DETERMINANTS OF STOCK RETURN OF LISTED MANUFACTURING COMPANY IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfilment of the requirements for the Master's of Business Studies (MBS)

By

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “Determinants of stock return of listed manufacturing company 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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Report of Research Committee

Ms. Khageswori Hamal has defended research proposal entitled "Determinants of stock return of listed manufacturing company 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. Jhabindra Pokharel and submit the thesis for evaluation and viva voce examination.

Dissertation Proposal Defended Date:

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Approval Sheet

We have examined the dissertation entitled “Determinants of stock return of listed manufacturing company in Nepal” presented by Khageswori Hamal a candidate for the degree of Master of Business Studies (MBS semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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Researcher

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List of Abbreviations

BNL: Bottlers Nepal Limited (Balaju)

BNT: Bottlers Nepal (Terai) Limited

BVPS: Book value per share

CR: Current Ratio

D/E: Debt to equity ratio

DPR: Dividend Pay-out Ratio

DPS: Dividend per share

EPS: Earnings per share

GCIL: Ghorahi Cement Industry Limited

GDP: Gross Domestic Product

GPM: Gross Profit Margin

HDL: Himalayan Distillery Limited

NEPSE: Nepal Stock Exchange

NLO: Nepal Lube Oil Limited

NPM: Net Profit Margin

P/E Ratio: Price to Earnings Ratio

ROA: Return on Assets

SARBTM: Sarbottam Cement Limited

SHIVM: Shivam Cement Limited

SRC: Stock return on of company

UNL: Unilever Nepal Limited

Abstract

This study investigates the key determinants influencing stock returns of listed manufacturing companies in Nepal, a sector that remains underexplored in capital market research within the country. The research focuses on identifying the effect of firm-specific financial indicators such as Earnings Per Share (EPS), Dividend Per Share (DPS), Price-to-Earnings (P/E) Ratio, Book Value Per Share (BVPS), Debt-to-Equity (D/E) Ratio, Dividend Payout Ratio (DPR), Current Ratio (CR), and Firm Size on stock returns. A sample of eight manufacturing companies listed on the Nepal Stock Exchange (NEPSE) was analyzed over the fiscal years 2016/17 to 2024/25 using secondary data derived from annual financial statements and market reports. Employing correlation and multiple regression analysis through SPSS and Excel, the study reveals that profitability, leverage, and dividend policies significantly influence stock returns, though the impact varies across firms. The findings suggest that higher earnings, stable dividend distribution, and sound capital structure are positively associated with investor returns. Conversely, excessive leverage and inconsistent dividend policies tend to deter market performance. This research provides a foundation for informed investment strategies, improved financial decision-making, valuable insights to investors, and the formulation of policies aimed at enhancing the efficiency and stability of Nepal's capital market. Ultimately, this study aims to foster sustainable growth in the manufacturing sector and contribute to the broader economic development of Nepal.

Keywords: *Current ratio, Dividend payout ratios, Manufacturing Sector, Profitability, Stock Return.*

CHAPTER I

INTRODUCTION

1.1 Background of the study

Stock returns represent one of the most crucial outcomes of equity investment, guiding investor behaviour and market dynamics. Investors seek capital appreciation and dividend income, making stock return a key measure of corporate performance and value creation (Nguyen & Nguyen, 2022). In efficient capital markets, stock prices are influenced by several factors both firm-specific and macroeconomic, which affect the return expected by investors. These include profitability, liquidity, leverage, firm size, and market value, which reflect the financial health and operational efficiency of the firm (Al-Shubiri & El-Heiat, 2021).

Stock returns are very important because they are considered as the main propose of investing in ordinary shares. Investors, both existing and potential regard return as the fundamental reason for investing in a particular firm. Stock prices serve as key indicators for evaluating stock market returns. Stock Market Returns are the returns or gains that the investors generate out of the stock market. The most common way of generating stock market return is through trading in the secondary market. In the secondary market an investor could earn stock market return by buying a stock at lower price and selling it at a higher price (Hearn & Piesse, 2013). The book value of equity indicates the ownership value of a company derived from its financial statements and serves as a useful tool for assessing the actual value of its equity.

Stock markets hold a vital position in the economic framework of every nation. The criticality of the stock markets to the growth of every economy is based on the fact that resources are channeled to the most productive investment opportunities (Mburu, 2014). Consequently, stock markets serve as a place where securities are traded as well as provide the platform for effective and efficient interactions between savers and users of capital by means of pooling of funds, sharing risk and transferring wealth among stakeholders Equity shares serve as a primary avenue for investment, offering the potential for substantial returns to investors. Nevertheless, various factors such as market dynamics, regulatory interventions, and the performance of individual stocks contribute to the volatility of returns from equity investments. Al-Tamimi (2007) emphasized that understanding these factors and their potential influence on share prices is valuable, as it

aids investors in making informed investment choices and assists firms in improving their market valuation.

In developing nations, particularly those that are members of the World Trade Organization, there has been an increase in the harmonization of economic, monetary, and fiscal policies in recent years. Additionally, there has been a move toward a broad market liberalization as well as a gradual removal of obstacles to foreign investment. Finally, over this time, technology advancements have benefitted trade and communication networks. A stronger integration of global finance markets should be the result of all these improvements. As a result, it is quite likely that the variables influencing stock returns have changed over time. Integration should especially have an impact on the relative weights of the following variables: the nation in which the company is incorporated and the sector in which it conducts the majority of its business. One would anticipate that national impacts would be more significant the more fragmented the markets are. On the other hand, in integrated capital markets, variables from the world's industries should be the dominant force. There is compelling evidence that experts now think industry matters more than nation in the development of stock returns. Banks and brokers have chosen to arrange their research divisions according to sectors rather than nations, which is another piece of evidence. The display of stock quotations in financial newspapers and specialist publications, the majority of which categorize equities according to the industry they are a part of rather than the market where they are quoted, provides more evidence of this fact (at least in Europe). An additional example of this significant change in top-down asset allocation is the growth of diverse cross-market sectoral investment funds (Galati & Tsatsaronis, 2003).

In the context of Nepal, equities with higher P/E ratios seemed to have weaker liquidity, profitability, assets turnover, and interest coverage, as well as more leverage (Pradhan & Shyam, 1993). Timilsina (1997) found a positive relationship between dividend per share and stock price, noting that the impact of dividends on share prices differs across various industries. Market capitalization is significantly impacted by dividend per share, return on equity, and dividend yields, but not by price earnings multiples. The research also revealed that dividend per share is positively associated with stock market value, while dividend yield shows a negative relationship with market value. Firms with greater dividend yields also tend to have better profitability, liquidity, asset turnover, and interest coverage (Shrestha & Subedi, 2014). More recent evidence supports the relevance of

earnings per share, book-to-market equity, and dividend yields as significant predictors of stock returns in the Nepalese context (Lamichhane & Dhungel, 2023; Joshi, 2023). The study did find a bad correlation between leverage and dividend yield, though. This research has undoubtedly focused on a small number of the links mentioned before. In light of the current situation, this study is crucial for industrial firms in Nepal.

The manufacturing sector plays a critical role in Nepal's economic development, contributing significantly to employment, industrial output, and export earnings. Despite its growing importance, the sector remains underrepresented in financial research, particularly concerning stock market performance. Most prior studies in Nepal have predominantly focused on the banking, insurance, and service sectors, given their traditionally larger share in the Nepal Stock Exchange (NEPSE). However, manufacturing firms have increasingly become vital drivers of economic diversification and resilience, especially in the context of post-COVID recovery and industrialization efforts. Understanding the stock return behavior of these firms is essential for investors, corporate managers, and policymakers aiming to foster a more balanced and inclusive economic growth trajectory.

This study is specifically designed to bridge this gap by focusing exclusively on listed manufacturing companies in Nepal. It selects a sample of manufacturing firms registered on NEPSE, ensuring sector-specific insights rather than generalizing across industries with fundamentally different risk-return profiles. By examining firm-specific variables such as liquidity, profitability, leverage, and firm size, the study captures the internal financial dynamics that potentially drive stock returns in the manufacturing sector. The research covers a recent timeframe (fiscal year 2016/17 to 2024/25), thus including critical market phases like the pre-pandemic period, the COVID-19 disruption, and the post-pandemic recovery, offering a comprehensive view of the sector's evolving financial performance.

The study adopts a robust quantitative approach using panel data analysis, integrating multiple financial indicators into a single regression model. This allows the research to assess not only individual factor effects but also their collective influence on stock returns, capturing the complex financial realities of manufacturing firms. By focusing on a contemporary dataset and applying rigorous statistical techniques, the study provides updated empirical evidence that reflects current market conditions, investor behaviour,

and corporate financial strategies in Nepal. Consequently, the findings are expected to contribute both academically to the literature on emerging market finance and practically to better investment decision-making and policy formulation within Nepal's manufacturing sector.

1.2 Problem statement

The fundamental work presented the idea that the expected return on equity should increase with the amount of debt in a firm's capital structure in a friction market. Relatively, manufacturing companies and their stock return analysis in Nepal are few studies. According to theoretical finance, leverage is one of the causes of risk, hence the more leveraged a company is, the greater the risk to stock investors. Anton (2016) believe that the income statement, balance sheet, statement of stockholder's equity, and statement of cash flow are the four most important financial statements that stakeholders should be aware of when evaluating a company's performance. Menike and Prabath (2014) examined the influence of accounting variables on stock prices using evidence from the Colombo Stock Exchange in Sri Lanka. The study employed average stock price as the dependent variable and considered EPS, DPS, and BVPS as explanatory variables. The findings indicated that firm-specific internal factors such as DPS, EPS, and BVPS play a significant role in determining stock prices. Jogiyanto (2010) stated that announcements serve as signals to investors when making investment decisions. If the announcement conveys positive information, the market tends to respond favorably at the time it is released. One of the information released by the company to potential investors is the annual financial statements. The information contained in the annual financial statements can be in the form of information about the condition of the company in the present. In addition to the fundamental information sourced from the company's financial statements, the information also comes from outside the company in the form of a country's economic conditions. EPS is one of the market ratios that measure management's ability to create market value that goes beyond investment spending (Ang, 1997). This ratio is the most complete measurement to assess the company's achievements related to the company's goal of maximizing corporate value and shareholder wealth.

Understanding the factors that influence stock returns is crucial, especially for investors and policymakers focusing on Nepal's manufacturing sector. One key factor is liquidity, often measured through the CR, which reflects a firm's ability to meet short-term

obligations. While higher liquidity may enhance investor confidence and boost stock returns, excess liquidity could indicate inefficient asset use. Despite its importance, the relationship between liquidity and stock return remains underexplored for Nepalese manufacturing firms. Profitability, captured by indicators like Earnings Per Share (EPS), is another major determinant. Firms with higher profitability are typically viewed more favorably by investors, potentially resulting in stronger stock performance. However, in Nepal's manufacturing context particularly after the COVID-19 disruption the direct effect of profitability on stock returns has not been sufficiently tested, necessitating a focused empirical inquiry in the post-pandemic period.

Another important variable is leverage (D/E ratio), which can either enhance shareholder returns through optimal financial structuring or raise financial risk, adversely impacting stock prices. While leverage dynamics have been studied in Nepal's banking sector, their impact on manufacturing firms' stock returns remains largely unknown. Additionally, firm size is believed to influence stock returns, with larger firms often seen as more stable investments compared to smaller, riskier counterparts. Although global studies have confirmed the existence of size-related effects on returns, empirical validation for Nepalese manufacturing companies is limited.

So, in the Nepalese firm character and its stock return are fully not covered by researchers and authors, this study found the following problems:

i. What is the effect of liquidity on the stock return of sample manufacturing firm.
ii. What is the effect of profitability on the stock return of sample manufacturing firm.
iii. Does leverage have any impact on the stock return of the manufacturing -firms.
iv. Do large firms differ from small firms in terms of stock returns?

1.3 Objectives of the study

Following objective were proposed to address the problem statement of this study:

i. To describe the status of Stock return factors of Listed Manufacturing Company in Nepal.
ii. To measure the relation between stock return factors of Listed Manufacturing Company in Nepal.
iii. To examine the stock return of the Listed Manufacturing Company in Nepal.

1.4 Rationale of the study

This research result is of importance of the management of firm's characteristic and stock return of manufacturing company in Nepal. the main target of the study is potential investor who want return of firms and stock return of manufacturing companies in Nepal .it will also provide little contribution of stock market in Nepal. The recommendation of the linkage between firm's characteristic and stock return of commercial bank in Nepal. The rationale of this proposed study are as follows:

i. It will improve the knowledge of many stakeholders,
ii. It will useful for external and internal users strive to play their responsibilities in analysing and evaluating the value of various historical periods in the development of Nepal's capital markets.
iii. The study will contribute to the current body of information on the issue and will be useful to researchers for future research.

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 in a clear, accurate, and constrained manner. 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 entire study is based on secondary data, annual reports, and publications of the relevant manufacturing companies, as well as articles and journals on the subject, which may or may not present an accurate picture of the field. As a result, the accuracy of the data will have a significant impact on the research's reliability. The study's findings will be worthless if the provided data is inaccurate.
iii. Due to time constraints, the investigation is limited companies. The findings should not be applied universally. As a result, the study is only intended to meet a

portion of the requirements for a Master's degree in business studies.

