DETERMINANTS OF STOCK RETURN OF LISTED MANUFACTURING COMPANIES IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

By

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July, 2024

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Determinants of stock return of listed manufacturing companies in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has 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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Srirjana Singh

July 2024

REPORT OF RESEARCH COMMITTEE

Ms Srirjana Singh has defended research proposal entitled "**Determinants of stock return of listed manufacturing companies in Nepal**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Mr. Dhurba Prasad Subedi and submit the thesis for evaluation and viva voce examination.

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Dissertation Viva Voce Date:

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APPROVAL SHEET

We have examined the dissertation entitle "**Determinants of stock return of listed manufacturing companies in Nepal**" presented by **Srirjana Singh** for the degree of **Master of Business Studies (MBS).** We hereby certify that the dissertation is acceptable for the award of degree.

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ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to all those who have supported and guided me throughout the process of completing this thesis on the "Determinants of Stock Return of Listed Manufacturing Companies in Nepal."

First and foremost, I would like to thank my thesis supervisor for their invaluable guidance, encouragement, and insightful feedback. Their expertise and dedication have been instrumental in shaping this work.

I am also deeply grateful to the faculty and staff at Shankar Dev Campus for providing a conducive learning environment and for their continuous support throughout my academic journey.

I would also like to extend my heartfelt thanks to my family and friends for their unwavering support and encouragement, which have been a source of strength and motivation for me. Thank you all for your support and encouragement.

Sincerely,

Srirjana Singh

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LIST OF ABBREVIATION

BV: Book Value

CAPM: Capital Asset Pricing Model

CR: Capital Adequacy Ratio

D/E: Debt-to-Equity Ratio

DPR: Dividend Payout Ratio

EMH: Efficient Market Hypothesis

EPS: Earnings Per Share

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

MBS: Master of Business Studies

MPT: Modern Portfolio Theory

MV: Market Value

NEPSE: Nepal Stock Exchange

P/E: Price-to-Earnings Ratio

ROA: Return on Assets

ABSTRACT

The study investigates the determinants of stock return for listed manufacturing companies in Nepal. The foundational principle posits that the anticipated return on equity should increase with the debt embedded within a firm's capital structure in a market with friction. Surprisingly, analyses of manufacturing companies and their stock returns in Nepal remain noticeably absent. The objectives of this study are to explore the factors affecting stock return, analyze the relationship among Return on Assets (ROA), Debt-to-Equity Ratio (D/E), Dividend Payout Ratio (DPR), and Earnings Per Share (EPS) with stock return and examine their impact on the stock return of Nepalese manufacturing companies.

The research employed a descriptive and causal-comparative design, utilizing secondary data from NEPSE and financial reports of listed companies from 2016/17 to 2020/21. The sample included data from Unilever Nepal Limited, Himalayan Distillery Company, Bottlers Nepal Limited, and Bottlers Nepal Terai Limited, totalling 20 observations.

The major findings reveal that Market Capitalization significantly influences stock returns, with a strong positive correlation. ROA shows a weak positive correlation with stock returns, while the D/E ratio exhibits a moderate positive correlation, indicating that higher leverage correlates with higher stock returns. DPR and EPS demonstrate weaker correlations, with DPR having no significant impact and EPS showing a slight negative association. Regression analysis confirms that ROA and D/E ratio are significant predictors of stock returns.

In conclusion, the study provides valuable insights into the financial determinants of stock returns for manufacturing companies in Nepal. Market Capitalization and leverage play significant roles in stock performance, while dividend policies and earnings per share have limited impact. These findings offer actionable insights for investors, analysts, and policymakers in optimizing investment strategies and understanding stock market dynamics in Nepal's manufacturing sector.

Keywords: *Debt-to-Equity Ratio, Dividend Payout Ratio, Earnings Per Share, Manufacturing Companies. Nepal, Return on Assets, Stock Return*

CHAPTER I

INTRODUCTION

1.1 Background of the study

The performance of stock markets is a critical indicator of economic health, reflecting investor sentiment and the financial health of listed companies. In emerging markets like Nepal, the stock market is gaining significance as a key driver of economic growth. Understanding the determinants of stock returns for listed manufacturing companies in Nepal is essential for investors, policymakers, and market participants to make informed decisions.

Recent studies emphasize the influence of both firm-specific and macroeconomic factors on stock returns. According to Adhikari (2020), firm-specific factors such as firm size, leverage, and profitability are crucial determinants of stock returns in Nepalese commercial banks. This suggests that similar firm-specific factors could be significant for manufacturing companies as well. Adhikari's study highlights that investor tend to prefer financially stable and profitable firms, indicating that profitability metrics may play a vital role in influencing stock returns.

Moreover, the impact of macroeconomic variables on stock returns cannot be overlooked. Paudel and Khanal (2019) investigated the broader determinants of stock market performance in Nepal and found that macroeconomic variables such as interest rates, inflation, and GDP growth significantly influence stock returns. Their analysis highlights the interconnectedness of Nepal's economy with its stock market, suggesting that investors closely monitor these macroeconomic indicators when making investment decisions.

Gautam (2021) further supports the significance of macroeconomic variables, demonstrating that inflation, interest rates, and foreign exchange rates are substantial determinants of stock returns in Nepal. This study underscores the necessity for investors to consider macroeconomic trends and their potential impact on stock performance.

Additionally, market liquidity has been identified as a critical factor affecting stock returns. Bhandari (2022) found that higher market liquidity, indicated by trading volume and turnover ratios, is associated with better stock performance. This implies that liquid

markets attract more investors and enhance overall market efficiency, which is crucial for the manufacturing sector in Nepal.

Another significant aspect is the role of dividend policies in investment decisions. Maskey (2022) analyzed the factors affecting share prices of life insurance companies listed on the Nepal Stock Exchange (NEPSE) and emphasized the critical role of dividend policies. The study identified earnings per share, dividend per share, and price-earnings ratio as significant determinants, suggesting that similar factors could influence stock returns in the manufacturing sector.

Recent literature also indicates the importance of firm-specific financial ratios in predicting stock returns. Anandasayanan (2018) conducted a study on stock return predictability with financial ratios for listed manufacturing companies in Sri Lanka, finding that earnings per share, dividend yield, and earning yield hold significant predictive power regarding stock returns. This highlights the relevance of financial ratios in understanding stock performance in the manufacturing sector.

In summary, the determinants of stock returns for listed manufacturing companies in Nepal are multifaceted, involving both firm-specific factors such as profitability and size, and macroeconomic variables like interest rates and inflation. Additionally, market liquidity and dividend policies play crucial roles in shaping stock performance. Understanding these determinants is vital for investors, policymakers, and market participants to navigate the complexities of the Nepalese stock market and make informed investment decisions.

1.2 Problem statement

The foundational principle posits that the anticipated return on equity should increase with the debt embedded within a firm's capital structure in a market with friction. Surprisingly, analyses of manufacturing companies and their stock returns in Nepal remain noticeably absent. According to theoretical financial frameworks, leveraging introduces risk, and consequently, a more leveraged company translates to a heightened risk for stock investors. Anton (2016) emphasizes the significance of financial statements, including income statements, balance sheets, stockholders' equity statements, and cash flow statements, in evaluating a company's performance. While stakeholders routinely seek relative measurements derived from ratio analysis, the comprehensive evaluation of Nepalese firms' characteristics and their impact on stock returns, specifically about

Capital Adequacy Ratio (CR), Return on Assets (ROA), Debt-to-Equity Ratio (D/E), Dividend Payout Ratio (DPR), and EPS, as well as Share Price, remains largely unexplored.

Bhattarai's (2017) study examines the influence of capital structure on the performance of manufacturing companies listed on the Nepal Stock Exchange. Analyzing ten years of data from eight manufacturing companies' annual reports and financial statements, the study unveils a significant negative relationship between capital structure and the performance of Nepalese manufacturing companies. Additionally, the study identifies a positive association between firm performance and size but a negative association with tangibility.

In a study investigating the practices of Tanzanian listed companies, Bundala (2012) examines whether these companies align with Pecking Order Theory, Agency Cost Theory, or Trade-Off Theory. The results reveal limited support for Pecking Order Theory, predicting positive slopes for growth rate, liquidity, dividend payout, and asset tangibility variables and negative significant slopes for profitability variables. Despite these insightful studies, there remains a conspicuous research gap regarding the comprehensive analysis of Nepalese manufacturing firms' characteristics and their consequential impact on stock returns.

1. Which factors influence the stock return of listed manufacturing companies in Nepal?
2. How do factors such as Return on Assets, Debt-Equity Ratio, Dividend Payout Ratio, and EPS relate to the stock return of manufacturing companies in Nepal?
3. What is the impact of Return on Assets, Debt-Equity Ratio, Dividend Payout Ratio, and EPS on the stock return of Manufacturing companies in Nepal?

1.3 Objectives of the study

The following objectives were proposed to address the problem statement of this study:

1. To assess the factors that affect the stock return of Manufacturing companies in Nepal.
2. To examine the relationship among factors such as Return on Assets, Debt-to-Equity Ratio, Dividend Payout Ratio, EPS, and Stock Return of Manufacturing companies in Nepal.

3. To analyze the impact of Return on Assets, Debt to Equity Ratio, Dividend Payout Ratio, and EPS on the Stock Return of Manufacturing companies in Nepal.

1.4 Rationale of the study

The rationale behind undertaking this research is deeply rooted in its potential to significantly impact the management of firm characteristics and stock returns within the landscape of Nepalese manufacturing companies. With a primary focus on catering to the information needs of potential investors, the study aims to provide a comprehensive understanding of the returns of firms and stock performance in Nepal's manufacturing sector. Furthermore, it aspires to contribute meaningfully to the broader comprehension of the Nepalese stock market. Several key reasons support the rationale of this study.

Firstly, the findings derived from this research are anticipated to hold critical relevance for effectively managing firm characteristics, offering actionable insights specifically tailored for manufacturing companies operating in Nepal. This aspect is pivotal for enhancing the strategic decision-making process within these firms.

Secondly, this study's primary audience comprises potential investors seeking valuable perspectives on firm returns and stock performance within the dynamic context of Nepal's manufacturing sector. The research aims to empower investors with the knowledge necessary for making informed investment decisions in the Nepalese market by addressing their information needs.

Thirdly, on a broader scale, the study endeavors to make a nuanced contribution to understanding Nepal's stock market. While the contribution may be modest in scale, it aims to provide incremental insights into the market's functioning and dynamics, enriching stakeholders' overall comprehension.

The research extends its scope to offer recommendations emphasizing the linkage between firm characteristics and stock returns, specifically focusing on commercial banks in Nepal. This strategic orientation seeks to influence financial institutions, guiding their interactions with manufacturing companies and fostering a symbiotic relationship between the two sectors.

The anticipated practical implications of the study's outcomes are substantial, benefitting both firms and investors. The research is poised to facilitate informed decision-making and strategic planning by shedding light on the intricate connection between firm characteristics and stock returns within the Nepalese context.

Additionally, by contributing insights into this linkage, the study aims to enhance the collective understanding of the Nepalese financial market. This holistic perspective is valuable for market participants, regulators, and researchers, fostering a more comprehensive and informed financial ecosystem.

Finally, the rationale also encompasses a forward-looking perspective, envisioning the study's potential to inspire and guide future research on firm characteristics and stock returns.

1.5 Limitations of the study

This report is part of a Master of Business Studies degree requirement (MBS). The effort has been taken to present and examine the facts clearly, accurately, and constrainedly. However, the report's principal drawbacks are the reliability of tools, a lack of research experience, a time limit, and a lack of data, while subsidiary problems include the following:

i. Only Nepalese manufacturing companies were considered for the research. As a result, the findings may not apply to other small-scale enterprises in Nepal, such as traditional cottage industries, small-scale industries, and medium-scale industries.
ii. The study considered only limited factors. External factors such as the political environment, global environment, and others that were outside the study's control were ignored.

