income by the shareholders' equity to get the return on equity (ROE). This measure evaluates how well a company makes money off of the resources that its investors have invested. A greater ROE indicates that the business is making good use of its equity capital to produce earnings, meaning that shareholders will receive favorable returns.

The ROE metric sheds light on the business's capacity to generate value for its stakeholders as well as its financial success. It makes it possible for analysts and investors to assess how successfully the company's management is using equity capital to increase profitability. A corporation that maintains a high return on equity (ROE) over time may be indicating significant competitive advantages, efficient operations, and healthy financial health.

ROE is significant when considering dividend policy and company price. A strong return on equity (ROE) can have a beneficial impact on a company's ability to produce enough revenue for dividend payments and support expansion plans at the same time. A business that has consistently produced high returns on equity (ROE) may be in a better position to win over investors and possibly see an increase in its stock price.

On the other hand, a falling or low ROE may force a business to reevaluate how it distributes dividends or look at ways to increase profitability. This could therefore affect investor views and could result in changes to the stock price.

Essentially, return on equity (ROE) is a critical metric used to assess a company's financial performance, direct decisions on dividend policy, and impact stock price fluctuations. It shows how well the business is able to convert equity investments into

earnings and offers insightful information about how profitability, dividend distribution, and shareholder value creation interact.

ROE = (Net Income / Shareholders' Equity) * 100

3.5.2 Dependent Variable

Market Price Per Share (MPS)

This ratio compares the book value per share of joint venture banks to the market conditions per share in the competitive open market. This ratio shows how much the market is willing to pay for the portion of the banks' declared net worth that is reported.

Comparing market share prices of various stocks based on book value per share is a crucial task. It displays a stock's market share price as a percentage of book value per share along with the impact of subsequent events on the former. In terms of market price per share to book value per share, the higher ratios indicate that joint venture banks have performed better. By dividing the market price per share by the book value per share, one can get this ratio. Thus,

Market Price Per Share (MPS) = P/E Ratio * Earnings Per Share

3.6 Methods of Analysis

The secondary data used in this study were gathered from five commercial banks using a straightforward sampling technique. The secondary data used in this study were gathered from the 2012–2021 annual reports of the chosen institutions. Using multiple regression analysis, correlation analysis, and descriptive analysis, the gathered data are examined using SPSS 26 software.

3.6.1 Descriptive Analysis

According to Mugenda and Mugenda (2003), descriptive analysis is typically the best method for obtaining data that illustrates relationships and presents the world as it is—that is, the rate or frequency distribution, mean, and change influencing the share price of commercial banks. This analysis can be helpful in identifying the key points of the examination's data and in providing an overview of the example and metrics.

3.6.2 Correlation Analysis

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

Correlation interpretation is based on following five classical rules:

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

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

3.6.3 Multiple Regression Analysis

All that a correlation study can determine is whether or not there is a significant relationship between two variables. However, even while a correlation coefficient suggests that there is a significant relationship between two variables, it is impossible to pinpoint the precise nature of that association. Regression analysis sheds more light on the relationship's slope in this instance. Predictions and descriptions of the characteristics of a relationship are made with it. This section ascertains which independent variable accounts for variation in the result and the extent to which variability in dependent variables is significant (relative to other variables) in explaining the dependent variable's variability.

Regression analysis assumes that there is a causal link between two or more variables, whereas correlation analysis makes no such assumption. A single dependent variable is the subject of a simple linear regression, whereas a single dependent variable is the

subject of multiple linear regressions, which illustrate the effects of several independent variables. The degree of association between two variables is all that correlation analysis can reveal. Regression analysis is therefore performed in order to gain a deeper comprehension of the degree of correlation between two or more variables. The impact of several independent factors on a single dependent variable is examined using multiple regression analysis. Therefore, the impact of numerous independent variables on the saving behavior of Nepalese customers is examined using multiple regression analysis.

To determine the link between the independent and dependent variables, linear regression analysis was used. One benefit of using linear regression analysis was being able to assess several independent factors that influence the dependent variables at the same time. The effects of the independent variables Market Price per share (MPS), Retention Ratio (RR), Dividend Yield (DY), Earnings per Share (EPS), and Return on Equity (ROE) are predicted using multiple linear regression analysis. This is the equation that represents the impact of independent variables:

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e_i$$

Where,

$\hat{Y}$ = Market Price per share (MPS)

X_1 = Retention ratio (RR)

X_2 = Dividend Yield (DY)

X_3 = Earnings per share (EPS)

X_4 = Return on Equity

α = Constant

β_1, β_2,β_3, and β_4 = Regression coefficients of factor 1, 2, 3 and factor 4.

ei = Error term

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Results

Under this heading the financial variables have been presented, analyzed, and calculated.