CHAPTER II

LITERATURE REVIEW

A thorough analysis of current and pertinent literature on the subject is the main focus of this chapter. On the research's actual basis, the theoretical component of return is investigated. It is the workplace environment. It evaluates several fundamental academic courses, books, journals, and other relevant research; nevertheless, because our stock market is still in its infancy, it is unable to offer sufficient details on the subject. Therefore, the majority of the materials examined here are produced elsewhere. While conducting a literature study, several of the master's degree theses accessible at Tribhuvan University that are pertinent to the issue have also been examined.

2.1 Theoretical Review

The Efficient Market Hypothesis (EMH), proposed by Fama (1970), asserts that stock prices fully reflect all available information at any point in time. Therefore, according to EMH, it is impossible for investors to consistently achieve returns higher than the average market return on a risk-adjusted basis. Any factor such as firm earnings, dividend announcements, or financial ratios should be instantly incorporated into stock prices. However, empirical studies have revealed anomalies where firm-specific factors (e.g., earnings per share, firm size, leverage) influence stock returns, particularly in less developed or emerging markets where market efficiency is often limited (Le et al., 2020).

The Capital Asset Pricing Model (CAPM), introduced by Sharpe (1964), Lintner (1965), and Mossin (1966), offers a method to estimate an asset’s expected return by considering its systematic risk (beta). According to the model, a stock’s expected return is positively linked to its market risk, while firm-specific factors do not influence it. However, empirical evidence, especially in emerging markets, often contradicts CAPM predictions, highlighting the significant role of internal firm characteristics, such as liquidity ratios, dividend policies, and profitability indicators (Nguyen & Nguyen, 2020).

The Pecking Order Theory, proposed by Myers and Majluf (1984), suggests that firms prefer internal financing first, debt second, and equity as a last resort. Firms' capital structure decisions, guided by this hierarchy, indirectly affect their stock prices and returns. When firms issue more equity, it may signal to investors that shares are overvalued, potentially reducing stock prices and thus affecting returns.

The Dividend Signaling Theory posits that changes in a firm's dividend payments convey important information about future earnings prospects (Bhattacharya, 1979). An increase in dividend payout is often interpreted as a positive signal about a firm's profitability and stability, which may lead to an increase in stock prices and returns. This theory aligns with findings from empirical studies (e.g., Kayode & Adewoye, 2020) that show a strong positive relationship between dividend payout ratios and stock returns, particularly in markets where information asymmetry is prevalent.

The Arbitrage Pricing Theory (APT), introduced by Ross (1976), proposes that multiple factors (both macroeconomic and firm-specific) systematically affect stock returns. Unlike CAPM, which emphasizes only market risk, APT suggests that stock returns are influenced by several risk factors, including firm profitability, leverage, liquidity, inflation, and interest rates. In the context of emerging markets like Nepal, where multiple economic shocks can influence firm value, APT provides a more flexible model to understand stock return determinants.

Studies by Banz (1981) and Fama and French (1992) revealed that smaller firms tend to have higher stock returns than larger firms, a phenomenon termed the size effect. Similarly, firms with higher book-to-market ratios tend to outperform those with lower ratios a concept central to Fama and French's three-factor model. These effects imply that beyond market risk, internal financial characteristics significantly determine stock returns, especially in developing markets.

2.2 Empirical Review

Poudel (2024) conducted a comprehensive study titled "Firm Specific Fundamental Variables and Common Stock Returns," analysing 48 firms listed on the Nepal Stock Exchange over a 12-year period. The research focused on the impact of firm-specific variables such as firm size, book-to-market equity, earnings yield, and cash flow yield on stock returns. The study found that firm size, book-to-market equity, and earnings yield had a significant negative impact on common stock returns, while cash flow yield showed no significant effect. These findings suggest that larger firms and those with higher book-to-market equity may experience lower stock returns, possibly due to market perceptions of risk and growth potential. The study provides valuable insights for investors and policymakers in emerging markets like Nepal, emphasizing the importance of considering firm-specific factors when making investment decisions.

Khadka and Khadka (2023) analyzed how various factors influence stock returns. The research highlighted that asset tangibility significantly impacts stock returns, whereas firm size and gross domestic product did not show a statistically significant effect. Additionally, macroeconomic variables like inflation rate and exchange rate were found to significantly affect stock returns. The study suggests that policymakers should focus on enhancing corporate governance, transparency, and macroeconomic stability to foster a conducive environment for stock market development. This comprehensive approach provides a micro understanding of the multifaceted influences on stock returns in Nepal's non-financial sector.

Lamichhane and Dhungel (2023) examined how internal firm factors affect stock returns. The research identified that earnings per share (EPS), book-to-market equity (BME), and earnings yield (EY) positively influence stock returns, while firm size (lnME) and cash flow yield (CFY) have negative impacts. These findings suggest that while profitability metrics enhance stock performance, larger firm size and higher cash flow yield may be perceived as less favorable by investors. The study provides valuable insights for investors and policymakers aiming to understand and leverage firm fundamentals to optimize stock returns.

Dhital (2023) explored the "Impact of Dividend Policy on Share Price of Commercial Bank in Nepal," analyzing how dividend decisions affect stock market prices. The study concluded that cash dividends have a significant negative impact, while stock dividends have a significant positive impact on stock market prices. This suggests that investors may perceive stock dividends as a signal of growth and confidence, whereas cash dividends might be viewed as a reduction in reinvestment opportunities

Shrestha (2022) explored the "Firm Specific Determinants of Stock Market Price of Nepalese Enterprises," utilizing unbalanced panel data from 47 firms listed on the Nepal Stock Exchange between 1994 and 2019. The study employed fixed-effect regression models to assess the influence of variables such as firm size, dividend per share (DPS), earnings per share (EPS), return on equity (ROE), and dividend yield (DY) on market price per share. Findings indicated that firm size, DPS, and EPS positively influenced stock prices, while ROE and DY had negative impacts. Interestingly, book value per share and return on assets showed insignificant effects.

Shrestha and Lamichhane (2022) investigated the "Effect of Firm-Specific Variables on Stock Returns: Evidence from Nepal," focusing on commercial banks. The study found that dividend payout (D/P) and earnings per share (EPS) positively influenced stock returns, while earnings yield (E/P), return on assets (ROA), and sales-to-price (S/P) ratio had negative effects. These findings suggest that higher dividends and earnings enhance investor confidence, leading to increased stock returns, whereas higher earnings yield and ROA may indicate overvaluation or inefficiencies

Bhatta and Duwal (2021) conducted a systematic review titled "A Systematic Review of Dividend Policy in Relation to Stock Price Volatility," analyzing how dividend policies affect stock price stability. The study concluded that higher dividend payout ratios and dividend yields are associated with reduced stock price volatility. This implies that consistent and generous dividend policies can serve as a stabilizing factor for stock prices, potentially attracting risk-averse investors

Jahan (2020) conducted an empirical study titled "An Empirical Investigation of Cash Conversion Cycle of Manufacturing Firms and its Association with Firm Size and Profitability," focusing on 30 manufacturing firms listed in the Dhaka Stock Exchange. The research found a statistically significant negative relationship between the cash conversion cycle and profitability, particularly in terms of return on equity. Additionally, a significant negative relationship was observed between the cash conversion cycle and firm size. These findings suggest that efficient working capital management, reflected by a shorter cash conversion cycle, can enhance profitability and is more prevalent in larger firms

Dangol and Acharya (2020) examined "The Effect of Firm Specific Variables on Stock Returns of Nepalese Banks," utilizing cross-sectional panel data from 12 banks over ten years. The study found a negative relationship between stock returns and firm size, as well as book-to-market equity. However, the relationships of earnings yield and cash flow yield with stock returns were found to be inconsistent with previous studies. These findings highlight the complex dynamics of firm-specific variables in influencing stock returns within Nepal's banking sector.

Kayode and Adewoye (2020) used random effects (RE) model to analyse the data of 15 financial institutions and 15 manufacturing firms quoted on the Nigerian Stock Exchange from 2008 to 2017. The authors found that there exists a unit-directional causality from

stock price to earnings per share and a bi-directional causality between stock price and dividend per share. The study advises firm managers to closely monitor equity within the capital structure, as it negatively impacts stock price, earnings, and dividend per share all of which have causal links to stock prices.

Le, et. Al. (2020) used dynamic partial adjustment model to investigate the relationship between the capital structure and the economic conditions of non-financial firms listed in the Korean Stock Exchange. They supported the arguments that firms tend to adjust faster their leverage toward target level in economic expansion. Thus, their findings support to the pecking order and market timing theories.

Nguyen and Nguyen (2020) applied the generalized least square (GLS) method to explore the impact of capital structure on 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 negative effect on the firm performance. The result also indicated that this effect is stronger in state-owned enterprises than non-state enterprises in Vietnam.

Dang et al. (2019) examined the effect of stock liquidity on corporate capital structure decision 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 in the period 2000-2010 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.

Subramaniam and Anandasayanan (2018) analyses the relationship between share price and capital Structure by employing panel least square method approach in Sri Lanka. They found that there is a positive relationship between D/E and share prices, which is statistically significant at 1%. The results indicate adding debt to overall capital positively effects on the share prices.

Anandasayanan (2018) also conducted study on 'Stock return predictability with financial ratios: An empirical study of listed manufacturing companies in Sri Lanka.' This study analysed stock return of company with EPS, Dividend Yield, Earning Yield. Result of this study found High predictability power, since the R Square -value is high and the

coefficients are very significant and autocorrelation corrected standard errors. The results found that the three ratios hold a somehow predictive power regarding stock returns of the Listed Manufacturing Companies in Colombo Stock Exchange.

Paryanto and Sumarsono (2018) conducted The Effect of Financial Performance of Companies on Share Return in Manufacturing Companies Listed in Indonesia Stock Exchange Year 2014-2016. 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 have an effect on significant to variable Return of Shares in Manufacturing Company Listed in Indonesia Stock Exchange Year 2014 -2016.

Firm characteristics are factors that are mostly under the control of management. The firm characteristics include firm size, liquidity, leverage, sales growth, and firm age. This includes interest rate, GDP, and industry size (Dioha, Mohammed & Okpanachi. ,2018). This implies that the profitability of consumer goods companies can be determined by both firm-specific factors (internal attributes) and macroeconomic indicators (external factors), which serve as key drivers of their profitability.

Bhattarai (2017) the main purpose of the study is to examine the effect of capital structure on the performance of manufacturing company listed at the Nepal stock exchange. Secondary data of eight manufacturing companies were obtained from the published annual report and financial statement of the respective companies covering the 10 years. The result of the multiple regression analysis shows that capital structure has a significant negative relationship with the performance of the Nepalese manufacturing companies. In addition to capital structure, the firm performance is significantly positively associated to the firm size but negatively associated to the tangibility.

Pudji (2017) conducted study on '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, NPM. This study found that significant relationship between the Price Earnings Ratio, earning per Share, Net Profit Margin, Price to Book Value, and Risk Systematic on stock prices on companies listed in LQ45 Index 2011-2015. Partially, Price Earnings Ratio, earning per Share, Net Profit Margin, Price to Book Value, and Systematic Risks have significant effect on stock prices.

All businesses are needed to raise money from a variety of sources in order 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). It is one of several methods for determining a company's worth and 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 share price 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. Once issued, the shares can be purchased on the primary market. They must be traded on the stock exchange in order 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 of the NEPSE's listed companies (Pradhan & Shrestha, 2017). Investors and shareholders prioritise the profitability of a company in their study because they believe that current profits, projected earnings, and earnings stability are crucial. 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).

Purnamawati (2016) investigated the manufacturing sector company listed in Indonesia Stock Exchange for the period 2010-2013. The author used path analysis to measure the direct and indirect influence of independent variables on the dependent variable. The empirical results indicated that the capital structure and profitability affect the share price.

There is a statistically significant negative effect of capital structure on stock return, but stock liquidity and return on assets have statistically significant positive effect on stock return (Al Salamat & Mustafa, 2016). Where Capital Structure, Growth, Firm Size, EPS, Profitability, Liquidity are taken as independent variables.

Shah (2016) studied the impact of capital structure on firm performance using 25 cement companies listed on Karachi stock exchange during 2009 to 2013. Descriptive statistics results show a poor performance by cement companies, because about 64.51 percent of

total assets of cement companies are financed by debt. Based on the correlation results this study finds a negative relation between debt to assets and firm performance variables (GPM, NPM, ROA & ROE). It also indicates a positive relation between debt to equity and firm performance variables (GPM & NPM), whereas negative relationship between debt to equity and firm performance variable. (ROA & ROE). Besides, regression results reveal that there is a significant impact of capital structure on firms' performance. based on empirical literatures and findings the study concludes that there is a significant impact of capital structure on firms' performance. Although business companies generally depend on the debt capital therefore financial analyst and managers should be cautious while using debt as a source of finance, since there exists almost negative relationship between capital structure and firms' performance.

Ramadan and Ramadan (2015) examined the impact of capital structure on the performance of 72 companies listed on the Amman Stock Exchange over the period from 2005 to 2013. They used return on assets (ROA) as a profitability measure and the ratios of long-term debt to total assets and total debt to total assets as proxies for capital structure. Through OLS regression analysis, the authors found a negative relationship between debt ratios and company performance, suggesting that firms with better performance tend to rely less on debt. This finding aligns with the Pecking Order Theory, which posits that companies prioritize equity over debt.