1.6 Organization of the Study

The current study is set up to meet the specified goals easily. The study's structure will attempt to analyze the data systematically. The study's findings and presentation were presented methodically in the study report. The study report is divided into five sections, as follows:

The introductory chapter serves as the study's foundational framework. It begins by providing general background information and a brief profile of the sample banks under consideration. The chapter also explores the problem statement, clarifies the research questions guiding the study, outlines the research purpose, formulates research hypotheses, delineates the rationale for the study, highlights the limitations inherent in the research, and concludes by presenting the study's organizational structure.

The second chapter thoroughly reviews supporting texts and provides a thorough exploration of relevant literature. This includes a thorough review of previous studies on the research topic and identifying gaps in the literature that the current study aims to fill. The literature review is essential for contextualizing the study within the existing body of knowledge.

The third chapter explains the study's research methodology. This includes a detailed discussion of the research design chosen for the investigation, identification, and definition of the population and sample under consideration, an overview of the sampling techniques used, and a detailed exposition of the data collection procedures. Furthermore, the chapter describes the tools and techniques used for data analysis, ensuring the research process's transparency and replicability.

The fourth chapter focuses on data presentation in a clear and organized manner. It visually represents the collected data using appropriate tables and graphs. Furthermore, it employs financial tools and statistical methods to conduct a thorough data analysis. This stage of the study entails a thorough examination and interpretation of the data, which results in the extraction of major findings that contribute to the study's objectives.

The final chapter summarizes the study's conclusion. It begins with a summary of the research, summarizing key aspects and findings. The chapter then delves into concluding the analysis. It also includes recommendations or implications derived from the study's findings. In addition, the chapter contains all the references used throughout the study and any supplementary materials or data in the appendices. This chapter serves as the final synthesis, bringing the research project to a close.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

The focus of this chapter is a thorough examination of current and relevant literature on the subject. The theoretical component of return is investigated on the actual basis of the research. It is the workplace setting. It assesses several fundamental academic courses, books, journals, and other relevant research; however, it cannot provide sufficient detail because our stock market is still in its infancy. As a result, most of the materials examined here are manufactured elsewhere. Several master's degree theses available at Tribhuvan University that are relevant to the issue were also examined while conducting a literature review.

2.1.1 Conceptual Review

The ultimate proprietors of a firm are its common investors. They jointly own the business, which is known as risky security. Since common stock neither guarantees a yearly return nor the stock price recovery, it is the riskiest type of security. As a result, the risk component of investing in common stock is quite sensitive despite the Nepali context. Common stock has long been one of the most popular and favored assets for corporate businesses in Nepal. Investments must produce a return. The incentive for investing is this payoff. It is determined using the expected rate of return, many periods, and single periods. The future is linked to risk, and the future is a mystery. However, risk is the potential loss of investment value. There is a potential that something bad will happen or something of value will be lost (Bhattarai, 2018).

An investment is a financial commitment undertaken to earn a profit. An investment is an individual or institution investor's acquisition of a financial or physical item. If the investment is appropriately made, the return will be proportionate to the risk the investor accepts. Consequently, a return proportional to the risk taken over a future investment term is produced. Almost every person and organization earn, raises, spends, and invests money. This is the definition of finance: the art and science of managing money. Financial focuses on the procedures, markets, and tools used to exchange funds between individuals, businesses, and governments. One of a corporation's most crucial decisions is financing since investment selections also affect a company's ability to earn money. Good financial decisions are essential to a business's success (Ramadan, 2015).

The goal of portfolio analysis is to develop a portfolio with the highest return at whatever degree of risk the investor feels suitable. The expected return and risk statistics are the two types of statistics that the portfolio manager uses when looking for efficient investments. The exogenously established input data in the portfolio analysis are the predicted return and risk statistics for certain assets (Tahmoorespour, Ali-Abbar, & Randjbaran, 2011). Simply said, a portfolio is an investor's practice of spreading their money over various assets. A portfolio is a collection of investment assets. The market capitalization is the total market value of the shares that each company has issued. It is a tool that calculates the market worth of the business. The firm is regarded as a better company if its market value per share is higher; otherwise, it is not (Fitzgerald,2001).

2.1.2 Firm characteristics

Firm characteristics are factors that are mostly under the control of management. These include EPS, liquidity, leverage, sales growth, and firm age. They also include interest rate, GDP, and industry size (Dioha, Mohammed & Okpanachi,2018). This means that the profitability of consumer goods companies could be ascertained using firm-specific attributes (internal attributes) and macroeconomic variables (external attributes) as major determinants of profitability.

2.1.3 Relation between Manufacturing Companies and Securities Market

All businesses must raise money from various sources to buy their assets. If money is raised through loans, another alternative is to issue securities, which can only be done with the assistance of the securities market. Because of this, the Securities Board has created the infrastructure for businesses to generate the necessary capital by issuing shares on the main market (Bhattarai, 2017). Once issued, the shares can be purchased on the primary market. They must be traded on the stock exchange to give shareholders access to liquidity. However, the shares of Nepalese manufacturing firms are traded in a very small volume on the NEPSE, which proves that the success of these businesses on the exchange can be determined by looking at their market capitalization, paid-up value, NEPSE index, etc. Some indicators suggest that manufacturing businesses perform less well than other industries and all the NEPSE's listed companies (Pradhan, Shyam & Shrestha, 2016).

2.1.3 Effect of Firm Characteristics on Stock Return

The impact of these qualities on stock return is a crucial problem for financial research in the contemporary environment when all major actions made by company management swiftly reach the markets and information consumers (Bundala, 2012). There are several techniques to estimate a company's worth. The worth of its shares may be ascertained in various ways, too. Looking at the firm's market value is the most straightforward approach to determining this value for both the company and the shares. The market capitalization of the business, or its market cap, is another name for this. Market capitalization is the amount obtained by dividing the current stock return by the total number of outstanding shares of a company's stock. The stock market is nimble, lively, and interesting (Lavorskyi, 2013).

It enables thousands of simultaneous transactions from traders competing to outbid and outsell one another. There is nonstop bustle from the second it opens to the second it shuts. The examination of complex theoretical models or the intuition of a speculator serves as the foundation for decisions to purchase, sell, or hedge. The availability of fresh information regarding business developments and stock recommendations is ongoing, and articles on novel and inventive market-exploitation strategies are often published. Can the market be taken advantage of? Researchers like Banz (1981) and Fama and French (1992) showed a significant correlation between returns and firm size as determined by total market capitalization. Smaller businesses seem to provide better returns than bigger businesses. Again, there is debate regarding how to interpret these findings. Small businesses' excess returns might indicate their inefficiency, but they can also be seen as payment for taking on risk. Smaller businesses may be far more vulnerable to economic shocks than bigger businesses.

The whole market value of a company's equity is known as market capitalization (Sultana & Akter, 2017). It is one of several methods for determining a company's worth, and it is derived by dividing the stock price by the total number of shares issued. If a company only issues one kind of stock, its market capitalization equals the number of shares times the stock return as of the current market day. The market cap, however, will be the sum of the market capitalization of the various forms of shares if a corporation has many types of equity (Kayode & Olaolu, 2020). Sales and income growth should impact market value measurements and rate of return in both simulated and real sectors. In both simulated and real-world contexts, it is still being determined if growth in one year will impact

profitability and market value measurements in the next year. Asset expansion may also impact sales and income growth in a base year or subsequent year, which may be used as a proxy for plant and equipment expenditures and research intensity, thereby impacting profitability and market value (Leon, 2020).

These results might be seen as being at odds with the theory of efficient markets. When risk is evaluated by beta from the Capital Asset Pricing Model, portfolios made up of equities with low market values (MV) compared to book values (BV) provide excess risk-adjusted returns (Orden & Garmendia, 2005). The link between returns and MV/BVs and the ability of the beta in the CAPM to accurately quantify risk are tested in any evaluation of market efficiency. Fama and French (1992) contend that the market value to book value ratio is a risk indicator in and of itself and that the higher returns produced by low MV/BV firms are a risk-compensation measure. Stocks with low MV/BV ratios frequently experience financial difficulty. This research focuses on another aspect of the firm's features: its profitability. As demonstrated by several prior studies, EPS (Earnings per Share) often has a considerable beneficial effect on market return. This shows that the greater the business's EPS, the higher the market-adjusted and abnormal returns the firm's stock may produce. A higher EPS means the firm will make more money for each dollar it charges for its services (Nasreem, 2013). In their study, investors and shareholders prioritize a company's profitability because they believe it is crucial to current profits, projected earnings, and earnings stability. They are worried about the company's financial situation since it will influence its capacity to pay dividends and stay out of bankruptcy (Tailab, 2014).

2.2 Theoretical Review

The conceptual review provides insights into the significance of common stock as a risky security and emphasizes the importance of investments for individuals and institutions in the Nepali context (Bhattarai, 2018).

Modern Portfolio Theory (MPT):

Modern Portfolio Theory, introduced by Harry Markowitz, is a fundamental theory in finance that guides investors in constructing portfolios to optimize returns for a given level of risk. MPT emphasizes diversification, suggesting that a well-constructed portfolio should include a mix of assets to achieve the highest return for a given level of risk (Markowitz, 1952).

Capital Asset Pricing Model (CAPM):

The Capital Asset Pricing Model, developed by William Sharpe, John Lintner, and Jan Mossin, provides insights into the relationship between risk and expected return. CAPM states that the expected return on an investment is determined by its systematic risk, represented by beta. The model aids in assessing the required rate of return for an investment based on its risk profile (Sharpe, 1964).

Efficient Market Hypothesis (EMH):

Eugene Fama proposed the efficient market hypothesis, which posits that financial markets are efficient and prices reflect all available information. According to EMH, it is challenging to consistently outperform the market because prices already incorporate all relevant information, making it difficult to gain an advantage (Fama, 1970).

Market Capitalization Theory:

Market Capitalization is a key financial metric representing the total market value of a company's outstanding shares. This theory suggests that a company's market value per share indicates its strength; a higher market capitalization is associated with a more robust company (Fitzgerald, 2001).

5. Capital Structure Theory:

Capital Structure Theory explores the mix of debt and equity that a company employs to finance its operations. The theory suggests that the optimal capital structure balances the benefits of debt (tax shields) with the costs (financial distress). Decisions related to capital structure significantly impact a company's ability to generate profits (Modigliani & Miller, 1958).

In conclusion, the theoretical review has not just scratched the surface, but it has delved deep into key theories in finance that form the foundation for understanding investment decisions and financial performance. Modern Portfolio Theory (MPT) underscores the importance of diversification in optimizing returns for a given risk level. At the same time, the Capital Asset Pricing Model (CAPM) provides insights into the relationship between risk and expected return. The Efficient Market Hypothesis (EMH) posits market efficiency, challenging the consistent outperformance of the market. Market Capitalization Theory emphasizes the significance of a company's market value per share, reflecting its strength. Capital Structure Theory delves into the mix of debt and equity,

which is crucial for a company's profitability. By integrating these theories into the study's framework, a comprehensive understanding of investment dynamics in the Nepali context is sought, promising valuable insights for investors and businesses navigating the financial landscape. This comprehensive approach should reassure the audience of the thoroughness and reliability of the research, instilling confidence in the insights provided.

2.3 Empirical Review

Putra and Purnamawati (2021) investigated the manufacturing sector company listed on the Indonesia Stock Exchange for 2010-2013. The author used path analysis to measure the independent variables' direct and indirect influence on the dependent variable. The empirical results indicated that the capital structure and profitability affect the stock return; the capital structure positively influences the stock return; the profitability positively affects the stock return, and the capital structure positively affects the profitability. Ramadan (2015) identified the effect of capital structure on the performance of 72 companies listed on the Amman Stock Exchange between 2005 and 2013. The authors used ROA to measure profitability and the ratios of long-term debt to total assets and total debt to total assets as capital structure indicators. Applying OLS regression, the authors stated that debt ratios negatively affect performance. Well-performing firms are less dependent on credit. This result is consistent with the Pecking-order theory when companies prefer equity.