4.1.1 Market Price per Share (MPS)

The market price per share, often simply called the "market price," is the current price at which a single share of a publicly traded company is bought or sold on the open market. The average market price per share of the MFIs under study is presented in table form as follows:

Table 2

Market Price per Share of the MFIs

Year	CLBSL	NUBL	DLBSL
2021/22	1100	1099	940
2020/21	1738	1600	866
2019/20	1090	1015	866
2018/19	950	841	722
2017/18	749	1024	750
2016/17	2010	2140	1280
2015/16	2290	2420	3300
2014/15	1398	1401	1340
2013/14	1463	135	1109
2012/13	511	280	488
Mean	1329.90	1195.50	1166.10
Std. Dev	561.35	727.03	793.13
C.V.	0.42	0.61	0.68

Source: Annual Reports of Microfinance Companies, 2012/13 to 2021/22

The Table 2 offers a comprehensive view of the Market Price per Share for three MFIs CLBSL, NUBL, and DLBSL for the period of 10 years. CLBSL stands out with an average Market Price per Share of 1329.90, showing a moderate level of variability reflected by a standard deviation of 561.35. The coefficient of variation (C.V.) for

CLBSL at 0.42 suggests a relatively stable trend in its market price over the observed years. NUBL, on the other hand, presents an average Market Price Per Share of 1195.50, accompanied by a higher standard deviation of 727.03. The C.V. for NUBL is 0.61, indicating a relatively higher level of fluctuation in its market price. The share price of NUBL exhibits variability throughout the specified time frame.

DLBSL demonstrates an average Market Price Per Share of 1166.10, with a standard deviation of 793.13. The C.V. for DLBSL is 0.68, signaling a relatively higher level of variability in its market price. Despite the variability, DLBSL's share price remains relatively stable with some fluctuations.

In summary, CLBSL boasts the highest average market price, followed by NUBL and DLBSL. The coefficient of variation provides additional context, highlighting a moderate level of variability in CLBSL's market price and relatively higher variability for NUBL and DLBSL.

4.1.2 Retention Ratio

The retention ratio is a financial metrics which indicates the percentage of earnings retained by an institution for its internal use.

Table 3

Retention ratio of the sample MFIs

Bank	CLBSL	NLBSL	DLBSL
2021/22	43.201	57.311	57.603
2020/21	54.840	42.744	65.900
2019/20	32.994	27.848	14.347
2018/19	43.176	34.237	19.094
2017/18	-6.809	-119.671	16.597
2016/17	0.772	-133.691	20.000
2015/16	33.418	52.992	-16.774
2014/15	48.058	-11.010	-1.056
2013/14	26.746	14.714	-18.092
2012/13	29.735	31.033	30.611
Mean	30.613	-0.349	18.823
Std. Dev	19.79824	69.4112436	27.709893
C.V.	1.546251	-0.0050329	0.6792882

The Table 3 outlines the annual percentage changes in retained earnings for three banks: CLBSL, NLBSL, and DLBSL, across multiple fiscal years.

The retained earnings performance of CLBSL reveals a consistent positive trend, with yearly percentage changes ranging from -6.809% to 54.840%. The average percentage change for CLBSL stands at 30.613%, indicating a substantial overall increase in retained earnings over the given period. Contrastingly, NLBSL displays a mixed performance, as evidenced by both positive and negative percentage changes in retained earnings. The mean percentage change for NLBSL is close to zero at -0.349%, suggesting a relatively stable or neutral overall trend in retained earnings during the observed years.

DLBSL demonstrates variability in its retained earnings, with a mix of positive and negative changes. Despite the fluctuations, the mean percentage change for DLBSL is 18.823%, reflecting a moderate overall increase in retained earnings over the specified fiscal years.

The standard deviation values associated with each bank offer insights into the volatility of retained earnings changes. CLBSL exhibits higher volatility (19.79824%), NLBSL demonstrates minimal volatility (-0.0050329%), and DLBSL falls in between with a moderate standard deviation of 27.709893%.

4.1.3 Dividend Yield (DY)

Dividend Yield is a financial metric that represents the annual dividend income an investor can expect to receive from an investment. The dividend yield of the MFIs under study is presented in the table as below.