Tahmoorespour et al. (2015) investigated the link between capital structure ratios and firm returns across several Asia-Pacific countries and regions namely Australia, China, Hong Kong, Japan, Korea, Malaysia, Singapore, and Taiwan covering the period from 1990 to 2012. The findings revealed that the impact of capital structure varies based on industry type and market context. In Australia, China, and Korea, firm returns were negatively associated with the debt-to-common equity ratio. However, in Australia and Korea, long-term debt-to-common equity showed a positive influence on firm returns.

Menike and Prabath (2014) analysed 'The impact of accounting variables on stock price: evidence from the Colombo Stock Exchange, Sri Lanka.' This study conducted with variable as Average Stock Price with EPS, DPS, BVPS, 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 determining of stock price.

Arslan, Zaman and Phil (2014), studied the impact of dividend yield and P/E ratio on stock returns was determined by using fixed effect model. The findings of study reveal that P/E ratio and size of firm have significant positive impact on stock prices.

Tailab (2014) conducted a study in the United States using a sample of thirty American energy firms over a nine-year period from 2005 to 2013 to examine the impact of capital structure on profitability in the energy sector. American firms found the negative relationship between debt ratios and performance variable on return on equity and return on assets. Researcher used multiple regression method to analyze his study data where 10% of ROE and 34% were predicted by independent variables of short-term debt, long term debt, and total debt to equity ratio.

Toraman (2013) examined 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 total debt to equity ratio and return on assets. Researcher used regression model to measure the relationship between capital structure and company profitability using a sample of twenty-eight manufacturing industries.

Alom (2013) analysed the effect of debt and equity funding (capital structure) on the financial performance in Malaysia by employing multiple regression analysis. The researchers used a sample of one hundred and thirty over the period 2001-2010. The findings show an adverse and statistically significant relationship between capital structure and companies' performance.

Bundala (2012) conducted a study to examine whether publicly listed companies in Tanzania follow the Pecking Order Theory, Agency Cost Theory, or Trade-Off Theory. The findings provided limited support for the Pecking Order Theory, showing significant positive relationships for variables such as growth rate, liquidity, dividend payout, and asset tangibility, while profitability exhibited a significant negative relationship.

Lavorskyi (2013) carried out research in Ukraine focusing on the influence of firm performance. Researcher used regression to measure the relationship between capital structure variable of leverage ratio against performance variable of return on assets, total factor productivity and EBIT margin. After analysing the relationship researcher fund that firm leverage was negatively affecting firm performance.

Leon (2013) investigated the effect of capital structure on the financial performance of manufacturing firms listed in Sri Lanka. He employed panel data from thirty listed manufacturing companies spanning from 2008 to 2012 to assess the relationship between the variables. The data were examined, and the hypotheses were evaluated through correlation and regression techniques. The finding of his study revealed that there is 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.

Nasreem (2013) also tested the relationship between firm's capital structure and financial performance in Pakistan using a sample of eighty-three companies listed in Karachi Stock Exchange. Researcher used debt to equity ratio as a measure of capital structure while other ratio like EPS, Price earnings ratio, operating profit margin, ROA and ROE were used as process for firm performance. After analysing data using regression model, researcher found that financial performance of a company was significantly affected by their capital structure and their relationship was negative in nature. Also, capital structure showed a negative relationship with company market value.

Kumar (2003) compared the financial performance metrics of state-owned, private-owned, and mixed state-private ownership companies in India from 1973 to 1989. Findings appear to be differing from Singapore-based study, and suggest that the most profitable companies were the privately-owned ones followed by those under mixed ownership. While state-owned enterprises had the worst performance. Most other studies in India and abroad draw similar conclusions.

As compared to low performers, high performers had lower total labour expenses, but paid out higher gross wages per employee. Lower debt ratio was associated with higher level of performance. The variables are taken for study are Firm size, Age of the firm, Capital intensity, Export intensity, Marketing intensity, Innovation intensity, Labour expenses and monthly wages, Debt ratio, Current ratio (Anic et. al, (2009).

Chan et al. (1991) analysed Fundamentals and stock returns in Japan. Dependent variable of this study is Stock Return and independent are Book Market Ratio, Cash flow yield, Earning Yield. Result of this study found that there is a significant relationship between fundamental variables and expected returns in the Japanese market. The book to market ratio and cash flow yield have the most significant positive impact on expected returns.

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 a variety of ways, too. Looking at the market value of the firm is the simplest and most straightforward approach to determine this value for both the company and the shares. The market capitalisation of the business, or its market cap, is another name for this. Market capitalization is the amount obtained by dividing the current share price by the total number of outstanding shares of a company's stock. The stock market is a very nimble, lively, and interesting phenomenon (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 serve 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 actually 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 be seen as an indication of 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 (Nasreem, 2013). Sales and income growth should have an impact on market value measurements and rate of return in both simulated and real sectors. In both simulated and real-world contexts, it is uncertain if growth in one year will have an impact on profitability and market value measurements in the next year. Sales and income growth in a base year or subsequent year may also be impacted by asset expansion, which may be used as a proxy for plant and equipment expenditures, and research intensity, thereby impacting profitability and market value (Leon, 2013).

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 really a risk-compensation measure. Stocks with low MV/BV ratios are frequently ones

that are experiencing some sort of financial difficulty. Another aspect of the firm's features that this research focuses on is its profitability. As demonstrated by several prior studies, EPS (Earnings per Share) often have a considerable beneficial effect on market return. This shows that the greater the business's EPS, the higher the market-adjusted return and abnormal return that may be produced by the stock of the firm. This is because a higher EPS means the firm will make more money for each dollar it charges for its services (Nasreem, 2013).

Table: 1

Summary of Literature

Authors	**Findings**
Poudel, (2024).	Analysing 48 firms listed on the Nepal Stock Exchange over 12 years. The research focused on the impact of firm-specific variables such as firm size, book-to-market equity, earnings yield, and cash flow yield on stock returns. The study found that firm size, book-to-market equity, and earnings yield significantly negatively impacted common stock returns, while cash flow yield showed no significant effect.
Dhital, (2023).	explored the "Impact of Dividend Policy on Share Price of Commercial Bank in Nepal," analysing how dividend decisions affect stock market prices. The study concluded that cash dividends have a significant negative impact, while stock dividends have a significant positive impact on stock market prices.
Khadka, and Khadka, (2023).	The research highlighted that asset tangibility significantly impacts stock returns, whereas firm size and gross domestic product did not show a statistically significant effect. Additionally, macroeconomic variables like inflation rate and exchange rate were found to significantly affect stock returns in Non-Financial Sector in Nepal.
Lamichhane, and Dhungel, (2023).	examined how internal firm factors affect stock returns. The research identified that earnings per share (EPS), book-to-market equity (BME), and earnings yield (EY) positively influence stock returns, while firm size (lnME) and cash flow yield (CFY) have negative impacts.
Shrestha, (2022)	The study employed fixed-effect regression models to assess the influence of variables such as firm size, dividend per share (DPS), earnings per share (EPS), return on equity (ROE), and dividend yield (DY) on market price per share. Findings indicated that firm size, DPS, and EPS positively influenced

	stock prices, while ROE and DY had negative impacts. Interestingly, book value per share and return on assets showed insignificant effects
Shrestha, and Lamichhane, (2022).	Investigated the "Effect of Firm-Specific Variables on Stock Returns: Evidence from Nepal," focusing on commercial banks. The study found that dividend payout (D/P) and earnings per share (EPS) positively influenced stock returns, while earnings yield (E/P), return on assets (ROA), and sales-to-price (S/P) ratio had negative effects.
Bhatta, and Duwal, (2021).	Analyzing how dividend policies affect stock price stability. The study concluded that higher dividend payout ratios and dividend yields are associated with reduced stock price volatility.
Jahan, (2020).	Conducted an empirical study titled "An Empirical Investigation of Cash Conversion Cycle of Manufacturing Firms and its Association with Firm Size and Profitability," focusing on 30 manufacturing firms listed in the Dhaka Stock Exchange. The research found a statistically significant negative relationship between the cash conversion cycle and profitability, particularly in terms of return on equity. Additionally, a significant negative relationship was observed between the cash conversion cycle and firm size.
Dangol, and Acharya, (2020).	The study found a negative relationship between stock returns and firm size, as well as book-to-market equity. However, the relationships of earnings yield and cash flow yield with stock returns were found to be inconsistent with previous studies.
Santosa, (2019)	Liquidity (CR), efficiency (TATO), profitability (ROA and EPS), and solvency (DER) proxy, have a significant effect on stock returns, both before and after being mediated.
Paryanto, and Sumarsono, (2018).	Price Book Value, Price Earnings Ratio, Earning Per Share and Dividend Pay Out Ratio simultaneously have a significant effect on Return of Shares in Manufacturing Company Listed in Indonesia Stock Exchange Year 2014 -2016.
Anandasayanan, (2018).	High predictability power, since the R Square -value is high and the coefficients are very significant and autocorrelation corrected standard errors. The results reveal that the three ratios EPS, Dividend Yield, and Earning Yield hold a somehow predictive power regarding stock returns of the Listed Manufacturing Companies in Colombo Stock Exchange.

Pudji, (2017)	Significant 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 on companies listed in 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 effect on stock prices.
Al Salamat, and Mustafa (2016).	There is a statistically significant negative effect of capital structure on stock return, but stock liquidity and return on assets have statistically significant positive effect on stock return. Where Capital Structure, Growth, Firm Size, EPS, Profitability, Liquidity are taken as independent variables.
Muhammad, and Scrimgeour, (2014).	The panel data analysis shows that market based financial performance measures can better explain stock price variance compare to accounting based measures of financial performance. Where EPS, ROE, ROA, P/E Ratio, Market Book Value are taken as independent variables.
Arslan, Zaman and Phil (2014).	The impact of dividend yield and P/E ratio on stock returns was determined by using fixed effect model. The findings of study reveal that P/E ratio and size of firm have significant positive impact on stock prices.
Anic, Rajh, and Teodorovic, (2009).	As compared to low performers, high performers had lower total labour expenses, but paid out higher gross wages per employee. Lower debt ratio was associated with higher level of performance. The variables are taken for study are Firm size, Age of the firm, Capital intensity, Export intensity, Marketing intensity, Innovation intensity, Labour expenses and monthly wages, Debt ratio, Current ratio.
Chan, Hamao, and Lakonishok (1991).	There is a significant relationship between fundamental variables and expected returns in the Japanese market. The book to market ratio and cash flow yield have the most significant positive impact on expected returns.

2.3 Research Gap

Previous research on the determinants of stock returns in Nepal has mostly concentrated on the banking, insurance, and service sectors, largely neglecting the manufacturing industry. While studies such as Le et al. (2020) and Nguyen and Nguyen (2020) have extensively documented the relationship between capital structure and firm performance in broader global contexts, few have specifically examined how firm-specific

characteristics, such as liquidity, profitability, leverage, and firm size directly influence stock returns in emerging economies, particularly in Nepal.

Within Nepal, existing studies (e.g., Pradhan & Shrestha, 2017; Bhattarai, 2017) have focused on financial institutions, leaving a substantial gap in the literature regarding the manufacturing sector, a sector critical to Nepal's economic diversification and industrialization goals. Moreover, the financial and market landscape in Nepal has undergone significant changes in recent years, especially during and after the COVID-19 pandemic. Factors such as inflation volatility, shifts in investor behavior, disruptions in supply chains, and fluctuations in the NEPSE index have introduced new dynamics that prior studies have not captured.

No recent comprehensive study has incorporated a dataset that spans the post-COVID recovery period (2021–2024), nor one that systematically examines updated firm-level indicators under the current economic conditions. Earlier works either relied on limited periods or failed to integrate multiple financial indicators in a unified model.

Thus, this study addresses these critical gaps by:

- Focusing exclusively on Nepalese manufacturing companies**,** a sector previously underrepresented in stock return research,
- Covering a contemporary and extended timeframe from fiscal year 2016/17 to 2024/25**,** thus capturing both pre-pandemic and post-pandemic market conditions,
- Integrating a comprehensive set of firm-specific financial indicators including Earnings Per Share (EPS), Price-to-Earnings (P/E) ratio, Book Value Per Share (BVPS), Current Ratio (CR), Debt-to-Equity (D/E) ratio, Dividend Payout Ratio (DPR), and firm size into a single multiple regression analysis to provide a holistic understanding of stock return determinants in Nepal’s manufacturing sector.

By doing so, this research contributes significantly to the existing body of literature and offers new insights for investors, policymakers, and corporate managers aiming to make informed financial and strategic decisions in a rapidly evolving capital market environment.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research design

The research design for this study is descriptive and causal comparative research. The descriptive research design is useful to gather information and find facts regarding the elements that influence stock market prices. The causal comparative research approach is utilized to determine and explain the directions, magnitudes, and forms of observed relationships among the variables studied, which include CR, D/E, EPS, DPR, P/E, BVPS, and firm size with stock return. The goal of this study is to determine the nature of relationship that exists between firm characteristics and stock return of the sample manufacturing company.