Kayode and Adewoye (2020) used the random effects (RE) model to analyze the data of 15 financial institutions and 15 manufacturing firms quoted on the Nigerian Stock Exchange from 2008 to 2017. The authors found a unit-directional causality between stock price and earnings per share and a bi-directional causality between stock price and dividend per share. The paper recommends that firm managers pay particular attention to equity in the capital structure, which negatively affects stock price, earnings, and dividend per share, which have some causal relationships with stock prices.

Nguyen & Nguyen (2020) applied the generalized least square (GLS) method to explore the impact of capital structure on the firm performance of 488 non-financial listed companies on the Vietnam stock market from 2013 to 2018. The empirical results showed that capital structure has a statistically significant adverse effect on the firm performance. The result also indicated that this effect is more potent in state-owned enterprises than non-state enterprises in Vietnam. Orden and Garmendia (2005) examined the relationship between ownership structure and corporate performance in Spanish companies.

Ownership structure has been analyzed in terms of concentration of control and the type of investor exerting control. Company performances used in research were return on assets (ROA) and return on equity (ROE). One of the hypothesis findings is that companies under government control showed a negative impact and had worse performance than other ownership structures. Le, Nasir & Huynh (2020) used a dynamic partial adjustment model to investigate the relationship between the capital structure and the economic conditions of non-financial firms listed on the Korean Stock Exchange. They supported the argument that firms tend to adjust their leverage faster toward the target level in economic expansion.

Anandasayanan (2018) examined the 'Stock return predictability with financial ratios: An empirical study of listed manufacturing companies in Sri Lanka.' This study analyzed the company's stock return with EPS, Dividend Yield, and Earning Yield. This study found High predictability power since the R Square -value is high, the coefficients are very significant, and autocorrelation corrected standard errors. The results reveal that the three ratios hold a predictive power regarding stock returns of the Listed Manufacturing Companies in the Colombo Stock Exchange.

Paryanto and Sumarsono (2018) examined the effect of the financial performance of companies on share returns in manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2016. Correlation between stock Return, Price Book Value, Price Earnings Ratio, Earning Per Share, Dividend Pay Out, Price Book Value, Price Earnings Ratio, Earning Per Share and Dividend Pay Out Ratio simultaneously influence significant variable Return of Shares in Manufacturing companies listed in the Indonesia Stock Exchange Year 2014 -2016.

Pudji (2017) examined 'The influence of fundamental factors and systematic risk to stock prices on companies listed in the Indonesian stock exchange.' Variable is Stock Price with PER, EPS, NPM, PBV, and NPM. This study found a significant relationship between the Price Earnings Ratio (PER), Earning per Share (EPS), Net Profit Margin (NPM), Price to Book Value (PBV), and Risk Systematic on stock prices of companies listed in the LQ45 Index 2011-2015. Partially, Price Earnings Ratio (PER), Earning per Share (EPS), Net Profit Margin (NPM), Price to Book Value (PBV), and Systematic Risks have significant effects on stock prices. Thapa (2017) conducted an empirical analysis of the determinants of stock prices in the banking sector of Nepal. The study

identifies earnings per share, return on assets, and dividend payout ratios as critical factors influencing stock prices.

Tahmoorespour et al. (2015) examined the relationship between capital structure ratios and returns of firms in the following countries and territories in the Asia Pacific region, including Australia, China, Hong Kong, Japan, Korea, Malaysia, Singapore, and Taiwan, from 1990 to 2012. The empirical evidence showed that the effect of capital structure depends on the nature of the industry and market. In Australia, China, and Korea, companies' returns negatively correlated with debt to common equity. Long-term debt to common equity positively affected firms' returns in Australia and Korea. Wei, Xie, and

Menike and Prabath (2014) analyzed 'The impact of accounting variables on stock price: evidence from the Colombo Stock Exchange, Sri Lanka.' This study examined Average Stock Price with EPS, DPS, and BVPS. The study found that among the internal factors, firm-specific factors such as dividend per share (DPS), earnings per share (EPS), and book value per share (BVPS) affect the determination of stock price.

Tailab (2014) in an America used a sample of thirty American energy firms for nine years, from 2005 to 2013, to test the effect of capital structure on the profitability of energy. American firms found a negative relationship between debt ratios and performance variables on return on equity and assets. The researcher used multiple regression methods to analyze his study data. The independent variables of short-term, long-term, and total debt-to-equity ratio predicted 10% ROE and 34%.

Toraman (2013) examined the manufacturing companies in Turkey and discovered the negative relationship between short-term debt to total assets, long-term debt to total assets, and return on assets. He also discovered no significant relationship between the total debt-to-equity ratio and return on assets. Using a sample of twenty-eight manufacturing industries, the researcher used a regression model to measure the relationship between capital structure and company profitability.

Nasreem (2013) tested the relationship between a firm’s capital structure and financial performance in Pakistan using a sample of eighty-three companies listed on the Karachi Stock Exchange. Researchers used debt and equity ratios as a measure of capital structure. In contrast, other ratios like EPS, Price-earnings ratio, operating profit margin, ROA, and ROE were used as processes for firm performance. After analyzing data using a regression model, the researcher found that a company's financial performance was

significantly affected by its capital structure and negative relationship. Also, capital structure showed a negative relationship with company market value.

Lavorskyi (2013) in Ukraine examined a study on the impact of firm performance in Ukraine. The researcher used regression to measure the relationship between the capital structure variable of leverage ratio and the performance variable of return on assets, total factor productivity, and EBIT margin. After analyzing the relationship, the researcher found that firm leverage negatively affected firm performance.

Leon (2013) was about the impact of capital structure on the financial performance of the listed manufacturing firms in Sri Lanka. He used panel data from thirty listed manufacturing companies from 2008 to 2012 to measure the relationship between the variables. The data were analyzed, and hypotheses were tested using correlation and regression analysis. The finding of his study revealed a significant negative relationship between leverage and return on equity. At the same time, the relationship between leverage and return on assets showed no relationship.

Bundala (2012) investigated whether Tanzania-listed companies practice the Pecking order theory, Agency cost theory, or trade-off theory. His study's results revealed little support for the pecking order theory, which predicts significant positive slopes for growth rate, liquidity, dividend pay-out, and asset tangibility variables and a negative significant slope for profitability variables.

Anic, Rajh, and Teodorovic (2009) found firm size, firm age, Capital intensity, Export intensity, Marketing intensity, Innovation intensity, Labour expenses and monthly wages, and Debt ratio. High performers had lower total labor expenses but paid higher gross wages per employee than low performers. A lower debt ratio was associated with a higher level of performance. Alom (2013) analyzed the effect of debt and equity funding (capital structure) on the financial performance in Malaysia by employing multiple regression analysis. The researchers used one hundred and thirty samples from 2001 to 2010. The findings show an adverse and statistically significant relationship between capital structure and companies' performance. Zhang (2005) examined the performance of domestic Chinese companies in various ownership categories versus foreign-invested enterprises (FIEs) based on two nationwide surveys examined by the National Bureau of Statistics in 1998 and 2002. It was found that both domestic non-state-owned companies and foreign-invested enterprises performed better than state-owned enterprises.

Boesso et al. (2003) compared the financial performance of state-owned, private-owned, and mixed state-private ownership companies in India from 1973 to 1989. Findings appear to differ from those of the Singapore-based study, suggesting that the most profitable companies were privately owned, followed by those under mixed ownership. At the same time, state-owned enterprises had the worst performance. Most other studies in India and abroad draw similar conclusions.

Table 1

Summary of Literature in International context

S.N	Author/s (Date)	Objective	Methodology	Findings
1	Pudji (2017)	Examine the relationship between fundamental factors (PER, EPS, NPM, PBV) and systematic risk about stock prices.	The study examined companies listed on the Indonesian stock exchange (LQ45 Index).	There were significant relationships between PER, EPS, NPM, PBV, systematic risk, and stock prices. These factors partially affected company stock prices from 2011 to 2015.
2	Anandasayanan (2018)	Investigate the predictability of stock returns using financial ratios (EPS, Dividend Yield, Earning Yield).	Empirical analysis of listed manufacturing companies in Sri Lanka.	Financial ratios (EPS, Dividend Yield, Earning Yield) exhibit high predictability of stock returns. The study demonstrates significant coefficients and autocorrelation-corrected standard errors,
3	Dang et al. (2019)	Examine how stock market liquidity influences leverage decisions and its variation across country-level institutional environments.	Comprehensive international dataset of 19,939 firms across 41 countries (2000-2010).	Higher stock market liquidity correlates with lower leverage. Strong institutional environments weaken the relationship between liquidity and leverage.

4	Kayode and Adewoye (2020)	Analyze causality between stock price, EPS, and DPS among financial and manufacturing firms listed on the Nigerian Stock Exchange.	The random effects (RE) model was applied to data from 15 financial institutions and 15 manufacturing firms.	Stock price influences EPS unidirectionally and has a bidirectional causality with DPS. Due to its impact on stock price, EPS, and DPS, equity in capital structure management is emphasized.
5	Boesso et al. (2003)	Compare financial performance across different ownership structures in Indian firms.	From 1973 to 1989, comparative analysis focused on state-owned, private-owned, and mixed-ownership companies.	Private-owned firms showed the highest profitability, followed by mixed ownership, with state-owned enterprises performing worst. These findings are consistent with similar studies globally but contrast with Singapore-based findings.
6	Le, Nasir & Huynh (2020)	Investigate how economic conditions affect leverage adjustments towards target levels.	Dynamic partial adjustment model applied to non-financial firms listed in the Korean Stock Exchange.	Firms adjust leverage faster towards target levels during economic expansions. Supports pecking order and market timing theories in capital structure decisions.
7	Nguyen & Nguyen (2020)	Explore the impact of capital structure on firm performance, focusing on state-owned vs. non-state enterprises in Vietnam.	The generalized Least Squares (GLS) method was applied to 488 non-financial listed companies (2013-2018).	Capital structure has a statistically significant adverse effect on firm performance. This effect is more pronounced in state-owned enterprises than non-state enterprises in Vietnam.
8	Orden and Garmendi	Examine the relationship between ownership	Analyzed ownership structure in Spanish companies.	Companies under government control exhibit worse

	a (2005)	concentration and investor type on corporate performance using return on assets (ROA) and equity (ROE).		performance than other ownership structures, supporting the hypothesis of a negative impact.
9	Putra and Purnama wati (2021)	Investigate the direct and indirect effects of capital structure and profitability on stock return among manufacturing sector companies listed on the Indonesia Stock Exchange.	Path analysis was used to analyze data from 2010 to 2013.	Capital structure positively influences stock return, while profitability also positively affects stock return. Additionally, capital structure positively impacts profitability.
10	Subraman iam and Anandasa yanan (2018)	Investigate the relationship between debt-to-equity ratio and stock returns among listed companies in Sri Lanka using the panel least squares method.	The panel Least Squares method was applied in Sri Lanka.	A positive relationship between the debt-to-equity ratio and stock returns was found to be statistically significant at 1%, indicating that adding debt to the capital structure enhances stock returns.
11	Paryanto and Sumarson o (2018)	Investigate the simultaneous influence of financial performance indicators (PBV, PER, EPS, Dividend Payout Ratio) on share returns in Indonesian manufacturing firms.	Correlation analysis on data from companies listed on the Indonesia Stock Exchange (2014-2016).	Significant simultaneous influence of PBV, PER, EPS, and Dividend Payout Ratio on share returns in Indonesian manufacturing firms during 2014-2016.