Table 4

Dividend yield of the MFIs

Year	CLBSL	NUBL	DLBSL
2021/22	0.02	0.02	0.02
2020/21	0.02	0.02	0.02
2019/20	0.03	0.01	0.02
2018/19	0.05	0.05	0.06
2017/18	0.05	0.04	0.03
2016/17	0.02	0.04	0.02

2015/16	0.02	0.01	0.02
2014/15	0.04	0.04	0.04
2013/14	0.03	3.90	0.05
2012/13	0.09	0.11	0.07
Mean	0.04	0.42	0.04
Std. Dev	0.02	1.22	0.02
C.V.	0.62	2.87	0.53

Source: Annual Reports of Microfinance Companies, 2012/13 to 2021/22

The Table 4 illustrates the Dividend Yield of CLBSL, NUBL, and DLBSLover a period of ten years. CLBSL maintained an average Dividend Yield of 0.04, showing a moderate level of variability as indicated by the standard deviation of 0.02. The coefficient of variation (C.V.) for CLBSL at 0.62 suggests a stable Dividend Yield trend with some fluctuations observed over the years.

NUBL, in contrast, displayed a higher average Dividend Yield of 0.42, but with a notable standard deviation of 1.22. The C.V. for NUBL at 2.87 indicates a relatively high level of fluctuation in its Dividend Yield. NUBL's dividend distribution demonstrated significant variability throughout the specified time frame, reflecting fluctuations in dividend payouts.

DLBSL showed an average Dividend Yield of 0.04, with a standard deviation of 0.02. The C.V. for DLBSL is 0.53, signifying a moderate level of variability in its Dividend Yield. Despite some fluctuations, DLBSL's dividend distribution remained relatively stable over the observed period.

In summary, CLBSL and DLBSL exhibited lower average Dividend Yields, while NUBL had a higher average. The coefficient of variation provides additional context, highlighting a moderate level of variability for CLBSL and DLBSL, and a relatively high variability for NUBL in terms of their Dividend Yields.

4.1.4 Earnings Per Share (EPS)

Earnings per Share (EPS) is a financial metric that represents the portion of a company's profit attributable to each outstanding share of its common stock. EPS is a key indicator of a company's profitability on a per-share basis. Earnings per Share of MFIs under Study are tabulated as follows:

Table 5

Earnings Per Share of MFIs

Year	CLBSL	NUBL	DLBSL
2021/22	44.42	46.85	49.65
2020/21	66.43	54.23	61.73
2019/20	43.28	18.96	23.35
2018/19	78.03	61.63	55.62
2017/18	37.45	20.08	23.98
2016/17	45.35	34.52	38.75
2015/16	79.15	67.18	45.07
2014/15	101.46	55.77	52.08
2013/14	61.43	61.71	42.34
2012/13	68.64	45.79	50.44
Mean	62.56	46.67	44.30
Std. Dev	20.30	17.11	12.67
C.V.	0.32	0.37	0.29

Source: Annual Reports of Microfinance Companies, 2012/13 to 2021/22

The Table 5 presents the Earnings Per Share (EPS) data for three MFIs CLBSL, NULB, and DLBSL over a period of ten years.

CLBSL shows an average EPS of 62.56, with a standard deviation of 20.30. The coefficient of variation (C.V.) is 0.32, indicating a relatively stable EPS for CLBSL with moderate variability observed over the years. NUBL maintained an average EPS of 46.67, with a standard deviation of 17.11. The C.V. for NUBL is 0.37, suggesting a moderate level of fluctuation in its EPS. NUBL's earnings per share exhibited variability over the specified time frame. DLBSL demonstrated an average EPS of 44.30, with a standard deviation of 12.67. The C.V. for DLBSL is 0.29, signifying a relatively stable EPS with minimal fluctuation. DLBSL's earnings per share remained consistent over the observed period. In summary, CLBSL exhibited the highest average EPS, followed by NUBL and DLBSL. The coefficient of variation provides additional context, indicating the stability of EPS for CLBSL and DLBSL, while NUBL experienced a moderate level of fluctuation in its earnings per share.

4.1.5 Return on Equity

Return on Equity (ROE) is a financial ratio that measures the profitability of a company in relation to its shareholders' equity. The Return on Equity (ROE) of the MFIs under study is presented in the table as below.

Table 6

Return on Equity of the sample MFIs

Year	CLBSL	NUBL	DLBSL
2021/22	17.4	17.69	11.47
2020/21	29.03	36.53	12.41
2019/20	17.44	10.02	14.95
2018/19	27.09	33.93	27.02
2017/18	39.08	44.37	19.94
2016/17	42.22	43.02	25.93
2015/16	47.24	42.16	36.53
2014/15	46.48	45.32	33.86
2013/14	28.39	24.18	28.24
2012/13	28.24	32.45	21.33
Mean	32.26	32.97	23.17
Std. Dev	10.96	12.11	8.66
C.V.	0.34	0.37	0.37

Source: Annual Reports of Microfinance Companies, 2012/13 to 2021/22

The Table 6 outlines the Earnings Per Share (EPS) data of CLBSL, NUBL, and DLBSL over a ten-year period. CLBSL maintained an average EPS of 32.26, reflecting a moderate level of variability with a standard deviation of 10.96. The coefficient of variation (C.V.) for CLBSL at 0.34 suggests a relatively stable EPS trend with some fluctuations over the observed years.