3.2 Population and sample, and sampling design

For analysis, the research utilizes pooled data from macro-Economic indicators and stock market prices. The Nepal Stock Exchange Ltd (NEPSE), which was founded in 1993, is the country's only capital market with an index as a dependent variable. As of April 2025, the number of listed companies is 255, which includes Commercial Banks, Development Banks, Finance Companies, Microfinance, Hotels and Tourism, Hydro Power Companies, Insurance (Life and Non-Life) Companies, Investment, Manufacturing and Processing and others. This study is limited to manufacturing sector only. Random Sampling is taken as the available data of recent eight years i.e., fiscal year 2016/17 to 2024/25 of listed manufacturing company Unilever Nepal Limited (UNL), Himalayan Distillery Company (HDL), Bottlers Nepal Limited (BNL), Bottlers Nepal Terai Limited (BNT), Nepal Lube Oil (NLO), Shivam Cement Limited (SHIVM), Sarbottam Cement Limited (SARBTM) and Ghorahi Cement Limited (GCIL). Total observation is 62. For performance evaluation, a sample size of yearly periodic tables company data was proposed to use in this study.

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

This study is based on secondary data gathered from NEPSE annual reports, and annual report/ quarter report of listed sample manufacturing company prospectuses and quarterly economic bulletins. In addition, data is gathered through the use of text books, periodicals,

and financial websites. According to the literature analysis, various factors influence stock return, included CR, D/E, DP ratio firm size are influential. The time span for this study is 2016/17 to 2024/25 as it is about the impact of stock return with firm's characteristics. This is the study's major point. The population and samples are same because the research is focused entirely on the relationship between the stock return of manufacturing company in Nepal.

3.4 Methods of analysis

Collected data were analysed by the Pearson Correlation Coefficient and Regression analysis model through the Microsoft Excel and SPSS. Obtained result were summarized and interpreted through the indicators of these statistical tools.

I. Financial Tools

Current Ratio: The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It provides investors and analysts with insight into how a company can effectively utilize its current assets to meet its short-term liabilities and other obligations.

$$\text{Current Ratio} = \frac{Current\ Asset}{Current\ Liabilities}$$

Earnings Per Share (EPS): EPS is a key financial metric that measures a company's profitability on a per-share basis, calculated by dividing net income by the number of outstanding shares.

$$\text{Earning Per Share} = \frac{Net\ Income - Preferred\ Dividends}{Weighted\ Average\ Common\ Shares\ Outstanding}$$

Debt to Equity Ratio: The debt-to-equity (D/E) ratio serves as a critical measure for evaluating a company's financial leverage, calculated by dividing its total liabilities by shareholder equity. This ratio is an essential tool in corporate finance, as it gauges the proportion of a company's operations funded through debt relative to equity. More specifically, it highlights the capacity of shareholder equity to absorb all outstanding debts should the company face a financial downturn. The debt-to-equity ratio is classified as a specific type of gearing ratio.

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

Dividend Pay-out Ratio: A company's dividend pay-out ratio is the percentage of that company's earnings that it pays out to its investors as dividend income. The dividend pay-out ratio formula is:

$$\text{Dividend Payout Ratio} = \frac{\text{Total Annual Dividend Payments (DPS)}}{\text{Annual Earnings(EPS)}}$$

Book Value per share (BVPS): is a financial measure that represents the equity available to common shareholders on a per-share basis. It is calculated by dividing the total equity of a company (excluding preferred equity) by the number of outstanding common shares. BVPS indicates the minimum value of a company's equity per share in the event of liquidation, assuming all liabilities are paid. A higher BVPS generally suggests stronger financial stability and asset backing for each share.

$$\text{Book value per Share} = \frac{\text{Total Equity} - \text{Preferred Equity}}{\text{Total Share Outstandings}}$$

Price-to-Earnings (P/E) Ratio: The price-to-earnings (P/E) ratio is a financial metric that compares a company’s stock price to its earnings per share (EPS). Also known as the earnings multiple, it is commonly used to evaluate whether a stock is fairly valued. This ratio is particularly useful for comparing a company’s current valuation with its past performance, with other companies in the same sector, or with the broader market.

$$\text{Price to Earning ratio} = \frac{\text{Market value per share}}{\text{Earnings per share}}$$

Market Capitalization

Market capitalization or market cap refers to the total value of all a company's shares of stock. It is calculated by multiplying the price of a stock by its total number of outstanding shares.

II. Statistical Tools

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

Arithmetic mean (AM)

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 referred to as the average or simply as the mean. Arithmetic mean is calculated by following formula:

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

Where,

$\sum X$ = 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 in expressing the degree to which data spread out. A low standard deviation indicates that the data points are closely clustered around the mean, reflecting a high level of consistency or uniformity in the observations. Mathematically, standard deviation is expressed as:

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

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

2. Co-relation analysis

Correlation is a term that refers to the strength of the relationship between two variables. Pearson correlation is the most widely used correlation statistic to measure the degree of the relationship between linearly related variables. It is developed by Karl Pearson.

The correlation coefficient ranges between -1 and +1. A coefficient of -1 signifies a perfect negative relationship, where an increase in one variable corresponds to a decrease in the other. Conversely, a coefficient of +1 indicates a perfect positive correlation, meaning both variables increase together. A value near 0 suggests little to no linear association between the variables being analyzed. The Pearson correlation coefficient (r) is calculated using the following formula:

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

Where,

N = number of pairs of scores

∑XY =sum of the products of paired scores

∑X = sum of x scores

∑Y = sum of y scores

∑X2 = sum of squared x scores

∑Y2 =sum of squared y scores

3. Regression Analysis

Regression analysis is a statistical measurement of the average relationship between two or more variable in term of the original unit of the data. Thus, it can be said that regression is the estimation or the prediction of the one variable's value from the given variable's value. It is a statistical tool that is used in prediction of value of unknown variables from known variables. The simple regression analysis describes the average relationship between only two variables. It measures the per unit change whereas multiple regression describes the two or more independent variables that are used to estimate the unknown value of a dependent variable. Mathematically, regression is expressed as:

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

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

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

Following regression model were used to compute and correlated the numbers and data information's;

$SRC_t = \beta0 + \beta1(CR) + \beta2\ (EPS) + \beta3\ (DPR) + \beta4\ (D/E) + \beta5\ (P/E) + \beta6\ (BVPS) + \beta7\ (S) + \varepsilon$

Where,

SRC= Stock return on of company

CR= Current Ratio

EPS= Earnings Per Share

DPR = Dividend Pay-out Ratio

D/E = Debt to equity ratio

P/E = Price to Earnings ratio

BVPS = Book Value Per Share

S= Size of firm

β0 = Constant Beat

β1, β2, β3, …… =Beta coefficient

ε = Random Error Term

3.5 Research framework and definition of variables

Based on the above literature; this research is proposed with the following dependent and independent variables:

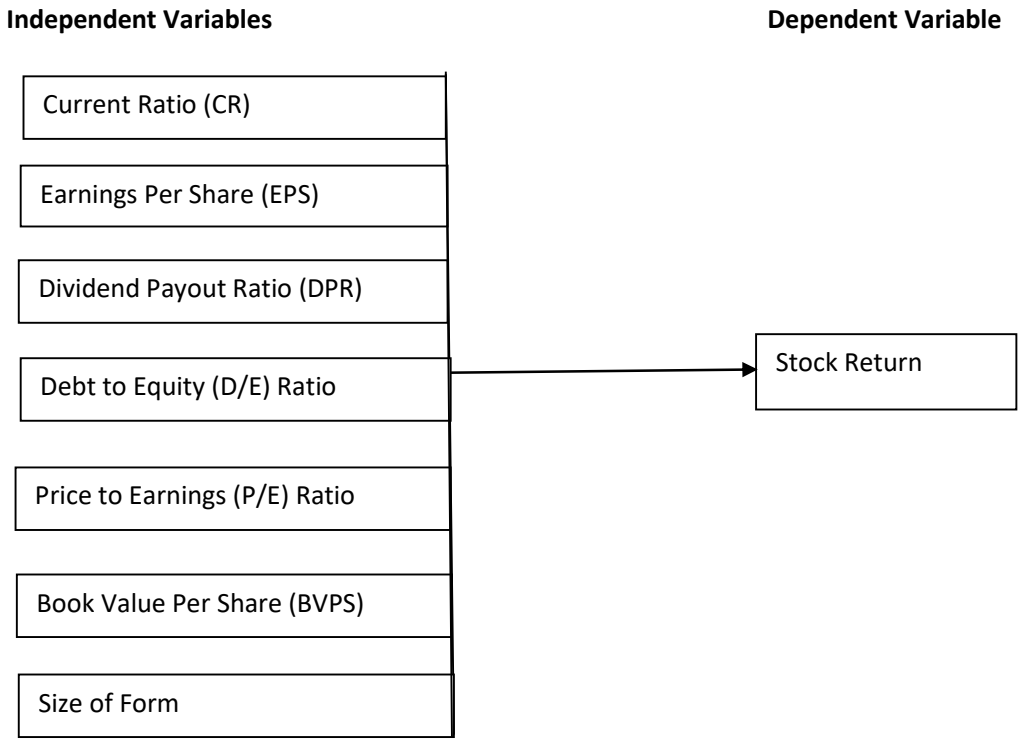

Figure 3.1 Research Framework

(Source: Paryanto & Sumarsono, 2018)

Definition of Variable

Dependent Variable

Stock Return of Company: Stock return is calculated by adding the total dividends received and the capital gain from the stock, subtracting the initial investment cost, then dividing the result by the initial investment amount. The final value is multiplied by 100 to express it as a percentage.

Independent Variable

1) **Liquidity**: Liquidity refers to the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price. The most liquid asset of all is cash itself.

   Current Ratio: The current ratio is a liquidity ratio that measures whether a firm has enough resources to meet its short-term obligations.

2) **Profitability:** A profit is the difference between the revenue that an economic entity has received from its outputs and the opportunity costs of its inputs. It equals to total revenue minus total cost, including both explicit and implicit costs.

   Earnings Per Shares: EPS is a key financial metric that indicates a company's profitability by measuring the portion of its net earnings allocated to each outstanding share of common stock. A higher EPS generally reflects stronger profitability, making a company more attractive to investors

   Book Value per Share (BVPS): BVPS is calculated by dividing the equity available to common shareholders by the total number of outstanding shares.

   Price-to-earnings (P/E) ratio: The price-to-earnings (P/E) ratio is a valuation metric that compares a company's current share price to its earnings per share (EPS). Also known as the earnings multiple, the P/E ratio is commonly used to evaluate whether a stock is overvalued or undervalued by comparing it to the company's historical ratios, industry peers, or the overall market.

3) **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 key financial indicator that reflects the extent to which a manufacturing company relies on debt compared to shareholders' equity to finance its assets. In the context of capital structure analysis, this ratio serves as a measure of financial leverage, commonly referred to as gearing or financial risk.

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

4) **Market Capitalisation:** Market capitalization, sometimes referred to as market cap, is the total value of a publicly traded company's outstanding common shares owned by stockholders. Market capitalization is calculated by multiplying the current market price of a single common share by the total number of outstanding common shares.

Firm Size: Firm size measures; Total assets; Total sales; Market capitalization; In this study total asset is taken as firm size. Total assets are often used as a proxy for firm size because they provide a comprehensive view of the resources controlled by the company. However, since the absolute value of total assets can vary widely across firms, leading to highly skewed distributions, we use the natural logarithm of total assets to normalize the data. This transformation compresses the range of values and minimizes the influence of extreme outliers, making statistical analysis more reliable and meaningful.

CHAPTER IV

RESULTS AND ANALYSIS

Presentation, analysis and interpretation of data are crucial steps in the evaluation of the determinants of stock returns of listed manufacturing companies in Nepal. The data collected from 8 companies over 8 years were analyzed to identify significant factors influencing stock returns are present, analyze and interpreted using SPSS and Microsoft excel.

Additionally, this chapter has attempted to present accurate and helpful information about eight (8) listed manufacturing companies; hence, a conclusion and some suggestions may be easily deduced from this chapter. In order to assist readers in making financial decisions, numerous financial elements have been presented mathematically, examined, and appraised in this chapter. Different ratio analysis, arithmetic mean, standard deviation, coefficient of correlation, multiple regression, testing of hypotheses, trend analysis, etc. have been utilized as essential tools to analyses the situation of determinants of eight listed manufacturing companies in Nepal. The comparative analysis of determinants of stock returns of eight listed manufacturing companies may be presented, looked at, and assessed in the following ways using the methods.

4.1 Trend Analysis

Descriptive statistics consist of measures of central tendency and measures of variability (also known as dispersion). Central tendency is represented by the mean, median, and mode, whereas variability is reflected through statistics such as the standard deviation, variance, and the minimum and maximum values. The Company's profitability measures, such as SRC shown in the table. This table illustrates the link between each individual dependent variable and the independent variables CR, EPS, DPR, D/E ratio, BVPS, P/E Ratio, and Firm Size. The trend analysis examines how key financial and market variables influencing stock returns have evolved over the 8-year study period for listed manufacturing companies in Nepal. By analyzing patterns and changes in these determinants, the study provides insights into their impact on stock performance over time.

4.1.1 Current Ratio (CR)

Below, table 2 shows the current ratio of various listed manufacturing companies in Nepal over the years 2016 to 2024, which is a key financial metric used to assess a company's short-term liquidity and ability to meet its short-term obligations. The current ratio is calculated by dividing current assets by current liabilities, and a ratio above 1 generally indicates that the company has sufficient assets to cover its short-term liabilities. The companies included in the analysis are UNL, NLO, SHIVM, BNT, BNL, HDL, SARBTM, and GCIL.