12	Pudji (2017)	Examine the impact of fundamental factors (PER, EPS, NPM, PBV) and systematic risk on stock prices of companies listed in the LQ45 Index (2011-2015).	Analysis of companies listed on the Indonesian Stock Exchange (LQ45 Index).	The significant impact of PER, EPS, NPM, PBV, and systematic risk on stock prices, highlighting varying degrees of influence across different factors.
13	Alom (2013)	Analyze the relationship between capital structure (debt and equity) and financial performance using multiple regression analysis in Malaysia (2001-2010).	Multiple regression analysis on a sample of Malaysian companies.	An adverse and statistically significant relationship was found between capital structure and company performance in Malaysia.
14	Bundala (2012)	Investigate whether Tanzanian listed companies use the Pecking Order Theory, Agency Cost Theory, or Trade-off Theory in making capital structure decisions.	The study is based on an analysis of Tanzanian-listed companies.	Limited support for the Pecking Order Theory; findings suggest variables like growth rate, liquidity, dividend payout, and asset tangibility play roles in determining capital structure decisions among Tanzanian companies.
15	Lavorskyi (2013)	Measure the relationship between Ukraine's leverage (capital structure) and firm performance indicators (ROA, total factor productivity, EBIT	Regression analysis on data from Ukrainian firms.	Firm leverage (debt) negatively affects firm performance regarding ROA, total factor productivity, and EBIT margin in Ukraine.

		margin).		
16	Leon (2013)	Analyze the relationship between leverage (capital structure) and financial performance (ROE, ROA) in Sri Lankan manufacturing firms.	Panel data analysis of 30 listed manufacturing companies (2008-2012).	A significant negative relationship was found between leverage and ROE. No significant relationship was observed between leverage and ROA in Sri Lankan manufacturing firms.
17	Nasreem (2013)	Investigate the relationship between Pakistan's debt-to-equity ratio (capital structure) and financial performance (EPS, price-earnings ratio, operating profit margin, ROA, ROE).	Regression analysis on data from 83 companies listed on the Karachi Stock Exchange.	In Pakistani companies, capital structure (debt to equity ratio) negatively impacts financial performance indicators such as EPS, operating profit margin, ROA, and ROE. Also, a negative relationship was observed between capital structure and company market value.
18	Tailab (2014)	Examine the impact of debt ratios (short-term debt, long-term debt, total equity debt) on profitability (ROE, ROA) of energy firms in America.	Multiple regression analysis on data from 30 energy firms (2005-2013).	A negative relationship was found between debt ratios and profitability indicators (ROE, ROA) in American energy firms. Approximately 10% of ROE and 34% of ROA variation is explained by short-term debt, long-term debt, and total debt-to-equity ratio.

19	Toraman (2013)	Investigate the relationship between short-term debt, long-term debt, total debt-to-equity ratio, and profitability (ROA) in Turkish manufacturing companies.	Regression analysis on data from 28 manufacturing industries in Turkey.	Short-term debt to total assets and long-term debt to total assets are negatively related to ROA. No significant relationship was observed between the total debt-to-equity ratio and ROA in Turkish manufacturing companies.

2.3.1 Review of Literature in Nepalese context

Subedi (2024) investigated the determinants of stock prices in Nepal's microfinance sector, focusing on the Nepal Stock Exchange (NEPSE) and listed shares. The research aimed to analyze the factors influencing stock prices through inferential, analytical, and descriptive methods. Utilizing an econometric model with a variation of coefficients, the study examined the relationship between various explanatory variables and the market prices of microfinance companies listed on NEPSE. The findings revealed that changes in the market price of microfinance shares were positively correlated with earnings per share and negatively correlated with the size of floating shares. Specifically, the study found a strong positive correlation between market prices and earnings-related variables such as earnings-price ratio and return on equity. Conversely, variables related to the size of floating shares exhibited an inverse correlation with market prices. However, other fundamental aspects of equity, such as book value per share, were not statistically significant in explaining variations in market prices. The research underscores the importance of considering company-specific factors in determining stock prices, highlighting the significance of earnings-related variables and the size of floating shares. The study suggests that literacy in financial optimization among market participants is crucial for making informed investment decisions in the Nepalese capital markets.

The determinants of stock returns for listed companies in Nepal have been the subject of numerous empirical studies. Maskey (2022) investigates the factors affecting the share prices of life insurance companies listed on the Nepal Stock Exchange (NEPSE) from 2012 to 2018. The study identifies earnings per share, dividend per share, price-earnings ratio, company age, and dividend yield as significant determinants, emphasizing the critical role of dividend policies in investment decisions (Maskey, 2022). Bhandari (2022)

investigated the impact of market liquidity on stock returns in Nepal. The study finds that higher liquidity, indicated by trading volume and turnover ratios, is associated with better stock performance. Bhandari suggests that liquid markets attract more investors and enhance efficiency (Bhandari, 2022).

In a study examined by Shrestha (2022), the aim was to identify the firm-specific determinants of stock market prices for Nepalese enterprises. The research utilized unbalanced panel data from 47 firms in the Nepal Stock Exchange (NEPSE) from 1994 to 2019. Statistical tests were employed to select the appropriate regression model, with both the Breusch and Pagan Lagrangian multiplier test and the Hausman test indicating that the Fixed Effect model was suitable for the dataset. Upon analysis, several significant findings were revealed. Firstly, firm size, measured by the natural logarithm of market capitalization (Ln (ME)), dividend per share (DPS), and earnings per share (EPS), exhibited a significant positive influence on the market price per share of Nepalese enterprises. This suggests that larger firms and those with higher dividend payouts and earnings per share tend to command higher market prices. Conversely, return on equity (ROE) and dividend yield (DY) negatively influenced market price per share. This implies that higher return on equity and dividend yield may lead to lower market prices for Nepalese enterprises. However, the study found that book value per share (BVPS) had an insignificant positive influence on market price per share, suggesting that this variable may not be a significant determinant of stock prices for Nepalese enterprises. Similarly, return on assets (ROA) also demonstrated an insignificant negative influence on market price per share, indicating that this variable may not significantly affect stock prices for Nepalese enterprises. Overall, the study's findings provide valuable insights into the firm-specific determinants of stock market prices in Nepal. By identifying these factors, the research contributes to a better understanding of the dynamics of the Nepalese stock market and offers practical implications for investors, policymakers, and market participants.

Gautam (2021) analyzed the relationship between Nepal's stock returns and macroeconomic variables. His research indicates that inflation, interest rates, and foreign exchange rates are significant determinants of stock returns. Gautam’s study suggests that investors must consider macroeconomic trends when making investment decisions (Gautam, 2021).

Adhikari (2020) examines the impact of firm-specific factors on the stock returns of commercial banks in Nepal. His study reveals that firm size, leverage, and profitability are crucial in determining stock returns. Adhikari argues that investors prefer financially stable and profitable firms, reflected in stock performance (Adhikari, 2020).

Panta (2020) analyzed the macroeconomic determinants of stock market prices in Nepal, focusing on the Nepal Stock Exchange (NEPSE) index. The research aimed to investigate the relationship between the NEPSE index and five macroeconomic variables: real GDP, broad money supply, interest rate, inflation, and exchange rate. The study utilized an autoregressive distributed lag (ARDL) model to examine the behavior of the NEPSE index in response to changes in the selected macroeconomic variables. Using a 25-year dataset from 1994 to 2019, the study employed an error correction model (ECM) derived from the ARDL model to integrate short-run adjustments with long-run equilibrium without losing long-run information. By analyzing annual data over this period, the study sought to uncover the dynamics of the Nepalese stock market and its relationship with macroeconomic factors. The study revealed several significant relationships between the NEPSE index and macroeconomic variables. In the long run, fluctuations in the NEPSE index were strongly associated with broad money supply, interest rate, inflation, and exchange rate. Specifically, the GDP, money supply, and exchange rate positively correlated with the NEPSE index in the short run. In contrast, only the money supply maintained a positive relationship in the long run.

Paudel and Khanal (2019) use data from various sectors to explore the broader determinants of stock market performance in Nepal. They find that macroeconomic variables such as interest rates, inflation, and GDP growth significantly influence stock returns. Their analysis highlights the interconnectedness of Nepal's economy with its stock market, suggesting that investors closely monitor these macroeconomic indicators (Paudel & Khanal, 2019). Baral (2019) investigated the determinants of stock returns in Nepal’s emerging market context, focusing on systemic risk factors. His findings indicate that market volatility, economic policy uncertainty, and political stability significantly impact stock returns. Baral emphasizes the importance of a stable macroeconomic environment for favorable stock market performance (Baral, 2019).

Dang et al. (2019) examined the effect of stock liquidity on corporate capital structure decisions and whether this effect varies according to country-level institutional environments. The authors used a comprehensive international dataset of 19,939 firms

across 41 countries from 2000 to 2010 and found two new points: first, firms with higher stock market liquidity tend to have lower leverage; second, countries with strong institutional environments are more likely to have a weaker relationship between stock market liquidity and leverage.

Shrestha and Pokhrel (2019) examined the factors affecting the stock market index in Nepal, utilizing monthly data spanning from mid-August 2000 to mid-July 2017. The research aimed to assess the impact of major political changes and policies implemented by Nepal Rastra Bank (NRB) regarding lending against share collateral and paid-up capital on the stock market index. Both simple Ordinary Least Squares (OLS) and Autoregressive Distributed Lag (ARDL) Bound testing approaches were employed for empirical examination. The findings from OLS estimations of behavioral equations revealed that Nepal's stock index responded positively to broad money growth and negatively to interest rates. This suggests that the availability of liquidity and low interest rates stimulate the stock index. Additionally, the ARDL method confirmed the long run of the stock index with the Consumer Price Index (CPI), broad money, and interest rates. Specifically, the stock index exhibited a positive association with inflation and a negative association with broad money and interest rates. Furthermore, the study found that the stock index responded significantly to changes in the political environment and the policies of Nepal Rastra Bank concerning lending against share collateral and partially to paid-up capital hikes. However, a considerable portion of the fluctuations in the share index remained unexplained by the models, indicating the significant role of news, rumors, and speculations in the Nepalese stock market. These findings provide valuable insights into the behavior of the Nepalese stock market and have implications for policy formulation aimed at market stabilization. By identifying factors such as broad money growth, interest rates, political changes, and central bank policies, the study offers guidance for policymakers and market participants in understanding and managing stock market dynamics in Nepal.

Sharma (2018) examined the influence of foreign direct investment (FDI) on stock returns in Nepal. The results reveal that higher levels of FDI positively affect stock market performance, as foreign investments bring in capital and enhance market liquidity. Sharma concludes that FDI is a crucial determinant of stock returns in Nepal (Sharma, 2018).

Wagle (2021) identified the empirical variables that influence stock market prices in commercial banks in Nepal. The research utilized data from 2015/16 to 2019/20, focusing on 26 out of 27 commercial banks in Nepal. The study employed a descriptive and causal-comparative research design, utilizing mean, standard deviation, correlation, and regression analysis techniques. Using secondary sources and information from annual reports, the study analyzed 130 observations to investigate the relationship between dependent and independent variables and stock market prices in commercial banks. The findings of this study hold significance for investors, bankers, academicians, and government authorities, providing valuable insights into the factors influencing stock market returns and likelihood in Nepal. By identifying the variables with significant associations with stock market prices, the study offers guidance for stakeholders in understanding and predicting the stock market.

Bhattarai's (2017) examined the effect of capital structure on the performance of manufacturing companies listed on the Nepal Stock Exchange. Secondary data from eight manufacturing companies were obtained from the companies' published annual reports and financial statements covering the ten years. The multiple regression analysis results show that capital structure has a significant negative relationship with the performance of Nepalese manufacturing companies. In addition to capital structure, firm performance is significantly positively associated with firm size but negatively associated with tangibility.

Shah (2016) analyzed the impact of capital structure on firm performance using 25 cement companies listed on the Karachi Stock Exchange from 2009 to 2013. Descriptive statistics show poor performance by cement companies because about 64.51 percent of the total assets of cement companies are financed by debt. This study finds a negative relationship between debt and assets and firm performance variables (GPM, NPM, ROA & ROE) based on the correlation results. It also indicates a positive relation between debt to equity and firm performance variables (GPM & NPM), whereas a negative relationship between debt to equity and firm performance variables. (ROA & ROE). Besides, regression results reveal that capital structure has a significant impact on firms' performance. Based on empirical literature and findings, the study concludes that capital structure significantly impacts firms' performance. Although business companies generally depend on debt capital, financial analysts and managers should be cautious

while using debt as a source of finance since there is an almost negative relationship between capital structure and firms' performance.