NUBL, on the other hand, exhibited an average EPS of 32.97, accompanied by a slightly higher standard deviation of 12.11. The C.V. for NUBL is 0.37, indicating a moderate level of fluctuation in its EPS. NUBL's earnings per share displayed variability throughout the specified time frame, reflecting changes in financial performance.

DLBSL demonstrated an average EPS of 23.17, with a standard deviation of 8.66. The C.V. for DLBSL is 0.37, signifying a moderate level of variability in its EPS. Despite the variability, DLBSL's earnings per share remained relatively stable with some fluctuations.

In summary, CLBSL and NUBL had similar average EPS, while DLBSL had a slightly lower average. The coefficient of variation provides additional context, highlighting a relatively stable EPS for CLBSL and DLBSL, with NUBL experiencing a moderate level of variability in its earnings per share.

4.2 Inferential Analysis

Statistical tools are the method or technique used to analyze and interpret data. These tools are employed to uncover patterns, relationships, and trends, providing insights and evidence to support hypotheses or research objectives.

4.2.1 Descriptive Statistics

Table 7

Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
MPS	135.00	3300.00	1230.5000	679.93563
RR	-133.69	65.90	16.3622	44.98419
DY	1.30	39.00	4.9008	6.84885
EPS	18.96	101.46	51.1790	18.34591
ROE	10.02	47.24	29.4653	11.25355

The Table 7 provides a comprehensive overview of the central tendency and variability within the dataset for five key financial metrics: Market Price Per Share (MPS), Retention Ratio (RR), Dividend Yield (DY), Earnings Per Share (EPS), and Return on Equity (ROE).

Market Price Per Share (MPS)

The market prices per share exhibit a wide range, from a minimum of 135.00 to a maximum of 3300.00. The mean MPS of 1230.5000 serves as an indicator of the average market price per share, while the standard deviation of 679.93563 highlights considerable variability, suggesting fluctuations around the mean.

Retention Ratio (RR)

The retention ratios present a diverse set of values, ranging from -133.69 to 65.90. The mean RR of 16.3622 provides insight into the average retention ratio, while the standard deviation of 44.98419 underlines the significant dispersion in retention ratios across the dataset.

Dividend Yield (DY)

Dividend yields range from 1.30 to 39.00, with a mean DY of 4.9008. The standard deviation of 6.84885 indicates a moderate level of variability in dividend yields, implying variations around the mean value.

Earnings Per Share (EPS)

Earnings per share exhibit a range from 18.96 to 101.46, with a mean EPS of 51.1790. The standard deviation of 18.34591 points to variability in EPS, indicating that the observations are dispersed around the mean earnings per share value.

Return on Equity (ROE)

Return on equity values range from 10.02 to 47.24, with a mean ROE of 29.4653. The standard deviation of 11.25355 reflects variability in return on equity, illustrating the extent to which ROE values deviate from the mean across the dataset.

In summary, these descriptive statistics offer a nuanced understanding of the distribution and characteristics of the financial metrics, providing valuable insights into the central tendencies and variations within the dataset.

4.2.2 Correlation Analysis

The correlation coefficient measures the relation between two or more variables. It also measures the extent to which one variable effect the other one. The correlation coefficient lies between +1 and –1. The +1 coefficient indicates that the variables are perfectly positively correlated and –1 coefficient indicates that the variables are perfectly negatively correlated. And if the correlation coefficient is 0, it means that the variables are not related to each other. The negative correlation indicates that increase in value of one variable leads to decrease in the value of the other and positive correlation indicates that increase in value of one variable leads to increase in the value of the other variable also. The numbers indicate the degree of correlation between the variables.

The table given below shows the correlation coefficient (r) between the financial variables.

Table 8

Correlation Coefficients

	MPS	RR	DY	EPS	ROE
MPS	1				
RR	-.163	1			
DY	-.475**	.153	1		
EPS	.035	.484**	-.028	1	
ROE	.503**	-.223	-.038	-.242	1

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

The correlation matrix reveals intricate relationships between various financial variables for the specified MFIs over the ten-year period.

Market Price Per Share (MPS)

Market Price Per Share (MPS) demonstrates a negative correlation of -0.475** with Dividend Yield (DY). This indicates that as the market price per share increases, the dividend yield tends to decrease, suggesting an inverse relationship between market valuation and dividend distribution. On the other hand, there is a positive correlation of 0.503** with Return on Equity (ROE), suggesting that higher market prices are associated with better returns on equity, reflecting positive market sentiment regarding the MFIs' profitability.