UNL consistently maintains a current ratio above 2, indicating strong liquidity. Its ratio fluctuates slightly over the years, with a mean of 2.144 and a relatively low standard deviation of 0.403, suggesting stability in its liquidity position. NLO also demonstrates a stable current ratio, with a mean of 1.36 and a very low standard deviation of 0.074, reflecting consistent performance in managing short-term obligations. SHIVM shows a mean current ratio of 1.52, with moderate fluctuations over the years, as indicated by a standard deviation of 0.23.

In contrast, BNT and BNL exhibit lower current ratios, with means of 0.65 and 0.86, respectively. Both companies have ratios below 1 in most years, indicating potential liquidity challenges. However, their ratios show an upward trend over the years, suggesting gradual improvement. SARBTM has a mean current ratio of 1.08, indicating a stable but slightly low liquidity position, with less variability over the years.

HDL stands out with a significant increase in its current ratio, reaching 11.3 in 2024, which is significantly higher than the other companies. This is reflected in its high mean of 5.55 and a substantial standard deviation of 4.21, indicating high variability in its liquidity position. GCIL has a mean current ratio of 0.83, with relatively low fluctuations, as shown by a standard deviation of 0.242.

Overall, the table highlights the varying liquidity positions of listed manufacturing companies in Nepal, which could be a determinant of their stock returns. Companies with stable and high current ratios, such as UNL and NLO, may be perceived as less risky by

investors, potentially leading to higher stock returns. On the other hand, companies with lower or more volatile current ratios, such as BNT, BNL, and GCIL, may face higher perceived risk, which could negatively impact their stock returns. The exceptional performance of HDL, with its rapidly increasing current ratio, may attract investor attention, but its high variability could also introduce uncertainty. These findings underscore the importance of liquidity management as a key factor influencing stock returns in the context of Nepal's manufacturing sector.

Table 2:
Current Ratio

Year	UNL	HDL	NLO	BNT	BNL	SHIVM	SARBTM	GCIL
2016	2.7							
2017	2.3	2	1.3	0.6	0.7	1.4		
2018	2	1.5	1.3	0.7	0.9	1	1.3	
2019	1.9	2	1.4	0.4	0.6	1.8	1.1	0.8
2020	1.5	2	1.5	0.5	0.7	1.6	1	0.6
2021	1.8	6.3	1.4	0.6	0.8	1.6	1	0.8
2022	2	8.4	1.4	0.7	1	1.6	1	0.7
2023	2.5	10.9	1.3	0.8	1.1	1.6	1	1.3
2024	2.6	11.3	1.3	0.9	1.1	1.6	1.2	0.8
Mean	2.144	5.55	1.36	0.65	0.86	1.52	1.08	0.83
SD	0.40	4.21	0.074	0.16	0.19	0.23	0.12	0.24

(Source: Annual Report of Listed manufacturing Company of Nepal)

4.1.2 Earnings Per Share (EPS)

Table 3, presents the Earnings Per Share (EPS) of various listed manufacturing companies in Nepal over the years 2016 to 2024. EPS is a key financial metric that indicates a company's profitability by measuring the portion of its net earnings allocated to each outstanding share of common stock. A higher EPS generally reflects stronger profitability, making a company more attractive to investors

UNL consistently maintains the highest EPS among all the companies, with values exceeding 1000 in most years, reflecting its strong profitability and stable earnings performance. The company's EPS fluctuates over time but remains high, with a mean of 1290.6 and a standard deviation of 548.5, indicating moderate variability in its earnings.

NLO also demonstrates a moderate EPS performance, with a mean of 102.1 and a standard deviation of 60.9, suggesting a relatively consistent earnings pattern. Similarly, SHIVM shows a mean EPS of 24, with low fluctuations, as indicated by a standard deviation of 10.5.

In contrast, BNT and BNL have lower but more stable EPS values, with means of 429.7 and 313.7, respectively. However, BNL exhibits higher volatility, with a standard deviation of 155.8, compared to BNT's 111, indicating more fluctuations in profitability.

HDL stands out due to its highly fluctuating EPS, reaching a peak of 139 in 2019 but dropping to 14 in 2024. Its mean EPS of 67.5 and standard deviation of 47.2 highlight significant earnings volatility, which could be a risk factor for investors.

SARBTM and GCIL report the lowest EPS values among the analyzed companies, with means of 32.7 and 16.5, respectively. Their earnings remain relatively unstable, as seen in their standard deviations of 17.9 and 17.4. These low and inconsistent EPS values suggest that profitability remains a challenge for these companies.

Overall, the table highlights the varying earnings performance of listed manufacturing companies in Nepal, which could be a determinant of their stock returns. Companies with high and stable EPS, such as UNL and NLO, may be perceived as financially strong and less risky, attracting more investors and potentially leading to higher stock returns. On the other hand, companies with low or highly volatile EPS, such as HDL, SARBTM, and GCIL, may be seen as riskier investments, which could negatively impact their stock performance. The significant fluctuations in EPS for certain companies, especially HDL and BNL, underscore the importance of earnings stability as a key factor influencing investor confidence and stock valuation in Nepal's manufacturing sector.

Table 3:
Earnings Per Share

Year	UNL	HDL	NLO	BNT	BNL	SHIVM	SARBTM	GCIL
2016	1218							
2017	1048	13	134	399	338	33		
2018	1085	76	150	613	499	30	48	
2019	1157	139	138	375	358	34	53	44
2020	383	81	33	375	32	27	39	2
2021	935	120	188	350	226	32	32	12
2022	1675	70	90	517	393	16	12	7
2023	1992	27	11	528	472	14	5	2
2024	2123	14	73	281	192	6	40	32
Mean	1290.6	67.5	102.1	429.7	313.7	24	32.7	16.5
SD	548.5	47.2	60.9	111	155.8	10.5	17.9	17.4

(Source: Annual Report of Listed manufacturing Company of Nepal)

4.1.3 Dividend Payout Ratios (DPR)

Below, table 4 presents the Dividend Payout Ratio (DPR) of various listed manufacturing companies in Nepal from 2016 to 2024. The DPR measures the percentage of net earnings distributed as dividends to shareholders, providing insight into a company's dividend policy and financial health. A higher DPR suggests that a company is returning more profits to shareholders, while a lower DPR indicates that the company is retaining earnings for reinvestment.

UNL maintains a consistently high DPR, with a mean of 71.2% and a moderate standard deviation of 19.6, indicating a stable dividend policy. Its DPR remains above 60% in most years, reflecting its strong commitment to shareholder returns. HDL exhibits a higher average DPR of 110.1%, meaning it frequently pays out more than its net earnings, suggesting either strong earnings or reliance on retained earnings for dividends. However, HDL's high standard deviation of 30.1 indicates fluctuations in its payout policy over the years.

NLO has a highly variable DPR, with a mean of 56% and a large standard deviation of 85.9, reflecting inconsistent dividend payments. Notably, in 2023, NLO's DPR surged to 268%, indicating a substantial dividend distribution that year. BNT and BNL maintain low DPRs, averaging 8.4% and 8.8%, respectively, suggesting that these companies prioritize reinvesting their earnings over distributing dividends. Both companies have relatively low standard deviations (6.2 for BNT and 11 for BNL), indicating consistency in their dividend policies.

SHIVM has a moderate DPR, with a mean of 79.3% and a standard deviation of 36.5, indicating a relatively stable yet fluctuating payout policy. SARBTM, on the other hand, has a very low DPR, averaging only 2.1%, with minimal variation, suggesting that it retains most of its earnings for reinvestment rather than distributing dividends.

GCIL stands out due to its extreme fluctuations in DPR. The company has an extraordinarily high mean DPR of 320.6%, driven by extreme values such as 941% in 2020 and 943% in 2023. This suggests highly irregular dividend policies, possibly due to one-time large dividend payments or fluctuating earnings. The standard deviation of 481.5 further highlights the volatility in GCIL's payout strategy.

Overall, the table illustrates diverse dividend policies among Nepalese manufacturing companies. UNL and HDL demonstrate strong and consistent dividend payouts, which may attract income-seeking investors. NLO and SHIVM exhibit moderate but fluctuating DPRs, indicating varying profit reinvestment strategies. BNT, BNL, and SARBTM prioritize earnings retention over dividends, making them more attractive to investors looking for growth rather than income. GCIL's extreme volatility in dividend payouts raises concerns about stability, making it a high-risk option for dividend-focused investors. These findings highlight how dividend policy decisions can influence investor perceptions and stock performance in Nepal's manufacturing sector.

Table 4:
Dividend Payout Ratios

Year	UNL	HDL	NLO	BNT	BNL	SHIVM	SARBTM	GCIL
2016	83.7							
2017	97	170	15	7	6	33		
2018	64	117	27	7	4	54	0	
2019	67	74	22	11	0	46	0.3	40
2020	26	124	30	0	0	91	0.3	941
2021	70	83	19	0	9	90	11	0
2022	73	101	33	12	5	67	0	0
2023	79	92	268	12	13	111	3	943
2024	81	120	34	18	34	143	0.25	0
Mean	71.2	110.1	56	8.4	8.8	79.3	2.1	320.6
SD	19.6	30.1	85.9	6.2	11	36.5	4	481.5

(Source: Annual Report of Listed manufacturing Company of Nepal)

4.1.4 Debt to Equity (D/E) Ratio

The total debt-to-equity (D/E) ratio, which measures a company's financial leverage, is determined by dividing its total liabilities by the value of its shareholders. The D/E ratio is a crucial indicator in corporate finance. It gauges how much debt a business is using to fund operations as opposed to using cash on hand.

Below, table5 presents the D/E ratio of selected listed manufacturing companies in Nepal from 2016 to 2024. The D/E ratio is a crucial financial metric that measures a company's financial leverage by comparing its total liabilities to shareholders' equity. A higher ratio indicates greater reliance on debt financing, which can increase financial risk, while a lower ratio suggests a more conservative capital structure with lower financial risk.

UNL has a moderate D/E ratio, with a mean of 0.67 and low variability (SD = 0.18), indicating a stable financial structure with a balanced mix of debt and equity. NLO and GCIL have the highest mean D/E ratios of 1.25, indicating that these companies rely more on debt

financing compared to others. However, NLO has higher variability (SD = 0.37), suggesting fluctuations in its capital structure, whereas GCIL's ratio remains relatively stable (SD = 0.34).

BNT and SARBTM exhibit moderate D/E ratios, with means of 0.86 and 0.85, respectively. However, both companies show notable fluctuations, as indicated by their higher standard deviations (0.44 each), suggesting changes in their financial leverage over time. BNL, SHIVM, and HDL have lower average D/E ratios, with means of 0.37, 0.33, and 0.21, respectively, indicating a lower reliance on debt financing. HDL, in particular, maintains a consistently low D/E ratio with an SD of 0.20, suggesting a conservative capital structure with minimal debt exposure.

Table 5:
Debt to Equity Ratio

Year	UNL	HDL	NLO	BNT	BNL	SHIVM	SARBTM	GCIL
2016	0.9							
2017	0.6	0.1	1.3	0.7	0.3	1.1		
2018	0.7	0.2	1.7	0.3	0.1	0.7	1.4	
2019	0.7	0.2	1.9	1.1	0.5	0.1	1.5	0.8
2020	0.9	0.1	1	1.7	0.5	0.1	1	1.2
2021	0.8	0.2	0.9	1.2	0.4	0.1	0.6	1.6
2022	0.6	0.1	0.9	0.6	0.2	0.1	0.6	1.7
2023	0.4	0.1	1.2	0.7	0.5	0.1	0.5	1.1
2024	0.4	0.7	1.1	0.6	0.5	0.3	0.4	1.1
Mean	0.67	0.21	1.25	0.86	0.37	0.33	0.85	1.25
SD	0.18	0.20	0.37	0.44	0.16	0.37	0.44	0.34

(Source: Annual Report of Listed manufacturing Company of Nepal)

Overall, the table highlights variability in debt dependence among Nepalese manufacturing firms. Companies with lower D/E ratios, such as HDL, SHIVM, and BNL, may be perceived as less risky by investors due to their stronger equity positions. On the other hand, NLO and GCIL, with higher D/E ratios, indicate greater financial risk, which could impact investor confidence and stock performance. BNT and SARBTM's fluctuating D/E ratios suggest that these firms may be adjusting their capital structure in response to financial conditions. These

findings emphasize the importance of capital structure management in determining the financial stability and investment attractiveness of Nepal's manufacturing sector.

4.1.5 Book Value per share (BVPS)

Table 6, shows the Book Value per Share (BVPS) of listed manufacturing companies in Nepal from 2016 to 2024, reflecting the per-share value of a company's net assets. UNL consistently maintains the highest BVPS, with an average of 3042.5 and a peak of 4737 in 2023, indicating strong financial stability and growth. However, its high standard deviation (1097.1) suggests significant fluctuations over the years.

BNT and Bottlers Nepal Limited (BNL) also exhibit strong BVPS values, averaging 2192.5 and 2259, respectively, with both companies showing an upward trend, peaking at 3279 BNT and 3379 BNL in 2024. Their relatively high standard deviations (843.7 and 804.8) suggest moderate fluctuations in financial performance.