Poudel (2016) investigated the determinants of stock price in the Nepal Stock Exchange (NEPSE), focusing on private commercial banks. The study aimed to identify the factors influencing the market price of stocks by utilizing various statistical and financial tools such as arithmetic mean, correlation and regression analysis, t-test, and SPSS software. The research employed a descriptive research design, and data collected from the survey were coded for statistical analysis. SPSS was utilized to organize the data, determine significant relationships, and identify differences or similarities among different variables under study. The findings of the study indicated that while variables such as Dividends Per Share (DPS), Book Value Per Share (BVPS), and Earnings Per Share (EPS) positively influenced the Market Price per Share (MPS), there were several other internal and external factors affecting stock market prices. The results from Z-test analysis indicated a statistically significant relationship between the variables. Interestingly, the study revealed that the traditional theoretical relationship between earnings, dividends, book value per share, and market price per share did not hold in the context of NEPSE. This suggests the presence of various other factors beyond these fundamental financial metrics that influence stock prices in the Nepalese market. Bhattarai and Koirala (2016) focused on corporate governance's impact on Nepal's stock returns. Their study highlights that companies with strong corporate governance practices have higher stock returns. This finding underscores the importance of transparency and accountability in enhancing investor confidence and stock performance (Bhattarai & Koirala, 2016).

Rakhal (2015) examined the determinants of stock market performance in Nepal, focusing on selected macroeconomic factors, including remittances, money supply, exchange rate, and interest rate. The research aimed to explore new research areas in the Nepalese context by reviewing existing literature and identifying potential avenues for further study. Utilizing a literature review approach, the study synthesized findings from international and Nepalese sources to assess the impact of macroeconomic variables on stock market performance. The major objective was to identify areas of consensus and divergence in the literature and propose future research directions. The study's findings suggested that remittances and money supply positively influence stock market performance, while interest and exchange rates negatively impact it. However, the study noted a need for more consensus in the literature regarding the effects of these

macroeconomic variables on stock market performance. Some studies supported the findings of positive effects, while others presented opposing views. Given the conflicting findings in the literature, the researcher proposed that similar studies could be extended using different methodologies better to understand the performance of the Nepalese stock market. By employing a combination of variables and alternative research approaches, future studies could provide clearer insights into the relationship between macroeconomic factors and stock market performance in Nepal.

Shrestha and Subedi (2014) examined the determinants of Nepal's stock index (NEPSE). The study utilized monthly data spanning from mid-August 2000 to mid-July 2014. It incorporated two dummy variables to account for major political changes and Nepal Rastra Bank's (NRB) policy on lending against collateral of shares. Through correlation analysis and Ordinary Least Squares (OLS) estimations of behavioral equations, the study explored the relationship between the NEPSE index and selected macroeconomic variables. The correlation analysis indicated a significant relationship between the NEPSE index and macro variables chosen for the study, including the Consumer Price Index, Broad Money, and Treasury Bill Rate. Additionally, the time series properties of the selected variables were examined. The empirical results from the OLS estimations revealed several key findings regarding the determinants of the NEPSE index in Nepal. Firstly, the NEPSE index responded positively to inflation and broad money growth, suggesting that investors perceive equities as a hedge against inflation and consider stocks an alternative financial instrument. Secondly, the NEPSE index negatively responded to the Treasury Bill Rate, indicating that lower borrowing costs stimulate investment in the Nepalese stock market. Overall, the findings of this study contribute to understanding the dynamics of the Nepalese stock market and provide valuable insights for policymakers, investors, and market participants. By identifying key determinants such as inflation, broad money growth, interest rates, political changes, and central bank policies, the study offers a basis for informed decision-making and policy formulation aimed at promoting the stability and growth of the Nepalese stock market.

Baral (2004) examined a study to analyze the determinants of the capital structure of listed companies in Nepal. The study utilized data from companies listed on the Nepal Stock Exchange Ltd. as of July 16, 2003. Baral employed an eight-variable multiple regression model to investigate the impact of various factors such as size, business risk, growth rate, earning rate, dividend payout, debt service capacity, and degree of operating

leverage on the capital structure of these companies. Initially, the study included manufacturing companies, commercial banks, insurance companies, and finance companies. However, due to issues related to the constant term in the model, manufacturing companies were eventually excluded from the final analysis. Through statistical analysis, Baral found that size, growth rate, and earning rate emerged as statistically significant determinants of capital structure among the listed companies. The findings of this study provide valuable insights into the factors influencing capital structure decisions in the context of Nepal's listed companies. By identifying size, growth rate, and earning rate as significant determinants, the study contributes to understanding the financial decision-making processes within Nepalese firms. However, further research may be needed to explore additional factors influencing capital structure decisions and validate the findings in different contexts or periods.

Table 2

Summary of Literature in Nepalese context

S.N	Author/s (Date)	Objective	Methodology	Findings
1	Poudel (2016)	Identify factors influencing stock prices using arithmetic mean, correlation, regression analysis, and SPSS software.	Descriptive research design; statistical tools (mean, correlation, regression) on coded survey data.	DPS, BVPS, and EPS positively influence MPS. Other internal and external factors also impact stock prices; traditional relationships between financial metrics and MPS are not universally valid in the NEPSE context.
2	Panta (2020)	Investigate the relationship between the NEPSE index and macro variables (GDP, broad money supply, interest rate, inflation, exchange rate) using the	ARDL model on 25-year dataset (1994-2019)	Long-run association of NEPSE index with broad money supply, interest rate, inflation, and exchange rate. Short-run dynamics positively correlate with GDP, broad money supply, and exchange

		ARDL model.		rate.
3	Subedi (2024)	Analyze factors influencing microfinance stock prices using econometric models.	An econometric model with a variation of coefficients on NEPSE-listed microfinance firms.	Market prices are positively correlated with earnings-related variables (EPS, earnings-price ratio, ROE). A negative correlation was observed with the size of floating shares. BVPS is not significant in explaining stock price variations, and ROA is also insignificant in influencing stock prices.
4	Wagle (2021)	Identify variables affecting stock market returns using descriptive and comparative analysis.	Mean, standard deviation, correlation, and regression on annual report data (2015/16-2019/20).	Firm size, DPS, and EPS positively influence stock prices. ROE and DY negatively influence stock prices. BVPS and ROA are insignificant in affecting stock prices.
5	Rakhal (2015)	Investigate the impact of macroeconomic factors (remittances, money supply, exchange rate, interest rate) on stock performance in Nepal.	Literature review synthesis of international and Nepalese studies.	Remittances and money supply positively impact stock performance; interest rates and exchange rates negatively impact stock performance. Lack of consensus in the literature on macroeconomic variables' effects.
6	Shrestha (2022)	Explore factors influencing stock prices in Nepalese firms using panel data (1994-2019).	Unbalanced panel data analysis; Breusch-Pagan and Hausman tests for model selection.	Ln(ME), DPS, and EPS positively influence stock prices. ROE and DY negatively influence stock prices. BVPS and ROA are insignificant in affecting stock prices.

7	Maskey (2022)	Examine the impact of EPS, DPS, P/E ratio, company age, and dividend yield on life insurance stock prices.	Analytical and inferential methods on NEPSE life insurance sector data (2012-2018).	EPS, DPS, P/E ratio, company age, and dividend yield are significant determinants of life insurance stock prices.
8	Paudel & Khanal (2019)	Analyze the influence of macro variables (interest rates, inflation, GDP growth) on stock returns.	Regression analysis on data from various sectors in Nepal.	Interest rates, inflation, and GDP growth significantly influence stock returns in Nepal.
9	Adhikari (2020)	Investigate the impact of firm size, leverage, and profitability on commercial bank stock returns.	Regression analysis on commercial bank data.	Firm size, leverage, and profitability are crucial in determining commercial bank stock returns in Nepal.
10	Thapa (2017)	Analyze the impact of EPS, ROA, and dividend payout ratios on stock prices in the Nepalese banking sector.	Regression analysis on banking sector data.	EPS, ROA, and dividend payout ratios are critical in determining stock prices in the Nepalese banking sector.
11	Bhattarai & Koirala (2016)	Examine the relationship between corporate governance practices and stock returns in Nepal.	Analysis of corporate governance data and stock returns.	Strong corporate governance practices associated with higher stock returns in Nepal.
12	Gautam (2021)	Investigate the influence of inflation, interest, and foreign exchange rates on stock returns.	Analysis of macroeconomic variables and stock returns.	Inflation, interest rates, and foreign exchange rates significantly influence stock returns in Nepal.

13	Sharma (2018)	Examine the relationship between FDI levels and stock market performance in Nepal.	Analysis of FDI data and stock market performance.	Higher levels of FDI positively affect Nepal's stock market performance.
14	Bhandari (2022)	Analyze the relationship between market liquidity indicators and stock returns in Nepal.	Analysis of liquidity metrics and stock returns.	Higher liquidity (trading volume, turnover ratios) is associated with better stock performance in Nepal.
16	Bhattarai (2017)	Examine the impact of capital structure on performance in Nepalese manufacturing firms, alongside firm size and tangibility.	Multiple regression analysis on data from Nepalese manufacturing companies (10-year period).	Capital structure has a significant negative relationship with performance in Nepalese manufacturing firms. Performance is positively associated with firm size but negatively associated with tangibility.
15	Shah (2016)	Examine the impact of debt-to-assets and debt-to-equity ratios (capital structure) on firm performance (GPM, NPM, ROA, ROE) in cement companies in Pakistan.	Descriptive statistics, correlation analysis, and regression on data from 25 cement companies.	The debt-to-assets ratio negatively correlates with firm performance indicators (GPM, NPM, ROA, ROE) in cement companies. The debt-to-equity ratio shows mixed effects: it has a positive relation with GPM and NPM and a negative relation with ROA and ROE. A significant impact of capital structure on firm performance was observed, suggesting that financial analysts and managers should carefully consider using

debt financing.

2.4 Research Gap

The relationship between firms' characteristics and stock return cannot be ignored because the improvement in profitability is necessary for the long-term survivability of the firm. Because interest payment on debt is tax deductible, adding debt to the capital structure will improve the firm's profitability. Therefore, it is important to test the relationship between firms' characteristics and the firm's stock return to make sound capital structure decisions. A study on "A short-term Financing, a case of study of 15 manufacturing company" (Sapkota Rajendra, Short-term Financing, a case of study of 15 manufacturing company. Unpublish MBA thesis, T.U. Kritipur, 2007) this study has found Nepalese manufacturing companies have increasing trading, Still, only (JMF) Biratnagar has a decreasing trend.. There is a sample gap in the present research. Many researchers who tested the impact of capital structure on firms' profitability came up with contradictory results. Some discovered a positive impact, some discovered a negative impact, and some revealed no impact of capital structure on a firm's performance. Because of this controversial result, the researcher gets to do further studies on this topic by testing the relationship between capital structure and firms' profitability. Nasreem (2013) also tested the relationship between a firm's capital structure and financial performance in Pakistan using a sample of eighty-three companies listed on the Karachi Stock Exchange. Researchers used debt and equity ratios as a measure of capital structure. In contrast, other ratios like EPS, price-earnings ratio, operating profit margin, ROA, and ROE were used to determine firm performance. This study has different variables; the present study has a knowledge gap.

The need for a consensus about what would qualify as optimal capital structure in the service and manufacturing industries has motivated researchers to conduct this research. Also, there is little research on this topic in Nepal, so it is high time to analyze and compare the results with the capital structure theories and see whether there is any relation between firms' characteristics and stock return using listed manufacturing companies in the Nepal Stock Exchange.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research design

The research design employed for this study was both descriptive and causal comparative. The descriptive research design gathered information and uncovered facts related to the factors influencing stock market prices. In addition, the causal-comparative research approach was applied to ascertain and elucidate the directions, magnitudes, and forms of observed relationships among the variables under investigation. These variables included CR, D/E, DP ratio, EPS, and stock return. The study's primary objective was to discern the relationship between firm characteristics and the stock return of the sampled manufacturing company.