Retention Ratio (RR)

Retention Ratio (RR) exhibits a weak negative correlation of -0.163 with Market Price Per Share (MPS), indicating a modest inverse relationship between market prices and the MFIs' retention ratios. This implies that as market prices decrease, there might be a subtle increase in the MFIs' retention ratios, reflecting potential strategies of retaining more earnings. RR shows a more substantial positive correlation of 0.484** with Earnings Per Share (EPS), indicating that a higher retention ratio is associated with higher earnings per share, highlighting the impact of the retention policy on profitability.

Dividend Yield (DY)

Dividend Yield (DY) has a notable negative correlation of -0.475** with MPS, implying that as market prices increase, dividend yields tend to decrease. This suggests that investors may be willing to accept lower dividend yields for stocks with higher market prices. No significant correlations are observed between DY and other variables (RR, EPS, and ROE).

Earnings Per Share (EPS)

Earnings Per Share (EPS) displays a positive correlation of 0.484** with RR, suggesting that higher earnings per share are associated with higher returns on revenue. However, EPS has a negative correlation of -0.242 with Return on Equity (ROE), indicating a potential inverse relationship between earnings per share and return on equity.

Return on Equity (ROE)

Return on Equity (ROE) exhibits a positive correlation of 0.503** with MPS, indicating that higher market prices are associated with better returns on equity. There is a negative correlation of -0.223 with RR, suggesting a potential inverse relationship between return on equity and return on revenue. This implies that higher returns on equity are associated with lower returns on revenue.

In summary, the correlation matrix underscores the nuanced connections between these financial variables. Market Price Per Share and Return on Equity share significant positive correlations, reflecting the intertwining of market sentiment and profitability. Dividend Yield shows an inverse relationship with market prices, and Earnings Per Share demonstrates associations with both Return on Revenue and Return on Equity, providing a comprehensive understanding of the dynamic interplay among these financial indicators.

4.2.3 Regression Analysis

A correlation analysis can only tell whether or not a strong relationship exists between two variables. But even if a correlation coefficient indicates that a strong relationship exists between two variables, the exact shape of the relationship between the two variables cannot be determined. In this case, regression analysis provides more information about the slope of the relationship. It is used to describe the nature of a

relationship and to make predictions. This section determines which independent variable explains variability in the outcome, how much variability in dependent variables are significant (over other variables) in explaining the variability of the dependent variable.

While correlation analysis assumes no causal relationship between variables, regression analysis assumes causal relationship between two or more variables. Simple linear regression shows the effect of an independent variable on single dependent variable while multiple linear regressions show the effects of multiple independent variables on single dependent variable. Correlation analysis only provides the degree of relationship between two variables. Thus, regression analysis is done to have better understanding of the strength of relationship between two or multiple variables. Multiple regression analysis is used to analyze the impact of multiple independent variables on single dependent variable. Thus, multiple regression analysis is used to analyze the impact of various independent variables of Market price per share (MPS). Multiple regression analysis is also used to analyze the service quality on customer satisfaction in Nepalese banking sector.

Linear regression analysis was conducted to identify relationship between the independent variables Retention Ratio (RR), Dividend Yield (DY), Earnings per Share (EPS) and Return on Equity (ROE) and dependent variables (Market Price Per Share (MPS)). The advantage of conducting linear regression analysis included the ability to evaluate multiple independent variables that simultaneously affect the dependent variables. Multiple linear regression analysis is used to predict the impact of independent variables of service quality. The equation for impact of independent variables is expressed in the following equation:

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e_i$$

Where,

$\hat{Y}$ = Market Price per share (MPS)

X_1 = Retention ratio (RR)

X_2 = Dividend Yield (DY)

X_3 = Earnings per share (EPS)

X_4 = Return on Equity (ROE)

α = Constant

β_1, β_2,β_3, and β_4 = Regression coefficients of factor 1, 2, 3 and factor 4.

ei = Error term

The results of model summary, analysis of variance (ANOVA) and beta coefficients of impact of independent variables the customer satisfaction in Nepalese banking sector are presented in the following tables.

Table 9

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.697a	0.485	0.403	525.43744

Predictors: (Constant), ROE, DY, EPS, RR

The model summary provides a comprehensive overview of the regression analysis, offering key insights into the relationship between the dependent variable and a set of predictors, including a constant term, Return on Equity (ROE), Dividend Yield (DY), Earnings Per Share (EPS), and Retention Ratio (RR). The correlation coefficient (R) of 0.697 indicates a moderate positive correlation, suggesting that the chosen predictors collectively influence the dependent variable. This points to a meaningful association between the financial metrics represented by ROE, DY, EPS, and RR and the variable under consideration.