In contrast, HDL and NLO exhibit lower BVPS values, with averages of 194.1 and 708.3, respectively. NLO saw a peak of 1081 in 2021 before declining, while HDL, after reaching 256 in 2019, has shown a downward trend, dropping to 118 in 2024. SHIVM, SARBTM, and GCIL have relatively lower BVPS values, with means of 201.7, 190.8, and 226.6, respectively. These companies exhibit minimal fluctuations, as indicated by their low standard deviations, suggesting financial stability but limited growth. Overall, the data highlights significant variations in financial strength across companies.

Firms like UNL, BNT, and BNL appear financially robust, with consistently increasing shareholder value, whereas companies like HDL and NLO show more volatility and recent declines. The lower and stable BVPS of SHIVM, SARBTM, and GCIL suggests a conservative financial position with less aggressive growth.

Table 6:
Book Value per share

Year	UNL	HDL	NLO	BNT	BNL	SHIVM	SARBTM	GCIL
2016	2226							
2017	2253	150	388	915	1047	167		
2018	2067	207	511	1228	1642	167	183	
2019	2525	256	564	2065	1935	204	206	231
2020	2143	217	904	1992	1873	215	245	217
2021	2829	231	1081	2226	2225	223	160	218
2022	3967	187	916	2661	2741	252	172	227
2023	4737	187	741	3174	3230	211	185	270
2024	4636	118	562	3279	3379	175	185	197
Mean	3042.5	194.1	708.3	2192.5	2259	201.7	190.8	226.6
SD	1097.1	44.2	240.5	843.7	804.8	30.1	27.6	24.2

(Source: Annual Report of Listed manufacturing Company of Nepal)

4.1.6 Price-to-Earnings (P/E) Ratio

Table 7, Shows the Price-to-Earnings (P/E) Ratio of various listed manufacturing companies in Nepal from 2016 to 2024. The P/E ratio is a key financial metric that indicates the price investors are willing to pay per unit of a company's earnings, serving as a measure of investor confidence and expected future growth. A higher P/E ratio suggests that investors anticipate stronger growth potential, whereas a lower P/E ratio may indicate lower growth expectations or undervaluation

UNL maintains a relatively stable P/E ratio, with a mean of 24.3 and a moderate standard deviation of 11.3, indicating consistent investor confidence. However, its ratio dropped to 11 in 2022, suggesting reduced investor expectations before rebounding in later years. HDL exhibits a highly volatile P/E ratio, with a mean of 54.6 and a standard deviation of 29.9, peaking at 98.9 in 2024, which reflects strong investor optimism but also considerable fluctuations in market valuation.

NLO has the lowest mean P/E ratio (5.7) among the companies, indicating that its earnings are valued at a lower premium compared to others. However, its ratio spiked to 23.8 in 2023,

showing a temporary increase in investor interest. BNT and BNL exhibit moderate P/E ratios, with means of 24.7 and 22.4, respectively. BNT maintains relative stability, whereas BNL displays significant fluctuations, particularly reaching 81.8 in 2023 before dropping to 14.1 in 2024.

SHIVM demonstrates an increasing trend in valuation, with a mean P/E ratio of 43.2 and high variability (standard deviation of 27.7), peaking at 100 in 2024, suggesting growing investor confidence in its earnings potential. SARBTM shows substantial fluctuations, with a mean of 41.2 and standard deviation of 54.5, peaking at 160 in 2023, indicating shifting market sentiment.

GCIL has the most volatile P/E ratio, with an extremely high mean of 214.4 and a standard deviation of 290.2. It experienced an unprecedented spike to 770.5 in 2020, followed by a sharp decline in subsequent years, reflecting extreme fluctuations in investor perception and speculative market behavior.

Table 7:
Price-to-Earnings

Year	UNL	HDL	NLO	BNT	BNL	SHIVM	SARBTM	GCIL
2016	28.8							
2017	27.9	62.4	1.6	15.3	3.4	14.1		
2018	23.1	17.8	1.5	9.6	5	20.3	11.6	
2019	17.6	12.1	1.4	18.4	57.2	17.9	10.5	10.6
2020	50.7	68.1	9.6	27.4	8.1	54	14.3	770.5
2021	20.8	46	1.7	29.4	5	45.4	17.4	123.4
2022	11	48.8	2.9	25.2	4.9	47.5	54.2	79
2023	16.6	83.3	23.8	26.2	81.8	46.5	160	286
2024	22.3	98.9	3.5	46.3	14.1	100	20.4	17.4
Mean	24.3	54.6	5.7	24.7	22.4	43.2	41.2	214.4
SD	11.3	29.9	7.7	11	29.9	27.7	54.5	290.2

(Source: Annual Report of Listed manufacturing Company of Nepal)

Overall, the table highlights significant variations in the valuation of Nepalese manufacturing firms. Companies with stable P/E ratios, such as UNL and BNT, indicate steady investor

confidence, while firms like HDL, SHIVM, and SARBTM show higher fluctuations, reflecting shifting market expectations. GCIL's extreme volatility suggests speculative trading and high uncertainty. These findings emphasize the importance of earnings stability and market perception in influencing investor sentiment and stock valuations in Nepal's manufacturing sector.

4.1.7 Size of Form

Below, table 8 presents the size of the firm for various listed manufacturing companies in Nepal over the years 2016 to 2024. The size of the firm is an important financial indicator, often measured using the logarithm of total assets. A larger firm size generally indicates greater financial stability, market presence, and potential for sustained profitability.

UNL maintains a consistently high firm size, with a mean value of 4.6 and minimal variation (standard deviation of 0.15), indicating stable asset growth. Similarly, BNT and BNL exhibit relatively large firm sizes, with mean values of 4.9 and 5.0, respectively, and low standard deviations (0.15 and 0.12, respectively), reflecting consistent financial strength. SHIVM, SARBTM, and GCIL have the largest firm sizes, averaging 5.1, 5.1, and 5.3, respectively, suggesting they are among the biggest players in the sector. These firms also demonstrate low volatility, with standard deviations of 0.07, 0.075, and 0.10, respectively, indicating a steady increase in assets over the years.

HDL shows moderate growth in firm size, with a mean of 4.3 and a standard deviation of 0.21, reflecting some fluctuations. NLO has the smallest firm size, with a mean value of 3.7 and the highest standard deviation of 0.37, indicating greater variability and potential challenges in asset expansion.

Overall, the table highlights the differences in firm size among Nepalese manufacturing companies. Larger firms such as SHIVM, SARBTM, and GCIL tend to have more stable asset bases, which could enhance investor confidence and financial resilience. Smaller firms like NLO may face higher financial risks due to their relatively lower asset base and greater fluctuations. The size of a firm is a crucial determinant of its ability to attract investments,

manage risks, and sustain long-term growth, making it an important factor in evaluating the financial health and market positioning of manufacturing companies in Nepal.

Table 8:
Size of Form

Year	UNL	HDL	NLO	BNT	BNL	SHIVM	SARBTM	GCIL
2016	4.5							
2017	4.6	4.1	3.1	4.7	4.9	5		
2018	4.6	4.1	3.2	4.7	4.9	5.2	5	
2019	4.6	4.2	3.8	4.9	5.1	5.2	5.1	5.2
2020	4.6	4.4	3.9	5	5.1	5.1	5.1	5.3
2021	4.7	4.4	3.9	5	5.1	5.2	5.1	5.4
2022	4.8	4.6	4	5	5.1	5.1	5.2	5.4
2023	4.9	4.6	4	5	5.2	5.1	5.2	5.5
2024	4.9	4.6	4	5.1	5.2	5.1	5.2	5.4
Mean	4.6	4.3	3.7	4.9	5.0	5.1	5.1	5.3
SD	0.15	0.21	0.37	0.15	0.12	0.07	0.075	0.10

(Source: Annual Report of Listed manufacturing Company of Nepal)

4.1.8 Stock Return of Company (SRC)

Table 9, shows the Stock Return of Companies (SRC) for selected listed manufacturing companies in Nepal from 2016 to 2024, which serves as the dependent variable in analyzing the determinants of stock returns. The independent variables include Current Ratio (CR), Earnings Per Share (EPS), Dividend Payout Ratio (DPR), Debt-to-Equity Ratio (D/E), Book Value Per Share (BVPS), Price-to-Earnings (P/E) Ratio, and Firm Size. Stock return, represents the percentage change in a company's stock price over a given period. Higher and more stable stock returns are generally preferred by investors, while highly volatile stock returns may indicate greater investment risk. The companies included in the analysis are Unilever Nepal Limited (UNL), Himalayan Distillery Limited (HDL), Nepal Lube Oil Limited (NLO), Bottlers Nepal (Terai) Limited (BNT), Bottlers Nepal Limited (BNL), Shivam Cements Ltd (SHIVM), Sarbottam Cement Limited (SARBTM), and Ghorahi Cement Industry Limited (GCIL).

UNL exhibits moderate stock return fluctuations, with a mean of 21.4% and a standard deviation of 44.8. While it experienced negative returns in 2017–2019, it rebounded significantly in 2023 (88.4%) and 2024 (48.7%), reflecting an improving performance trend. HDL, on the other hand, shows high volatility, with an average return of 38.4% and a high standard deviation of 92.1. It recorded an extreme gain of 236.1% in 2020, followed by significant negative returns in 2022 (-36.9%) and 2024 (-37.6%), indicating unpredictability in investor returns.

NLO maintains a relatively stable return profile, with a mean of 15.8% and a standard deviation of 23.2, reflecting moderate fluctuations. It experienced a peak return of 69% in 2020 but remained mostly positive across the years. BNT and BNL show moderate returns, with means of 12% and 78.1%, respectively. However, BNL has a high standard deviation of 203.6, largely influenced by a massive gain of 581.9% in 2024, suggesting extreme volatility in its stock price movements.

SHIVM exhibits a mean stock return of 14.8% with significant volatility (SD = 56.7). The company experienced a sharp rise in 2020 (143.8%) but faced notable negative returns in 2022 (-46.9%) and 2023 (-12.4%), reflecting fluctuating market conditions. SARBTM and GCIL show relatively high mean returns (21.8% and 29.3%, respectively) but also exhibit moderate-to-high volatility. GCIL, in particular, has a standard deviation of 104.3, reflecting substantial fluctuations, especially with its extreme return of 235.8% in 2020 followed by a major decline in 2022 (-62.7%).

Overall, the table highlights the varying stock return patterns among manufacturing companies in Nepal. Companies with stable and consistently positive returns, such as NLO and BNT, may be seen as less risky investments. In contrast, companies like HDL, BNL, and GCIL, which exhibit significant stock return volatility, may present higher investment risks despite the potential for large gains. The extreme fluctuations in BNL and GCIL suggest market speculation or major external influences, making them more unpredictable for investors. Understanding these stock return trends is crucial in analyzing the factors affecting stock performance and guiding investment decisions within Nepal’s manufacturing sector.

Table 9:
Stock Return of Company

Year	UNL	HDL	NLO	BNT	BNL	SHIVM	SARBTM	GCIL
2016	97							
2017	-13.6	68.1	11.5	3	1.3	2.4		
2018	-12	77.8	18.8	-2.9	3.2	34.5	39	
2019	-16	31.3	4.7	18.1	4	2.7	2.6	3.7
2020	-3.8	236.1	69	49	4	143.8	2.2	235.8
2021	3.4	1.9	11.1	0.1	1.1	1.5	63.5	-4
2022	1	-36.9	-10.5	27.3	7.3	-46.9	17	-62.7
2023	88.4	-33.4	15.1	6.7	22.2	-12.4	25.4	6.2
2024	48.7	-37.6	6.9	-5.1	581.9	-6.5	2.9	-2.8
Mean	21.4	38.4	15.8	12	78.1	14.8	21.8	29.3
SD	44.8	92.1	23.2	18.5	203.6	56.7	23	104.3

(Source: Annual Report of Listed manufacturing Company of Nepal)

4.2 **Descriptive Statistics**

Descriptive statistics are concise summary measures that provide an overview of a specific dataset, whether it represents a sample or the entire population. They include measures of central tendency as well as measures of variability (or dispersion). The mean is a measure of central tendency, while the standard deviation, variance, minimum and maximum variables are measurements of variability.

Table 10 shows the CR, a measure of a firm's liquidity, ranges from 0.40 to 11.30, with an average value of 1.80 and a standard deviation of 2.10. This wide range and relatively high variability suggest that while some companies maintain strong short-term liquidity positions, others may struggle to cover their current liabilities, indicating differing levels of financial health among the firms.

EPS, representing a company's profitability on a per-share basis, shows significant variation with a minimum of 2.00 and a maximum of 2123.00. The mean EPS stands at 313.56, accompanied by a large standard deviation of 479.14. This suggests a highly uneven distribution of earnings among the firms, where a few highly profitable companies skew the average.

The DPR ranges from 0.00 to 943.00, with an average of 75.51 and a standard deviation of 167.62. The zero minimum value indicates that some companies did not distribute dividends during the period. The high maximum and large standard deviation reflect considerable diversity in dividend distribution policies among the firms.

D/E Ratio, which indicates the degree to which a company is financing its operations through debt versus equity, varies from 0.10 to 1.90. The mean value is 0.70, and the standard deviation is 0.48. The variation points to differences in financial structure, with some firms being more conservative and others more leveraged.

BVPS, indicating the net asset value per share, ranges from 118.00 to 4737.00. The mean BVPS is 1202.02 with a standard deviation of 1266.20, suggesting significant disparities in firm valuation and asset holdings among the companies analyzed.