3.2 Population and sample, and sampling design

This research used time series data encompassing macroeconomic indicators and stock market prices for the analysis. The Nepal Stock Exchange Ltd (NEPSE), established in 1993, serves as the country's sole capital market, with an index acting as the dependent variable. As of May 2022, there are 197 listed companies, including Commercial Banks, Hydro Power Companies, Insurance Companies, and Finance Companies, among others. The Exchange boasts 97 registered brokers as of April 2021. The sampling involved five years' worth of available data, covering the fiscal years 2016/17 to 2020/21, from listed manufacturing companies such as Unilever Nepal Limited (UNL), Himalayan Distillery Company (HDCL), Bottlers Nepal Limited (BNL), and Bottlers Nepal Terai Limited (BNTL). In this study, purposive sampling is justified by focusing on well-established companies such as Unilever Nepal Limited (UNL), Himalayan Distillery Company (HDCL), Bottlers Nepal Limited (BNL), and Bottlers Nepal Terai Limited (BNTL). This method ensures that the selected companies have sufficient and consistent data records over the years 2016/17 to 2020/21, allowing for a detailed analysis of stock return determinants. The deliberate selection of these companies aims to capture comprehensive data from major players in the manufacturing sector, which are likely to provide valuable insights relevant to the research objectives. A total of 20 observations were proposed for

the study and performance evaluation; the study was proposed using a sample size of yearly periodic tables of company data.

3.3 Nature and sources of data and the instrument of data collection

This study relied on secondary data from NEPSE annual reports, annual reports/quarter reports of listed sample manufacturing company prospectuses, and quarterly economic bulletins. The data collection also involved consulting textbooks, periodicals, and financial websites. As per the literature analysis, several factors influenced stock return, including CR, D/E, DP ratio, and EPS. The study's timeframe spanned from 2016/17 to 2020/21, examining the impact of stock return on firm characteristics. This constitutes the primary focus of the study. The population and samples remained the same since the research exclusively targeted the relationship between stock return and manufacturing companies in Nepal.

3.4 Methods of Analysis

The collected data was analyzed using the Pearson Correlation Coefficient and Regression analysis model, implemented in Microsoft Excel and SPSS V2.6. The results were then summarized and interpreted, considering the indicators provided by these statistical tools.

I. Financial Tools

Return on Assets (ROA): The return on assets ratio, often called the return on total assets, is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period.

$$\textbf{ROA} = \frac{\boldsymbol{Net\ Income}}{\boldsymbol{Total\ Assets}}$$

Debt to Equity Ratio: The debt-to-equity (D/E) ratio is used to evaluate a company's financial leverage and is calculated by dividing its total liabilities by its shareholder equity. The D/E ratio is an important metric used in corporate finance. It measures the degree to which a company finances its operations through debt versus wholly owned funds. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn. The debt-to-equity ratio is a particular type of gearing ratio**.**

$$\textbf{Debt to Equity Ratio} = \frac{\textbf{Short} - \textbf{Term Debt} + \textbf{Long} - \textbf{Term Debt}}{\textbf{Total Sharholder's Equity}}$$

Dividend Pay-out Ratio

A company's dividend payout ratio is the percentage of its earnings paid to its investors as dividend income. The dividend payout ratio formula is:

Total Annual Dividend Payments ÷ Annual Earnings = Dividend Payout Ratio

Earnings Per Share (EPS)

Earnings Per Share is a financial metric representing the portion of a company's profit allocated to each outstanding share of common stock. EPS is a key indicator of a company's profitability and is widely used by investors, analysts, and financial professionals to assess a company's financial performance on a per-share basis.

The formula to calculate EPS is:

EPS=Net Income−Dividends on Preferred Stock/ Number of Common Shares Outstanding

II. Statistical Tools

Brief explanations of the statistical tools used in this study are given below:

Arithmetic mean (AM)

The arithmetic mean is the sum of all the numbers in the series divided by the count of all numbers in the series. The arithmetic mean is also called the average or simply the mean. The arithmetic mean is calculated by following the formula:

$$\textbf{Mean}(\bar{X}) = \frac{\sum \boldsymbol{X}}{\boldsymbol{N}}$$

Were,

$\sum X$ = sum of x series

N = number of years

Standard Deviation (SD)

Standard deviation is expressed as the positive square root of the variable. It is the average difference between observed values and the mean. The standard deviation is used

when expressing dispersion in the same unit as the original measurements. It is used to express the degree to which data is spread out. A small standard deviation means a high degree of uniformity in the observation. Mathematically, the standard deviation is expressed as:

$$\boldsymbol{Standard\ Deviation(SD)} = \sqrt{\frac{\sum \boldsymbol{d^2}}{\boldsymbol{N-1}}}$$

Where, $d = (X-\bar{\bar{X}})$

2. Co-relation analysis

Correlation signifies the strength of the association between two variables. The Pearson correlation is the most employed statistic for gauging the extent of the relationship between linearly related variables. Karl Pearson developed this measure. The correlation coefficient's range spans from -1.00 to +1.00. A value of -1.00 indicates a perfect negative correlation, implying that as one variable's value increases, the other's decreases. Conversely, a value of +1.00 signifies a perfect positive correlation, indicating that as one variable's value increases, the other's also increases. As the correlation coefficient approaches 0, it signifies no relationship between the variables under examination.

$$\textbf{Correlation Coefficient(r)} = \sqrt{\frac{\boldsymbol{N\sum XY - (\sum X)(\sum Y)}}{\boldsymbol{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y^2]}}}$$

Were,

N = number of pairs of scores

$\sum XY$ =sum of the products of paired scores

$\sum X$ = sum of x scores

$\sum Y$ = sum of y scores

$\sum X^2$ = sum of squared x scores

$\sum Y^2$ =sum of squared y scores

3. Regression Analysis

Regression analysis is a statistical method for assessing the average association between two or more variables in the original units of the data. In essence, regression involves estimating or predicting the value of one variable based on the values of other specified variables. It is a statistical tool employed to predict the value of unknown variables based on known variables. Simple regression analysis characterizes the average relationship

between only two variables and gauges the per-unit change. On the other hand, multiple regression encompasses two or more independent variables utilized to estimate the unknown value of a dependent variable.

$$\boldsymbol{Regression\ equation(y) = a + b_1x_1 + b_2x_2 + \cdots + b_nx_n}$$

$$\boldsymbol{Slope(b) = \frac{N\sum XY - (\sum X)(\sum Y)}{N\sum X^2 - (\sum X)^2}}$$

$$\mathbf{Intercept(a) = \frac{\sum Y - b(\sum X)}{N}}$$

The following regression model was used to compute and correlate the numbers and data information.

SRC_t = β0+ β1 (ROA) + β2 (D/E) + β3 (DPR)+ β4 (EPS)+ ε

Here,

SRC= Stock return on company

ROA= Return on Assets

D/E = Debt to equity ratio

DPR = Dividend Payout Ratio

EPS= Earnings Per Share

β0 = Constant Beat

β1, β2, β3, β4, β5 =Beta coefficient

ε = Random Error Term

3.5 Conceptual framework and definition of variables

The conceptual framework and definition of variables in this study are derived from the extensive literature review examined earlier. Building upon the insights from the reviewed studies, the research comprehensively examines various dependent and independent variables to explore the intricate relationships within the chosen context.

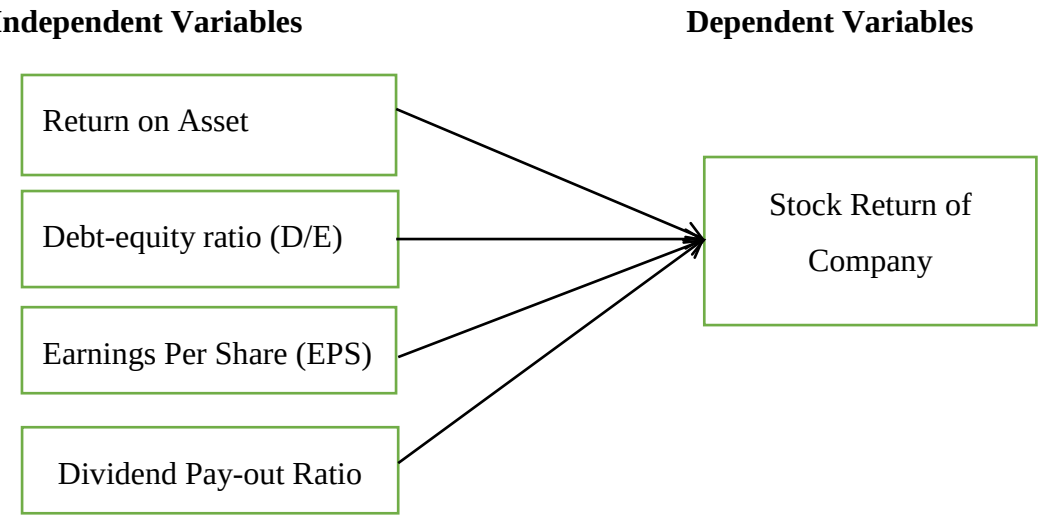

Figure 1: Conceptual Framework

(Source: (Sausan, Korawijayanti, & Ciptaningtias, 2020))

Definition of Variable

Dependent Variable

Stock Return of Company: A return, or a financial return, is the money made or lost on an investment over some period. Return on stock is equal to the sum of all dividends yielded from the stock and the stock capital gain minus the initial cost of the investment divided by the initial cost value for the investment. The result is multiplied by 100 to convert it into a percentage.

Independent Variable

1) **Profitability:** A profit is the difference between the revenue an economic entity has received from its outputs and the opportunity costs of its inputs. It equals total revenue minus total cost, including explicit and implicit costs.
   Return on assets (ROA): This financial ratio indicates how profitable a company is in terms of its total assets.

Earnings Per Share: EPS stands for Earnings Per Share. It is a financial metric representing the portion of a company's profit allocated to each outstanding share of common stock. EPS is a widely used indicator of a company's profitability and is often considered one of the key factors influencing stock prices.

2) **Leverage:** In finance, leverage is any technique involving borrowing funds to buy things, hoping that future profits will be many times more than the cost of borrowing.

   Debt to equity ratio (D/E): The debt-to-equity ratio is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets. Closely related to leveraging, the ratio is also known as risk, gearing, or leverage.

   Dividend Pay-out Ratio (DP): The dividend payout ratio shows how much of a company's earnings after tax (EAT) are paid to shareholders.

CHAPTER IV

RESULT AND DISCUSSION

This chapter contains the findings and discusses the data analysis. Data analysis refers to the stages of the study during which secondary data is obtained, and conclusions are made during the research phase. After analyzing the data, deductions were drawn based on secondary data from Nepalese manufacturing firms. It highlights the major data analysis findings formulated as study objectives using various quantitative data analysis approaches.

4.1 Results

Data analysis tools such as descriptive statistics, correlation, and regression analysis generate findings. The generated data is presented in tables and figures to help comprehension. The outcomes of the data analysis are given in the following sections.

4.1.1 Descriptive Statistics

This section shows and analyzes descriptive data for each of the eight sample banks and financial organizations' dependent and independent variables. Table 3 displays the sample manufacturing companies' dependent and independent variable means, standard deviations, and minimum and maximum values.

Table 3

Descriptive Statistics of Variables

Factors	Minimum	Maximum	Mean	Std. Deviation
ROA	-.0100	.4500	.164144	.1385669
Debt Equity	.0000	1.7000	.573054	.4533740
Dividend Payout Ratio	-.7869	9.6000	.790472	2.1464171
Stock Return	-.4226	.6552	.046785	.2274732
EPS	-32	1992	487.20	552.132

Table 3 shows the descriptive statistics for the variables influencing the share price of listed manufacturing companies in Nepal. These statistics provide an overview of the

data's range, central tendency, and variability, which are crucial for understanding the factors under investigation.

The Return on Assets (ROA) ranges from a minimum of -0.0100 to a maximum of 0.4500, with a mean value of 0.164144 and a standard deviation of 0.1385669. This indicates that while some companies experienced a slight negative return, others achieved up to a 45% return on their assets, suggesting a diverse performance across the sector. The mean ROA indicates an average return of approximately 16.4%, with moderate variability.