The R Square value of 0.485 signifies that approximately 48.5% of the variability in the dependent variable is explained by the predictors in the model. This suggests a moderate level of explanatory power, indicating that the selected financial metrics contribute significantly to understanding the observed variance. The Adjusted R Square, slightly lower at 0.403, provides a more conservative estimate, considering the model's complexity. It indicates that around 40.3% of the variability is explained, accounting for the inclusion of ROE, DY, EPS, and RR as predictors.

The Standard Error of the Estimate, with a value of 525.43744, represents the average difference between the observed and predicted values. A lower standard error suggests a better fit of the model to the data, indicating that the model's predictions closely align with the actual observations. Overall, the inclusion of ROE, DY, EPS, and RR as predictors in the model demonstrates a moderate level of effectiveness in

explaining and predicting the dependent variable, as indicated by the correlation and variability metrics provided in the model summary.

Table 10

ANOVA Table

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6504948.951	4	1626237.238	5.890	.002
	Residual	6902112.549	5	276084.502		
	Total	13407061.500	9			

a. Dependent Variable: MPS

b. Predictors: (Constant), ROE, DY, EPS, RR

The analysis of variance (ANOVA) table offers valuable insights into the overall performance of the regression model in explaining the variability observed in the dependent variable, Market Price Per Share (MPS). The sum of squares due to regression is 6504948.951, indicating the total variability in MPS that can be attributed to the predictors—Constant, Return on Equity (ROE), Dividend Yield (DY), Earnings Per Share (EPS), and Retention Ratio (RR). The degrees of freedom associated with the regression are 4, reflecting the number of predictors in the model.

The F-statistic of 5.890 is indicative of the overall significance of the regression model. With a significance level (Sig.) of .002b, which is below the commonly used threshold of 0.05, the results suggest that the regression model is statistically significant in explaining the variance in MPS. This implies that the financial metrics, specifically ROE, DY, EPS, and RR, collectively contribute meaningfully to predicting Market Price Per Share.

On the other hand, the sum of squares for residuals, representing unexplained variability, is 6902112.549, with 25 degrees of freedom. The mean square for residuals is 276084.502, providing an indication of the average amount of unexplained variability.

In summary, the ANOVA results support the conclusion that the regression model, considering ROE, DY, EPS, and RR as predictors, is statistically significant in explaining and predicting the observed variance in Market Price Per Share. The F-statistic, along with the significance level, underscores the meaningful impact of the selected financial metrics on the dependent variable.

Table 11

Coefficients Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	201.473	457.587		.440	.664
	RR	-1.036	2.543	-.069	-.407	.687
	DY	-43.635	14.522	-.440	-3.005	.006
	EPS	6.702	6.199	.181	1.081	.290
	ROE	31.115	9.010	.515	3.454	.002

a. Dependent Variable: MPS

The coefficients table presents estimates for the impact of various predictors on the dependent variable, Market Price Per Share (MPS), in the regression model. The intercept, represented by the constant term of 201.473, does not demonstrate statistical significance with a p-value of .664, suggesting that the intercept may not significantly differ from zero.

Examining individual predictors, the Retention Ratio (RR) shows an unstandardized coefficient of -1.036 with a standard error of 2.543. However, the p-value of .687 suggests that RR is not statistically significant, indicating that changes in Retention Ratio may not have a significant impact on Market Price Per Share.

In contrast, Dividend Yield (DY) exhibits a notable impact on MPS with a significant negative coefficient of -43.635 and a p-value of .006. This suggests that higher Dividend Yields are associated with lower market prices per share. The statistical significance implies a reliable relationship between DY and MPS.

Earnings Per Share (EPS) shows a positive coefficient of 6.702, indicating a positive relationship with MPS. However, the p-value of .290 suggests that this relationship is not statistically significant, and changes in EPS may not reliably predict changes in Market Price Per Share.

Return on Equity (ROE) demonstrates a substantial positive impact on MPS, as indicated by the coefficient of 31.115 with a low p-value of .002, suggesting statistical

significance. Higher returns on equity are associated with higher market prices per share, emphasizing the importance of ROE as a predictor in the model.

In summary, the coefficients table reveals that Dividend Yield and Return on Equity significantly influence Market Price Per Share in the specified regression model. Conversely, Retention Ratio and Earnings Per Share do not show statistical significance, emphasizing the selective impact of specific financial metrics on predicting MPS.

4.3 Discussion

The comprehensive statistical analysis conducted in this study, incorporating correlation, regression, and multiple regression models, aimed to elucidate the intricate relationship between dividend policies and stock prices within Nepalese micro financial institutions. However, when contextualizing these findings within the unique dynamics of the Nepalese financial market, certain distinctive characteristics emerge. Notably stable dividend payout policies are not commonly observed among the sampled micro financial institutions. The dividend payout ratios of these companies exhibit a lack of consistency, pointing towards the absence of well-defined and appropriate dividend payment policies in this context.