P/E Ratio varies widely from 1.40 to 770.50, with an average of 48.25 and a standard deviation of 103.72. This large spread and high variability indicate differing market perceptions of future earnings potential and valuation among firms.

Firm Size, measured in logarithmic form, falls between 3.10 and 5.50, with an average of 4.78 and a standard deviation of 0.52. The relatively low variability suggests that the companies are somewhat comparable in size, with no extreme differences in scale.

SR, the dependent variable, shows substantial volatility with a minimum of -62.70 and a maximum of 581.90. The average return is 28.97, and the standard deviation is 88.56. The presence of large positive and negative returns reflects both strong gains and severe losses, highlighting the unpredictable and volatile nature of the stock market.

Overall, the descriptive statistics point to high variability in financial performance indicators such as EPS, DPR, BVPS, P/E Ratio, and SR, indicating considerable differences in profitability, valuation, and stock market performance. In contrast, firm size shows relative stability. The wide range in CR and D/E further underscores the diverse liquidity and capital structure strategies employed by these firms.

Table 10:
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CR	62	0.40	11.30	1.80	2.10
EPS	62	2.00	2123.00	313.56	479.14
DPR	62	0.00	943.00	75.51	167.62
D/E	62	0.10	1.90	0.70	0.48
BVPS	62	118.00	4737.00	1202.02	1266.20
P/E Ratio	62	1.40	770.50	48.25	103.72
Size	62	3.10	5.50	4.78	0.52
SRC	62	-62.70	581.90	28.97	88.56

4.3 **Correlation Analysis**

A statistical technique used in research to determine the association between two variables and gauge the strength of their linear relationship is correlation analysis. The magnitude of change in one variable as a result of the change in the other is determined using correlation analysis, to put it simply. A high correlation indicates a strong association between the two variables, whilst a low correlation indicates a poor correlation between the two variables. To analyze quantitative data gathered through market research techniques like surveys and live polls, researchers employ correlation analysis. They look for trends, patterns, important linkages, and relationships between two variables or datasets. Correlation between two variables can be either a positive correlation, a negative correlation, or no correlation.

Table 11, shows the correlation table which provides insights into the relationships between key financial variables CR, EPS, DPR, D/E, P/E, BVPS, Firm Size and SRC for the selected manufacturing companies in Nepal. The correlation coefficients indicate the strength and direction of these relationships, with values ranging between -1 and 1. A positive correlation suggests that an increase in one variable is associated with an increase in another, while a negative correlation indicates an inverse relationship.

Table 11:
Correlation Analysis

	CR	*EPS*	*DPR*	*D/E*	*BVPS*	*P/E*	*Size*	*SRC*
CR	1							
EPS	0.00	1						
DPR	0.06	-0.09	1					
D/E	-0.28	-0.10	0.06	1				
BVPS	-0.15	0.81	-0.17	-0.08	1			
P/E	0.02	-0.18	0.83	0.11	-0.19	1		
Size	-0.18	-0.02	0.12	-0.18	0.10	0.26	1	
SRC	-0.15	0.00	0.21	-0.08	0.17	0.31	0.05	1

Liquidity, as measured by the CR, almost no correlation with EPS (0.00), DPR (0.06), and P/E Ratio (0.02), implying limited relationships. Notably, CR has a negative correlation with D/E (-0.28), indicating that more liquid firms tend to rely less on debt financing. It also shows weak negative correlations with BVPS (-0.15), Size (-0.18), and SR (-0.15), suggesting that firms with higher liquidity may be smaller in size, have lower book values, and exhibit slightly lower stock returns.

Profitability, represented by EPS demonstrates a strong positive correlation with BVPS (0.81), reflecting a close association between earnings and asset value per share. However, EPS has weak or negligible correlations with other variables, such as DPR (-0.09), D/E (-0.10), P/E Ratio (-0.18), Size (-0.02), and SRC (0.00), indicating limited relationships outside of profitability metrics.

Dividend policy, as measured by the DPR, exhibits a very strong positive correlation with P/E Ratio (0.83), suggesting that firms with higher dividend payouts often trade at higher earnings multiples. However, DPR maintains weak negative correlations with EPS (-0.09), BVPS (-0.17), and Size (0.12), implying limited links to profitability and firm scale. Its weak positive correlation with SRC (0.21) suggests that dividend policy may play a minor role in influencing stock returns.

The D/E ratio shows weak negative correlations with CR (-0.28), EPS (-0.10), and Size (-0.18), suggesting that firms with higher leverage tend to be less profitable, less liquid, and smaller in size. D/E exhibits a weak positive correlation with DPR (0.06) and P/E Ratio (0.11), but a near-zero correlation with BVPS (-0.08) and SRC (-0.08), indicating that leverage has minimal direct impact on stock performance.

BVPS shows a strong positive correlation with EPS (0.81, indicating that firms with higher earnings also tend to have greater asset value per share. It is weakly negatively correlated with CR, DPR, and P/E Ratio, while its correlation with SRC (0.17) is modest, suggesting a minor influence on stock returns.

The P/E Ratio is strongly correlated with DPR (0.83), indicating that dividend-paying firms tend to have higher market valuations relative to earnings. Other relationships are weak or negative, including correlations with EPS (-0.18), and BVPS (-0.19). Its moderate correlation with SRC (0.31) suggests that market valuation ratios may have some influence on stock return performance.

Firm Size (Asset) displays a negative correlation with CR (-0.18), D/E (-0.18), and BVPS (0.10), are weak. Size has a very weak positive correlation with SRC (0.05), suggesting that size does not play a substantial role in stock return variations.

SRC, the dependent variable, shows the strongest positive correlation with P/E Ratio (0.31), followed by DPR (0.21) and BVPS (0.17). Its correlations with EPS (0.00), CR (-0.15), D/E (-0.08), and Size (0.05) are weak or negligible, suggesting that profitability, liquidity, leverage, and firm size do not significantly drive stock return performance in this sample.

Overall, the correlation analysis indicates that EPS and BVPS are closely related, and DPR is strongly linked to market valuation through the P/E Ratio. Among all variables, the P/E Ratio shows the most notable positive correlation with stock return, while profitability (EPS), liquidity (CR), and leverage (D/E) appear to have limited direct influence. This suggests that investor sentiment and market valuation metrics may play a more crucial role in determining stock returns than traditional financial indicators.

4.4 Regression Analysis

A statistical method known as regression is used to examine how variation in one or more variables predicts or explains variation in another variable. It is possible to examine experimental or nonexperimental data with many categorical and continuous independent variables using this well-liked statistical technique because of its versatility. The method is known as bivariate regression if only one variable is utilized to forecast or explain the fluctuation in another variable. The technique is known as multiple regression when more than one variable is utilized to forecast or explain variation in another variable. This entry focuses on linear bi-variate regression by SPSS and Microsoft Excel.

Table 12:
Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.513[a]	0.263	0.151	81.5816

Table 12, illustrate the regression model summary, which offers insights into the explanatory power of the selected independent variables CR, EPS, DPR, D/E ratio, BVPS, P/E Ratio, and Firm Size in predicting SR among manufacturing companies in Nepal. The R value of 0.513 indicates a moderate positive correlation between the combined independent variables and stock return. The R Square value of 0.263 suggests that approximately 26.3% of the variation in stock return is explained by the model.

The Adjusted R Square value of 0.151, which adjusts for the number of predictors used, is lower than the R Square. This indicates that the inclusion of multiple independent variables does not drastically improve the model's accuracy and may even include variables that contribute little to the model's overall predictive strength.

The Standard Error of the Estimate is 81.5816, which is relatively high. This indicates that the model's predictions of stock return deviate considerably from the actual values, suggesting a substantial amount of unexplained variation in the dependent variable.

Overall, the regression results indicate that the selected financial indicators have a modest yet statistically significant influence on stock return. It is likely that other macro-Economic variables, industry dynamics, or firm-specific qualitative factors also play a crucial role in determining stock performance in Nepal's manufacturing sector.

Table 13:
ANOVA table

	Sum of Squares	df	Mean Square	F	Sig.
Regression	125672.843	8	15709.105	2.360	.030[b]
Residual	352745.289	53	6655.571		
Total	478418.132	61			

Note: a. Dependent Variable: Stock Return

b. Predictors: (Constant), Size (Asset), EPS, Dividend Payout Ratio (DPR), Current Ratio (CR), Debt to Equity Ratio(D/E), Price-to-Earnings (P/E) Ratio, Book Value per share (BVPS)

The ANOVA table provides further insight into the overall significance of the regression model used to examine the impact of various financial indicators CR, EPS, DPR, D/E ratio, BVPS, P/E Ratio, and Firm Size on stock return among manufacturing firms in Nepal.
The Regression Sum of Squares is 125,672.843 with 8 degrees of freedom, representing the portion of the total variability in stock return that is explained by the independent variables in the model. The Residual Sum of Squares, which accounts for the unexplained variation, is 352,745.289 with 53 degrees of freedom. The Total Sum of Squares is 478,418.132, which is the combined variation in stock return.

The Mean Square for Regression is 15,709.105, while the Mean Square for Residual is 6,655.571. These values are used to calculate the F-statistic, which in this case is 2.360. This statistic tests whether the overall regression model provides a better fit to the data than a model with no independent variables.

The significance value (Sig.) of 0.030 indicates that the model is statistically significant at the 5% level ($p < 0.05$). This means that, taken together, the independent variables contribute meaningfully to explaining the variation in stock returns.

The ANOVA results suggest that the overall regression model is statistically significant. This implies that, collectively, the financial indicators included in the model have a significant impact on stock return.

Table 14:
Regression Coefficient

Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	135.493	141.869		0.955	0.344
CR	-7.223	5.516	-0.171	-1.31	0.196
EPS	-0.091	0.052	-0.494	-1.758	0.084
DPR	-0.066	0.117	-0.125	-0.565	0.575
D/E	-32.662	24.92	-0.179	-1.311	0.196
BVPS	0.041	0.017	0.589	2.487	0.016
P/E	0.458	0.196	0.537	2.335	0.023
Size	-25.966	25.601	-0.153	-1.014	0.315

Note: a. Dependent Variable: Stock Return

Table 14, provides detailed insights into the individual contributions of each independent variable CR, EPS, DPR, D/E ratio, BVPS, P/E Ratio, and Firm Size to the dependent variable, stock return.

The constant (intercept) of 135.493 suggests that when all independent variables are held at zero, the expected stock return would be 135.493 units. However, the high standard error (141.869) and the non-significant p-value (0.344) indicate that this intercept is not statistically meaningful.

The Current Ratio (CR) has a negative coefficient of -7.223, indicating that, holding other variables constant, an increase in liquidity is associated with a decrease in stock return. However, with a p-value of 0.196, this relationship is not statistically significant.

EPS has a negative coefficient of -0.091, which is counterintuitive since higher EPS is typically associated with better stock performance. The p-value of 0.084 shows this

relationship is marginally significant at the 10% level, indicating a weak and unexpected inverse effect.

DPR has a coefficient of -0.066 and is not statistically significant (p = 0.575), implying that dividend policy does not have a meaningful impact on stock return in this model.

The D/E Ratio has a relatively large negative coefficient of -32.662, suggesting that higher leverage is associated with lower stock returns. However, its significance level (p = 0.196) indicates that this relationship is not statistically strong.

In contrast, BVPS has a positive coefficient of 0.041 and a p-value of 0.016, making it statistically significant. This suggests that firms with higher book value per share tend to achieve better stock returns, and this relationship is both strong and reliable.

Similarly, the P/E Ratio shows a positive and significant effect on stock return, with a coefficient of 0.458 and a p-value of 0.023. This indicates that higher investor valuation (as reflected in P/E ratios) is positively associated with stock performance.

Finally, Firm Size has a negative coefficient of -25.966, suggesting that larger firms may experience lower stock returns, but this relationship is not statistically significant (p = 0.315).

Among the predictors, BVPS and P/E Ratio are the only variables that significantly influence stock return, both in a positive direction. The remaining variables, although theoretically relevant, do not show strong statistical relationships in this model, highlighting the complexity and multifactorial nature of stock return behavior in Nepal's manufacturing sector.

Among the predictors, BVPS and P/E Ratio are the only variables that significantly influence stock return, both in a positive direction. The remaining variables, although theoretically relevant, do not show strong statistical relationships in this model. These results show insignificant because Nepal's capital market is relatively inefficient and dominated by retail investors, whose decisions are often driven by speculation rather than fundamental analysis. This limits the extent to which firm-specific financial indicators are reflected in stock prices. And the data quality and reporting inconsistencies can weaken statistical relationships. Moreover, external macroeconomic factors, such as political instability, interest rate

volatility, and regulatory changes can overshadow internal company performance. Lastly, the relatively small sample size and limited time frame may reduce the statistical power of the model, making it difficult to detect significant effects. These factors collectively highlight the complexity of modeling stock return behavior in an emerging market like Nepal

4.5 **Discussion**

The findings of this study reflect the dynamic relationship between various firm-specific financial variables and stock return among Nepalese listed manufacturing companies. The research considered a comprehensive data set spanning eight fiscal years (2016/17 to 2024/25) and included multiple manufacturing companies listed on NEPSE. By applying descriptive statistics, correlation, and regression analysis, the study has been able to establish relationships and draw meaningful inferences from the variables under consideration. Each financial ratio: CR, EPS, DPR, D/E Ratio, P/E ratio, BVPS, and Firm Size plays a distinct role in influencing stock return.