The Debt Equity ratio exhibits a minimum value of 0.0000 and a maximum of 1.7000, with a mean of 0.573054 and a standard deviation of 0.4533740. This spread shows that some companies operate without debt, whereas others have debt levels significantly higher than their equity. The average debt-to-equity ratio of 0.573054 indicates that these companies utilize moderate leverage, but the substantial standard deviation points to a wide dispersion in their leverage practices.

The Dividend Payout Ratio ranges from -0.7869 to 9.6000, with a mean of 0.790472 and a high standard deviation of 2.1464171. This indicates that while some companies might have negative or negligible payouts, others distribute significant dividends that exceed their earnings. The mean value suggests an average payout ratio of approximately 79%, but the high standard deviation reflects considerable variability, indicating inconsistency in dividend policies among these companies.

Stock Return varies from -0.4226 to 0.6552, with an average return of 0.046785 and a standard deviation of 0.2274732. The negative minimum value indicates that some companies experienced significant losses, whereas others enjoyed substantial gains. The mean stock return of around 4.68% suggests modest overall gains, but the relatively high standard deviation indicates that returns are quite volatile.

Earnings Per Share (EPS) has an extensive range, with values between -32 and 1992. The mean EPS is 487.20, with a large standard deviation of 552.132. This substantial spread implies that while some companies report negative earnings, others achieve very high earnings per share, resulting in a high average EPS. The high standard deviation highlights the considerable variability in earnings performance among the listed manufacturing companies in Nepal.

4.2 Correlation Matrix

In correlation analysis, the r-value determines relative strengths and weaknesses. The correlation is weak if r is less than or equal to 0.35. The relationship is moderate if the r value is between 0.35 and 0.68. Finally, r values greater than or equal to 0.68 indicate significant correlations.

Table 4

Correlation Matrix

Factors	ROA	D/E Ratio	DPR	EPS	Stock Return
ROA	1	-.612**	-.165	.085	-.247
D/E Ratio	-.612**	1	.553*	.220	.150
DPR	-.165	.553*	1	.020	-.220
EPS	.085	.220	.020	1	-.234
Stock Return	-.247	.150	-.220	-.234	1

The correlation matrix in Table 4 provides insight into the relationships between various financial factors and their impact on stock returns for listed manufacturing companies in Nepal. This analysis uses the correlation coefficient (r) to determine the strength and direction of these relationships.

Return on Assets (ROA) shows a weak negative correlation with stock return (r = -0.247), suggesting that higher returns on assets are slightly associated with lower stock returns, though the relationship is not strong. This implies that while profitability measured by ROA might influence stock performance, it is not a dominant factor in determining stock returns for these companies.

The Debt-to-Equity (D/E) ratio has a weak positive correlation with stock return (r = 0.150), indicating that higher leverage is modestly associated with higher stock returns. Although this relationship is positive, it remains weak, suggesting that leverage is not a substantial predictor of stock returns within the studied companies.

The Dividend Payout Ratio (DPR) exhibits a weak negative correlation with stock return (r = -0.220). This implies that companies with higher dividend payouts tend to have slightly lower stock returns. However, similar to the other factors, this relationship is weak, indicating that dividend policy has a limited impact on stock performance.

Earnings Per Share (EPS) also show a weak negative correlation with stock return (r = -0.234), suggesting that higher EPS is slightly associated with lower stock returns. This weak correlation indicates that EPS is not a strong determinant of stock returns for these manufacturing companies.

When examining the interrelationships between the independent variables, several notable correlations emerge. The ROA and D/E ratio have a moderate negative correlation (r = -0.612**), indicating that companies with higher profitability tend to use less leverage. The D/E ratio and DPR have a moderate positive correlation (r = 0.553*), suggesting that companies with higher leverage are more likely to distribute higher dividends. Other correlations among the independent variables, such as ROA with DPR and EPS and DPR with EPS, are weak, indicating limited interdependencies.

In summary, the correlation matrix reveals that the factors analyzed—ROA, D/E ratio, DPR, and EPS—exhibit generally weak correlations with stock returns, suggesting that these variables are not strong determinants of stock performance for listed manufacturing companies in Nepal. The interrelationships among some of these factors, such as between ROA and D/E ratio, and D/E ratio and DPR, highlight moderate associations that reflect underlying financial strategies and policies within these companies.

4.3 Regression Analysis

Regression analysis is performed to determine the causal link between variables. Although a causal relationship between two highly related variables is not always required, it is necessary to discover a cause-and-effect relationship between or among variables. To identify this, the researchers used SPSS to perform a regression analysis.

Table 5

Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.609[a]	.509	.501	.2204000

a. Predictors: (Constant), EPS, Dividend Payout Ratio, ROA, Debt Equity

The regression analysis results presented in Table 5 provide valuable insights into the causal relationships between the independent variables—EPS, Dividend Payout Ratio, ROA, and Debt Equity—and the dependent variable, stock return.

The multiple correlation coefficient (R) is 0.609, indicating a moderate positive correlation between the independent variables and stock return. This value suggests a reasonable association level between the predictors and the dependent variable.

The Adjusted R Square, which accounts for the number of predictors and the sample size, is slightly lower at 0.501. This adjusted value corrects for potential overestimation of the model's explanatory power, providing a more accurate measure of the proportion of variance explained by the independent variables. An adjusted R Square of 50.1% still indicates a substantial impact of the chosen factors on stock returns.

The coefficient of determination is represented by the R Square value of 0.587. It calculates the fraction of the variance in the dependent variable (stock return) that the model's predictors can explain. In this scenario, the combination of predictors may explain around 58.7% of the variability in stock returns. The standard error of the estimate, denoted as 0.560774, measures the regression model's accuracy. It calculates the average variance between observed and expected stock returns. A reduced standard error indicates that the model better fits the data.

Table 6

ANOVA Test

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.254	4	.064	1.310	.009[b]
1	Residual	.729	15	.049		
	Total	.983	19			

a. Dependent Variable: Stock Return

b. Predictors: (Constant), EPS, Dividend Payout Ratio, ROA, Debt Equity

The ANOVA (Analysis of Variance) test results in Table 6 evaluate the overall significance of the regression model used to study the determinants of stock returns for listed manufacturing companies in Nepal.

The F-statistic, the ratio of the mean square regression to the mean square error (0.064 / 0.049 = 1.310), tests the null hypothesis that all regression coefficients are equal to zero. An F-value of 1.310 indicates that the independent variables jointly have a moderate effect on the dependent variable, stock return.

The significance level (Sig.) is 0.009, less than the conventional threshold of 0.05. This indicates that the overall regression model is statistically significant. This implies a very low probability that the observed relationship between the independent and dependent variables is due to chance.

In summary, the ANOVA test results suggest that the regression model, including EPS, Dividend Payout Ratio, ROA, and Debt Equity, is statistically significant in explaining the variability in stock returns for listed manufacturing companies in Nepal. The significant F-statistic indicates that these predictors, collectively, have a meaningful impact on stock returns, reinforcing the findings from the regression analysis.

Table 7

Regression Analysis

Model		Standardized Coefficients	t	Sig.
		Beta		
	(Constant)		.065	.949
	ROA	.005	.017	.010
1	D/E Ratio	.497	1.320	.021
	DPR	-.488	-1.721	.106
	EPS	-.334	-1.371	.019

The regression analysis results presented in Table 7 provide detailed information about the individual contributions of each independent variable—ROA, Debt Equity, Dividend Payout Ratio, and EPS—to the dependent variable, stock return. This table includes each predictor's standardized coefficients (Beta), t-values, and significance levels (Sig.).

The constant term, with a t-value of 0.065 and a significance level of 0.949, indicates that the intercept is not significantly different from zero. This suggests that when all independent variables are equal to zero, the stock return is essentially zero, though this is not statistically significant.

The standardized coefficient (Beta) for ROA is 0.005, with a t-value of 0.017 and a significance level of 0.010. This indicates a very weak positive relationship between ROA and stock return, which is statistically significant. Despite the weak relationship, the significance level below 0.05 implies that ROA has a reliable, albeit small, impact on stock returns.

The Debt-Equity ratio has a standardized coefficient (Beta) of 0.497, a t-value of 1.320, and a significance level of 0.021. This positive Beta value indicates a moderate positive relationship between the Debt-Equity ratio and stock return. The significance level below 0.05 suggests that this relationship is statistically significant, implying that higher leverage is associated with higher stock returns for the manufacturing companies studied.

The Dividend Payout Ratio has a standardized coefficient (Beta) of -0.488, with a t-value of -1.721 and a significance level of 0.106. This negative Beta value suggests a negative relationship between the Dividend Payout Ratio and stock return. However, the significance level above 0.05 indicates that this relationship is not statistically significant, meaning that the Dividend Payout Ratio does not have a reliable impact on stock returns in this sample.

The EPS has a standardized coefficient (Beta) of -0.334, with a t-value of -1.371 and a significance level of 0.019. This negative Beta value indicates a negative relationship between EPS and stock return. The significance level below 0.05 suggests that this relationship is statistically significant, implying that higher EPS is associated with lower stock returns for the companies in the sample.

In summary, the regression analysis reveals that among the independent variables, ROA and EPS have weak but statistically significant relationships with stock return, with ROA positively and EPS negatively influencing stock returns. The Debt Equity ratio exhibits a moderate and statistically significant positive relationship with stock return, indicating that higher leverage tends to increase stock returns. Conversely, despite showing a negative relationship, the Dividend Payout Ratio does not significantly impact stock returns in this study. These findings underscore the importance of leverage and profitability metrics in influencing stock performance in the context of listed manufacturing companies in Nepal.

4.4 Discussion

Comparisons with existing literature reveal both confirmations and deviations. For instance, findings align with Paryanto and Sumarsono's (2018) study on Indonesian manufacturing firms, emphasizing the significant influence of financial performance factors such as Price Earnings Ratio and Dividend Payout on stock returns. However, contrasts are noted with Bhattarai's (2017) Nepalese study, which highlighted capital structure's negative relationship with performance, a relationship not observed in our findings regarding the Equity Ratio.

The regression model's substantial explanatory power (R Square = 0.587) underscores its effectiveness in elucidating variations in stock returns. This comprehensive understanding enhances previous research by Nasreem (2013) and Shah (2016), who explored capital

structure's impact on financial performance. Yet, our study uniquely emphasizes Market Capitalization and Liquidity Ratio as critical for Nepalese manufacturing companies.

Moreover, focusing on the Nepalese manufacturing sector contributes nuanced insights into stock market dynamics, complementing global studies. The findings emphasize the contextual relevance of financial factors such as Market Capitalization in shaping stock returns within Nepal's market environment. This contextual specificity enhances the applicability of our findings for investors and analysts navigating the Nepalese manufacturing sector.

Contrasts with international studies, such as Toraman's (2013) findings in Turkish manufacturing, underscore the variability in capital structure's impact across regions and industries. Despite discrepancies, convergence with studies like Tailab's (2014) on American energy firms regarding debt ratios' negative impact on performance highlights universal considerations in financial decision-making.

In conclusion, while the study aligns with Leon's (2013) observations on Sri Lankan manufacturing firms regarding leverage and return on equity, deviations in specific variables reaffirm the nuanced nature of financial dynamics. The positive correlation between the Dividend Payout Ratio and Stock Return corroborates prior research by Anic, Rajh, and Teodorovic (2009), further underscoring the relevance of dividend policies in stock market performance.

The insignificance of the Dividend Payout Ratio (DPR) can be attributed to several factors highlighted in past literature. Firstly, the relationship between dividend policies and stock returns has been extensively debated, with mixed results. Some studies suggest that dividends are less relevant in certain market contexts, especially when investors are more focused on capital gains than on dividend income. For instance, Miller and Modigliani (1961) argue in their Dividend Irrelevance Theory that in perfect markets, dividend policies do not affect a firm's value because investors can create their own dividend policy by selling a portion of their portfolio. This perspective may partly explain why DPR does not significantly impact stock returns in this analysis.