The observed insignificant relationship between Dividend Per Share (DPS) and other variables suggests that the dividend policies of these micro financial institutions may not be optimally structured. This aligns with the broader narrative that cash dividends alone may not be the sole determining factor influencing share prices. Instead, the study contends that other factors, such as earning power, bonus shares, and the information value of dividend decisions, play crucial roles in share price fluctuations. Particularly in the imperfect market mechanism characteristic of the Nepalese Share Market, external factors like security brokers, market makers, and market rumors significantly contribute to share price volatility.

The results obtained from the data analysis of the Earnings Per Share (EPS), Dividend Per Share (DPS), Market Price Per Share (MPS), Dividend Payout Ratio (DPR), Price/Earnings Ratio (P/E Ratio), Earnings Yield (EY), and Dividend Yield (DY) of sampled micro financial institutions reveal both positive and negative outcomes. The lack of uniformity in the relationship of MPS with various financial indicators indicates the inefficiency of the Nepalese stock market in determining MPS based on

financial performance. This departure from the efficient market hypothesis suggests that the market price of shares in Nepal may not accurately reflect a company's financial performance.

In comparison to previous studies on dividend policy and stock prices, our findings contribute to the evolving understanding of this relationship, particularly within the context of Nepalese micro financial institutions. Singh and Tandon (2019) supported relevant approaches to dividend policy and found a significant effect on stock prices. In contrast, our study in the Nepalese micro financial context revealed an insignificant relationship between Dividend Per Share (DPS) and other variables, suggesting that the dividend policies of these institutions may not be optimally structured.

Robiyanto and Yunitaria (2022) explored the impact of the COVID-19 pandemic on dividend announcement effects, highlighting negative market reactions. Our study, although not directly addressing the pandemic, underscores the inefficiency of the Nepalese stock market in determining Market Price Per Share (MPS) based on financial performance, indicating potential external factors influencing share price fluctuations.

Mlambo and Bonga-Bonga (2019) identified sentiment-driven noise trader activity contributing to volatility in the Johannesburg Stock Exchange. While our study did not specifically focus on sentiment-driven activities, it aligns with the understanding that external factors, such as security brokers and market rumors, significantly contribute to share price volatility in the imperfect market mechanism characteristic of the Nepalese Share Market.

Kumari and Mahakud (2016) observed a positive relationship between investor sentiment and market volatility, correlating sentiment with dividend percentage and total assets. In contrast, our study does not directly measure sentiment but suggests that factors beyond cash dividends, such as earning power and bonus shares, play crucial roles in share price fluctuations in the Nepalese micro financial context.

The study by Gautam (2009) highlighted inconsistent dividend payments and the need for a clear dividend strategy in two MFIs. Our findings resonate with this by suggesting that the dividend policies of micro financial institutions in Nepal may not be optimal, emphasizing the absence of well-defined and appropriate dividend payment policies.

Adhikari (2007) found a positive relationship between dividends and stock prices. Our study, while not explicitly measuring this relationship, indicates that the MPS in Nepal may not accurately reflect a company's financial performance, challenging the efficient market hypothesis.

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

The decision-making process surrounding dividend policies holds a significant position within the broader framework of financial management. Dividends, constituting a portion of a firm's net earnings distributed to shareholders, play a crucial role in influencing the operational and prosperity aspects of an organization. This study aims to delve into the prevalent practices of listed companies regarding dividend payments, with a particular focus on assessing the dividend policy's impact on market prices in MFIs.

The study recognizes that the dividend decision holds the power to attract new investors and maintain existing ones. However, the debate on whether dividend policy affects value remains, with uncertainty being a key factor. The multifaceted nature of factors influencing dividend payments encompasses investor preferences, financing needs, and potential investments. Consequently, the dividend decision not only shapes the company's structure but also carries informational value for investors.

In the Nepalese context, where only a few listed companies pay regular dividends, and stable dividend payout policies are not common, the study seeks to address the instability of dividends and haphazard payout ratios. Companies are observed to inadequately maintain cash balances for dividend payments. The specific objectives include exploring the relationship between various financial indicators and identifying appropriate dividend policies for different MFIs.

While dividends serve as a tool to attract new investors and signify financial health in the market, their division between dividend payout and retention ratio can impact the market price of shares. In this light, the study focuses on analyzing dividend-paying MFIs, particularly CLBSL, NUBL, and DLBSL, over the past ten fiscal years from 2069/70 to 2021/22. By employing various financial and statistical tools, the study aims to provide insights into the implications of the adopted dividend policies on the market price per share.

5.2 Conclusion

The analysis of the impact of dividend policy on the stock prices of MFIs in Nepal provides valuable insights into the dynamics shaping market valuation. The regression coefficients reveal that Return on Equity (ROE) holds a statistically significant positive relationship with Market Price Per Share (MPS). This finding suggests that MFIs demonstrating higher returns on equity tend to experience higher stock prices. This positive correlation underscores the market's recognition and reward for MFIs that exhibit robust profitability, aligning with the notion that investors value firms with a history of generating strong returns for shareholders.

The ANOVA results bolster the significance of the overall regression model, highlighting that the chosen independent variables collectively contribute to explaining the variability in MPS. The F-statistic of 5.890 with a p-value of .002 reinforces the importance of factors such as ROE in influencing stock prices. This statistical significance underscores the credibility of the model in capturing the impact of dividend policy on market valuation in the context of Nepalese MFIs.

Correlation coefficients further elucidate the relationships between variables. The positive correlation between ROE and MPS, statistically significant at the 0.01 level, emphasizes the meaningful connection between profitability and market valuation. MFIs with higher returns on equity are perceived positively by the market, leading to higher stock prices. This positive relationship signifies that investors recognize and reward MFIs that effectively utilize equity to generate profits, contributing to a positive feedback loop in market valuation.

The descriptive statistics offer a summary of the central tendency and variability within each variable. The wide range of MPS values indicates diverse stock prices among the sampled MFIs. The positive skewness in ROE suggests that a majority of MFIs have higher returns on equity, contributing to the positive relationship with stock prices. The focus on these positive aspects underscores the resilience and strength of MFIs that have successfully translated profitability into higher market valuations.

In a nutshell, the study on the impact of dividend policy on stock prices of MFIs in Nepal highlights the positive relationship between MPS and ROE. The market recognizes and rewards MFIs that exhibit strong profitability, leading to higher stock prices. This positive correlation serves as a testament to the importance of sound

financial performance in shaping investor perceptions and influencing market dynamics. The findings contribute valuable insights for policymakers, investors, and researchers interested in understanding the nuanced interplay between dividend policy and stock prices in the Nepalese banking sector.

5.3 Implication

The findings of the study on the impact of dividend policy on the stock prices of MFIs in Nepal hold significant implications for various stakeholders, offering strategic guidance, informing investor decisions, shaping policy formulation, guiding financial analyst recommendations, and emphasizing the importance of long-term value creation.

Strategically, the positive relationship between Market Price Per Share (MPS) and Return on Equity (ROE) provides clear guidance for MFIs. To enhance their stock prices, MFIs should prioritize and actively work towards improving their profitability. Strategies that focus on operational efficiency, prudent financial management, and well-planned investments contributing to favorable returns can play a pivotal role in achieving this objective.

For investors, the study's insights become a valuable tool in decision-making. The positive correlation between ROE and MPS suggests that investors may benefit from giving greater consideration to MFIs with a history of strong profitability. By aligning their investment choices with the understanding that the market tends to reward MFIs with higher returns on equity, investors can make more informed decisions in line with their financial objectives.

Policymakers within the banking and financial sector can leverage these findings to formulate policies that encourage sound financial management and profitability. Creating an environment that incentivizes MFIs to adopt strategies leading to higher ROE may contribute to a healthier and more robust banking industry. Policymakers can consider incorporating measures that align the interests of MFIs, investors, and the broader financial ecosystem for sustained growth.

Financial analysts, responsible for providing insights and recommendations to investors, can incorporate the study's implications into their analyses. The study emphasizes the significance of ROE in influencing stock prices, suggesting that analysts may place greater emphasis on evaluating and forecasting the profitability of

MFIs when offering recommendations. This comprehensive approach can lead to more accurate and insightful analyses, providing investors with a more nuanced understanding of potential investment opportunities.

At its core, the study underscores the enduring importance of fundamental financial strength for long-term value creation. The positive relationship between ROE and MPS reinforces the idea that sustained profitability is intricately linked to a MFI's ability to create lasting value for both itself and its shareholders. This insight encourages stakeholders to adopt a strategic, forward-looking approach that prioritizes financial health and resilience over the long term.

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ABSTRACTS The main objectives of the study was to analysis of the impact of dividend policy on the stock prices of MFIs in Nepal provides valuable insights into the dynamics shaping market valuation. The regression coefficients reveal that Return on Equity (ROE) holds a statistically significant positive relationship with Market Price Per Share (MPS). This finding suggests that MFIs demonstrating higher returns on equity tend to experience higher stock prices. This positive correlation underscores the market's recognition and reward for MFIs that exhibit robust profitability, aligning with the notion that investors value firms with a history of generating strong returns for shareholders. The ANOVA results bolster the significance of the overall regression model, highlighting that the chosen independent variables collectively contribute to explaining the variability in MPS. The F-statistic of 5.890 with a p-