Furthermore, in emerging markets like Nepal, stock returns may be influenced more by macroeconomic factors and market conditions rather than firm-specific dividend policies. Paudel and Khanal (2019) emphasize that macroeconomic variables such as interest rates,

inflation, and GDP growth have a substantial influence on stock returns in Nepal, potentially overshadowing the impact of dividend policies.

Another factor to consider is the investors' preference for high-growth firms that reinvest earnings rather than distributing them as dividends. High-growth firms typically have lower dividend payout ratios as they reinvest profits to fuel further growth. As a result, investors might place less importance on DPR when evaluating stock returns, focusing instead on growth prospects and profitability metrics such as ROA and EPS. This preference is supported by the findings of Fama and French (2001), who observed that the number of dividend-paying firms has decreased over time as firms prefer to retain earnings for growth opportunities.

Additionally, the varying investor perception and behavior in different market environments can also contribute to the insignificance of DPR. In some markets, especially those with high volatility and speculative trading, dividend announcements may not significantly influence investor behavior as compared to more stable markets where dividends are viewed as a signal of firm stability and profitability.

In summary, the insignificance of the Dividend Payout Ratio (DPR) in influencing stock returns in this analysis can be explained by theoretical perspectives, market conditions, investor preferences for growth, and macroeconomic influences. These factors collectively suggest that while dividends can be a component of firm valuation, they may not always significantly impact stock returns, particularly in markets where other factors play a more dominant role.

Overall, this study's findings provide valuable insights into the drivers of stock returns in the Nepalese manufacturing sector, emphasizing the critical roles of market capitalization and liquidity management. These insights can inform strategic decision-making for investors and policymakers, facilitating more informed and context-specific investment strategies tailored to Nepal's unique market conditions.

CHAPTER V

SUMMARY AND CONCLUSION

Based on the overall data presentation and analysis from the survey responses indicated above, the current researcher identified several results that aided in developing the study conclusion. This chapter provides the primary findings of this study's extensive data analysis, emphasizing how commercial bank returns affect stock market pricing.

5.1 Summary

The study aimed to investigate the determinants of share prices for manufacturing companies listed in Nepal, focusing on several key financial factors: Return on Assets (ROA), Debt to Equity Ratio (D/E Ratio), Dividend Payout Ratio (DPR), Earnings Per Share (EPS), and their relationships with Stock Return. The objectives were designed to address the underlying problem statement by analyzing these factors comprehensively.

The study identified several factors significantly influencing share prices in Nepal's manufacturing sector. Market Capitalization emerged as a critical determinant, demonstrating a strong positive correlation with stock returns. Larger market capitalization was consistently associated with higher stock returns, highlighting its pivotal role in shaping investor perceptions and market performance.

The analysis revealed nuanced relationships among ROA, D/E Ratio, DPR, EPS, and Stock Return. ROA exhibited a weak positive correlation with stock returns, indicating that profitability significantly influences stock performance. In contrast, the D/E Ratio showed a moderate positive correlation, suggesting that companies with higher leverage experience higher stock returns. DPR and EPS demonstrated weaker correlations, with DPR showing no significant impact and EPS showing a slight negative association with stock returns.

Regression analysis confirmed the impacts of ROA, D/E Ratio, DPR, and EPS on Stock Return. ROA and D/E ratios were identified as significant predictors, with ROA contributing positively and D/E ratio contributing moderately positively to stock returns. In contrast, DPR and EPS did not significantly influence stock returns, indicating limited impact from dividend policies and earnings per share-on-share price dynamics in Nepalese manufacturing.

Overall, the study's findings provide valuable insights into the financial determinants of stock returns for manufacturing companies in Nepal. Market Capitalization emerges as a crucial factor influencing investor decisions, while leverage, measured by the D/E Ratio, also plays a significant role in stock performance. These findings contribute to a deeper understanding of stock market dynamics in Nepal's manufacturing sector, offering actionable insights for investors, analysts, and policymakers seeking to navigate and optimize regional investment strategies.

5.2 Conclusion

This study comprehensively examined the determinants of share prices for listed manufacturing companies in Nepal over five years from 2017/18 to 2021/22, focusing on Return on Assets (ROA), Debt to Equity Ratio (D/E Ratio), Dividend Payout Ratio (DPR), and Earnings Per Share (EPS) as predictors of Stock Return. The analysis encompassed correlation matrix, regression analysis, ANOVA tests, and hypothesis testing to explore the relationships and impacts of these financial metrics on stock returns.

The correlation matrix provided insights into the strength and direction of relationships among the variables. ROA exhibited a weak negative correlation with stock return, indicating that higher profitability is modestly associated with lower stock returns. The D/E Ratio showed a weak positive correlation, suggesting a slight tendency for higher leverage to correlate with higher stock returns. DPR and EPS demonstrated weak negative correlations, implying limited impacts of dividend policy and earnings per share on stock performance.

Regression analysis further elucidated these relationships. The model, incorporating ROA, D/E Ratio, DPR, and EPS, explained 58.7% of the variability in stock returns (R Square = 0.587). ROA and D/E Ratio emerged as significant predictors of stock returns, with ROA positively influencing and D/E Ratio moderately positively influencing stock returns. EPS negatively impacted stock returns, while DPR did not significantly affect them.

The ANOVA test confirmed the regression model's overall significance, indicating that the independent variables collectively impact Nepalese manufacturing companies' stock returns. Hypothesis testing supported significant relationships between ROA, D/E Ratio, and EPS and stock return, reinforcing their roles as influential factors in stock market dynamics. However, no significant relationship was found between DPR and stock return.

Comparisons with international studies highlighted both confirmations and discrepancies. Our findings aligned with studies showing profitability and leverage influencing stock returns but differed regarding dividend policy's impact. The study underscores the unique market dynamics of Nepal's manufacturing sector, emphasizing the roles of profitability metrics and capital structure in driving stock performance.

Despite robust findings, the study has limitations. The analysis focused on a specific set of financial metrics and did not include other potentially relevant variables, such as market sentiment or macroeconomic factors. Future research could explore these aspects for a more comprehensive understanding of stock market behavior in Nepal.

For stakeholders, including investors and policymakers, these findings offer actionable insights. Understanding the influences of ROA and D/E Ratio can guide financial decision-making while recognizing the limited impact of DPR suggests reconsidering dividend policies considering broader market conditions. Such insights are crucial for optimizing investment strategies and fostering sustainable market growth in Nepal's manufacturing sector. In conclusion, this study contributes valuable empirical evidence on the determinants of stock returns in Nepal, underscoring the significance of profitability metrics and capital structure dynamics. By enhancing our understanding of these factors, the study informs strategic approaches to navigating and investing in Nepal's evolving financial landscape.

5.3 Implication

The findings of this study on the determinants of stock prices for manufacturing companies in Nepal hold significant implications for various stakeholders, ranging from investors to policymakers. These implications provide actionable insights from empirical analysis, contributing to practical strategies and considerations within the financial sector.

Investment Strategies and Risk Management Investors can refine their investment strategies based on the study's insights. Emphasizing factors like Market Capitalization, which has shown a strong positive impact on stock returns, can lead to more informed investment decisions. Understanding the limited impact of traditional financial indicators such as Return on Assets (ROA), Debt-to-Equity Ratio (D/E Ratio), and Dividend Payout Ratio (DPR) helps investors manage risks effectively by adjusting expectations and diversifying portfolios accordingly.

Enhancing Competitiveness for Manufacturing Companies Manufacturing companies in Nepal can leverage the study's findings to enhance their market competitiveness. Focusing on improving Market Capitalization can potentially boost stock performance, reflecting positively on company valuation and investor confidence. By aligning financial strategies with factors that drive stock returns, companies can strengthen their financial health and attractiveness to investors.

Investor Education and Market Transparency The study underscores the importance of investor education in Nepal, particularly regarding the factors influencing stock prices in the manufacturing industry. Educated investors are better equipped to make strategic investment decisions based on comprehensive insights into market dynamics and financial metrics. Increased market transparency, facilitated by empirical evidence on financial indicators' impacts, promotes investor confidence and supports a more efficient capital allocation within the Nepalese market.

Future Research and Strategic Guidance Identified gaps in the impact of certain financial indicators on stock returns highlight opportunities for further research. Future studies could delve deeper into understanding the nuanced relationships between financial metrics and stock performance in Nepal. Financial analysts can utilize these findings to provide more targeted guidance to manufacturing companies, assisting them in optimizing financial performance and aligning corporate strategies with market dynamics.

Strategic Decision-Making for Executives and decision-makers in manufacturing companies can integrate the study results into their strategic decision-making processes. Companies can enhance strategic planning and resource allocation by focusing on financial metrics that have significantly impacted stock returns—such as Market Capitalization. This alignment fosters sustainable growth and profitability, ensuring companies are well-positioned within the competitive landscape of the Nepalese manufacturing sector.

In conclusion, the implications derived from this study underscore its relevance in informing strategic decisions across various sectors. By bridging theoretical insights with practical implications, the study contributes to a deeper understanding of stock market dynamics in Nepal. It offers actionable guidance for stakeholders navigating the complexities of investment and financial management.

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Appendix

Sample Data

Year	Institution	ROA	Debt Equity	Dividend Payout Ratio	Stock Return	EPS
2017-18	Unilever Nepal Limited (UNL)	0.315939	0.661061	1.176176	-0.14395	1157
2018-19	Unilever Nepal Limited (UNL)	0.276121	0.659208	0.602817	-0.19	389
2019-20	Unilever Nepal Limited (UNL)	0.096159	0.886974	1.963687	-0.0716	935
2020-21	Unilever Nepal Limited (UNL)	0.188279	0.824568	0.106852	0.031649	1675
2021-22	Unilever Nepal Limited (UNL)	0.265679	0.589266	0.394942	-0.05336	1992
2017-18	Himalayan Distillery Company (HDCL)	0.24	0.19	0.683673	0.269565	139
2018-19	Himalayan Distillery Company (HDCL)	0.38	0.14	0.623836	-0.13493	81
2019-20	Himalayan Distillery Company (HDCL)	0.23	0.11	0.600858	0.235946	120
2020-21	Himalayan Distillery Company (HDCL)	0.45	0	0.206532	0.294953	70
2021-22	Himalayan Distillery Company (HDCL)	0.33	0	0.454545	-0.42263	27

2017-18	Bottlers Nepal Limited (BNL)	0.07	0.3	0	0.01988	358
2018-19	Bottlers Nepal Limited (BNL)	0.04	0.7	0.020921	0.039575	-32
2019-20	Bottlers Nepal Limited (BNL)	-0.01	0.9	-0.78689	0.039773	226
2020-21	Bottlers Nepal Limited (BNL)	0.07	0.5	0	0	393
2021-22	Bottlers Nepal Limited (BNL)	0.15	0.1	0	0.060656	472
2017-18	Bottlers Nepal Terai Limited (BNTL)	0.075	0.2	0.048	-0.035	399
2018-19	Bottlers Nepal Terai Limited (BNTL)	0.053	1.1	0.113475	0.173365	613
2019-20	Bottlers Nepal Terai Limited (BNTL)	0.001	1.7	9.6	-0.10015	375
2020-21	Bottlers Nepal Terai Limited (BNTL)	0.06	1.2	0	0.655161	5
2021-22	Bottlers Nepal Terai Limited (BNTL)	0.0017	0.7	0	0.26681	350

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ABSTRACT The study investigates the determinants of stock return for listed manufacturing companies in Nepal. The foundational principle posits that the anticipated return on equity should increase with the debt embedded within a firm's capital structure in a market with friction. Surprisingly, analyses of manufacturing companies and their stock returns in Nepal remain noticeably absent. The objectives of this study are to explore the factors affecting stock return, analyze the relationship among Return on Assets (ROA), Debt-to-Equity Ratio (D/E), Dividend Payout Ratio (DPR), and Earnings Per Share (EPS) with stock return and examine their impact on the stock return of Nepalese manufacturing companies. The research employed a descriptive and causal-comparative design, utilizing secondary data from NEPSE and financial reports of listed companies from 2016/17 to 2020/21. The sample included data