To examine the effect of liquidity (measured by the current ratio) on the stock return of listed manufacturing firms in Nepal, the findings revealed a negative and statistically insignificant relationship between the current ratio and stock return. This indicates that higher liquidity does not necessarily lead to improved stock performance in Nepal's manufacturing sector. Prior studies, such as Santosa (2019), similarly found that liquidity had limited impact on stock return in Indonesian manufacturing firms. In theory, greater liquidity should reflect a firm's strong short-term solvency and risk management, which may appeal to conservative investors. However, in Nepal's case, excessive liquidity might signal underutilized capital or operational inefficiency, which fails to attract investor interest. Thus, liquidity, while critical to operational health, does not appear to directly influence stock market performance in the manufacturing sector.

The relationship between profitability, represented by earnings per share (EPS), and stock return, study found no significant correlation between EPS and stock return, which contrasts with the findings of Lamichhane and Dhungel (2023) and Shrestha (2022), who reported a strong positive relationship between profitability and return in Nepalese firms. Globally, EPS is considered a key driver of investor valuation as it reflects a company's earning power per

share. The insignificance of EPS in this study might be attributed to inconsistent earnings patterns across manufacturing firms or the speculative nature of investor behavior in Nepal's capital market, where short-term market movements overshadow fundamental analysis. This suggests that profitability alone is not a reliable determinant of stock return in Nepal's manufacturing context, possibly due to weak financial disclosures or poor investor education.

Analyzing leverage, measured by the debt-to-equity (D/E) ratio, influences stock returns. The results revealed a negative but statistically insignificant relationship between D/E and stock return. This finding aligns with the study by Bhattarai (2017), who found that high leverage negatively impacts performance in Nepalese manufacturing firms. Theoretically, according to Pecking Order and Trade-Off theories, moderate debt use can enhance returns through tax shields. However, excessive debt increases financial risk and reduces investor confidence, especially in volatile markets. The lack of significance in this study suggest that investors in Nepal do not consider leverage as a strong determinant of stock returns, possibly due to limited access to financial information or an underdeveloped bond market that prevents clear comparisons between equity and debt financing.

This study used the natural logarithm of total assets as a proxy for firm size and found an insignificant relationship between firm size and stock return. This is consistent with Khadka and Khadka (2023), who found firm size to have minimal influence on stock return in Nepal's non-financial sector. While theories such as the size effect (Banz, 1981) and the Fama-French Three-Factor Model suggest that smaller firms may generate higher returns due to risk premiums, in Nepal's case, this pattern is not observed. This could be due to a lack of diversity in firm size among listed manufacturers or the market's inefficiency in pricing firm-specific risk. In this context, firm size does not appear to play a critical role in determining stock returns, indicating that other qualitative factors may be more influential.

Moreover, dividend policy (measured by the dividend payout ratio) showed a positive and moderate relationship with stock return, in line with Dividend Signaling Theory and previous findings by Shrestha and Lamichhane (2022). This suggests that manufacturing firms that maintain stable dividend payouts are more likely to build investor trust and command higher market value. Price-to-earnings ratio, another important valuation metric, had the strongest

positive correlation with stock return among all variables studied. This indicates that investors place considerable emphasis on growth expectations and valuation multiples when assessing stock performance, consistent with global findings (e.g., Arslan et al., 2014; Pudji, 2017). Book value per share also showed a weak but positive relationship with stock return, suggesting that asset-backed value is a secondary consideration in investor decision-making.

In contrast, the Price-to-Earnings (P/E) Ratio showed the strongest positive relationship with stock return among all independent variables. This indicates that investors in Nepal's manufacturing sector give considerable weight to valuation metrics that reflect future earnings potential. A higher P/E ratio typically signals growth expectations, which attract investor interest. This finding is consistent with global research (e.g., Pudji, 2017; Arslan et al., 2014), confirming that valuation ratios like P/E play a key role in driving stock performance in both developed and emerging markets. Also, BVPS shows a weak but positive correlation with stock return, this suggests that while BVPS reflects the net asset value backing each share, it has minimum influence in investor decisions in Nepal's manufacturing sector. This may be due to limited market efficiency or investors' preference for growth-based metrics rather than asset-based valuation. Similar findings were noted by Pradhan and Shyam (1993), who observed mixed impacts of BVPS on firm valuation in Nepal.

In conclusion, this study finds that among the selected firm-specific variables, P/E ratio BVPS, and dividend payout ratio have the most meaningful influence on stock return in Nepal's manufacturing sector. Other variables such as EPS, D/E, CR, and firm size, demonstrate either weak or statistically insignificant relationships. These results reinforce the idea that Nepal's capital market is still developing and that investor behavior may not fully align with classical financial theory. The findings suggest that improving transparency, consistency in earnings, and reliable dividend policies can help manufacturing firms enhance their stock performance and attract long-term investors.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

This research set out to explore the Determinants of stock returns and relationship between firm-specific financial characteristics and stock return among manufacturing companies on the Nepal Stock Exchange (NEPSE) over the fiscal years 2016/17 to 2024/25. In this study, determinants such as the Current Ratio (CR), Earnings Per Share (EPS), Debt-to-Equity Ratio (D/E), Dividend Payout Ratio (DPR), Book Value Per Share (BVPS), Price-to-Earnings (P/E) Ratio, and Firm Size (log of total assets) were analyzed to evaluate their relationship with stock return in the context of Nepal's manufacturing sector. The manufacturing sector is considered a key pillar of Nepal's economic growth and industrial transformation, yet remains underrepresented in financial and capital market research. Using both Microsoft Excel and SPSS for statistical analysis, such as correlation, descriptive statistics and multiple regression models were employed to measure the strength and direction of relationships between these variables and stock returns.

The descriptive analysis indicated wide variability in the financial structure and stock performance of the sampled firms. Trend analysis of stock returns showed fluctuations influenced by firm earnings, dividend announcements, and post-COVID market volatility. Correlation results showed moderate positive relationships between stock return and P/E ratio, BVPS, and DPR, while other variables like EPS, CR, and D/E had weak or negligible correlation. Regression analysis demonstrated that only a few independent variables had significant predictive power for stock return, with an adjusted R^2 of 0.151, indicating that about 15% of the variation in stock returns is explained by the selected firm-specific variables. These findings reinforce that investor behavior in Nepal is partially guided by fundamental indicators but also influenced by broader market sentiment and information asymmetry.

The major goal of this research is to understand the firm-level drivers of stock return in the Nepalese manufacturing sector. The study finds that profitability (EPS), capital structure (D/E), dividend policy (DPR), market valuation (P/E), Book value per share (BVPS), and

liquidity (CR) interact in different ways with stock returns. Notably, P/E ratio, and dividend payout emerged as the most relevant factors, while firm size and book value per share showed limited influence on return patterns. The significance of these findings lies in guiding financial decision-making at the firm level, encouraging investors to consider fundamental analysis, and assisting policymakers in developing frameworks for a more efficient equity market in Nepal. The study also contributes to the limited literature on Nepalese manufacturing firms, which have unique characteristics compared to financial institutions due to differences in asset structure, capital funding, and investor perception.

5.2 Conclusion

This study concludes that the manufacturing sector, though historically overshadowed by the financial sector in Nepal, plays a vital role in national economic development. As a productive sector, it contributes significantly to employment, industrial diversification, and GDP. Yet, despite its economic relevance, limited research has been done to evaluate how firm-specific financial characteristics influence stock return behavior within this sector. To attract investment and improve valuation, manufacturing companies must understand how their financial decisions, especially regarding profitability, liquidity, capital structure, and dividend policy affect their performance in the capital market. Building financial discipline and transparency around these factors can enhance stock market performance and investor confidence. As Nepal's capital market matures, it becomes even more important for manufacturing firms to focus on fundamentals rather than speculative gains. A sound financial structure including measured profitability, moderate leverage, stable dividends, and realistic growth expectations is necessary to boost long-term firm value.

This study aimed to examine the relationship between liquidity (measured by the current ratio) and stock return in listed manufacturing companies. After analyzing the data, it was found that liquidity had a negative but statistically insignificant relationship with stock return. This suggests that, in the Nepalese manufacturing context, higher liquidity does not necessarily increase investor returns. Instead, it might reflect inefficient capital use or excess idle assets.

Secondly, this study focused on the effect of profitability (measured by earnings per share) on stock return. Contrary to theoretical expectations, the result showed no significant correlation between EPS and stock return, which may be due to earnings inconsistency, limited investor awareness, or speculative market behavior. The lack of significance suggests that profitability alone is not the main driver of stock returns in the sector.

To analyze the impact of leverage (measured by the debt-to-equity ratio) on stock return, the analysis revealed a negative and statistically insignificant relationship, indicating that excessive reliance on debt may not be favorably viewed by investors. Although debt can enhance returns through leverage, in Nepal's manufacturing firms, it appears that high leverage raises financial risk without corresponding stock price appreciation.

This study also evaluated whether firm size (log of total assets) had an effect on stock return. The results showed a very weak relationship, meaning investors in Nepal do not significantly differentiate between large and small firms when evaluating return potential. This could reflect inefficiencies in the pricing mechanism of Nepal’s stock market.

Furthermore, the study examined the role of dividend policy (measured by the dividend payout ratio) and found a moderate positive relationship with stock return. This supports the dividend signaling theory, implying that firms with consistent dividend practices are likely to attract investors. Additionally, the price-to-earnings (P/E) ratio had the strongest positive impact on stock return among all variables, showing that investors place significant emphasis on future earnings growth and market valuation.

Lastly, book value per share had a weak positive effect on stock return, suggesting that while asset backing provides some security, it does not heavily influence stock prices in the Nepalese manufacturing sector. This emphasizes that market participants may prioritize earnings potential and dividends over net asset value.

This study concludes that stock return in Nepal’s manufacturing firms is most strongly influenced by P/E ratio Book value per share, and dividend payout, while variables like profitability, leverage, liquidity, and size show limited or insignificant influence. For long-term value creation, firms should focus on improving earnings consistency, maintaining

responsible capital structure, and ensuring transparent dividend practices. These findings are crucial for investors, financial managers, and policymakers seeking to strengthen Nepal's capital market and industrial economy.

5.3 Implications

The implications of this study span several critical dimensions, offering valuable insights for investors, corporate managers, policymakers, and the academic community. For investors, the findings reinforce the importance of analyzing firm-specific financial variables such as earnings per share (EPS), dividend payout ratios, leverage levels, and overall financial health when making investment decisions. Companies demonstrating strong profitability, consistent dividend practices, and moderate debt levels are more likely to deliver stable returns. These insights are especially useful in an emerging market like Nepal, where speculation often overshadows fundamentals. Corporate managers, on the other hand, can draw on the study's results to align financial policies with shareholder expectations. By maintaining a balanced capital structure and transparent financial disclosures, managers can build investor trust and enhance long-term firm valuation. A stable dividend policy, consistent earnings performance, and prudent debt management are shown to significantly influence stock returns, reinforcing the need for sound financial strategy and governance practices.

The study also carries broader implications for academic research and policy development. It fills a notable gap in the literature regarding Nepal's under-researched manufacturing sector and offers a replicable empirical model for further analysis. Policymakers and regulatory bodies such as SEBON and NEPSE are encouraged to strengthen corporate governance practices, improve financial transparency, and promote investor education to enhance market efficiency. Facilitating capital access for manufacturing firms and implementing international financial reporting standards could support broader economic development. Moreover, this study lays the groundwork for future research by identifying key firm-level determinants of stock returns. Future studies can build upon this framework by incorporating macroeconomic factors such as inflation, interest rates, exchange rates, and GDP growth. Applying advanced econometric techniques like panel data models, VAR, or exploring behavioral finance aspects could provide deeper insights into stock market dynamics. Ultimately, the findings of

this research contribute not only to academic literature but also to the development of a more mature, transparent, and investor-friendly capital market in Nepal.

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Appendix A

Table 15:
Annual Data of Listed Manufacturing Company of Nepal

SN	Date	Company	CR	EPS	DPR	D/E	BVPS	P/E	Size	SRC
1	2072/2073	UNL	2.7	1218	83.7	0.9	2226	28.8	4.5	97
2	2073/2074	UNL	2.3	1048	97	0.6	2253	27.9	4.6	-13.6
3	2074/2075	UNL	2	1085	64	0.7	2067	23.1	4.6	-12
4	2075/2076	UNL	1.9	1157	67	0.7	2525	17.6	4.6	-16
5	2076/2077	UNL	1.5	383	26	0.9	2143	50.7	4.6	-3.8
6	2077/2078	UNL	1.8	935	70	0.8	2829	20.8	4.7	3.4
7	2078/2079	UNL	2	1675	73	0.6	3967	11	4.8	1
8	2079/2080	UNL	2.5	1992	79	0.4	4737	16.6	4.9	88.4
9	2080/2081	UNL	2.6	2123	81	0.4	4636	22.3	4.9	48.7
10	2073/2074	HDL	2	13	170	0.1	150	62.4	4.1	68.1
11	2074/2075	HDL	1.5	76	117	0.2	207	17.8	4.1	77.8
12	2075/2076	HDL	2	139	74	0.2	256	12.1	4.2	31.3
13	2076/2077	HDL	2	81	124	0.1	217	68.1	4.4	236.1
14	2077/2078	HDL	6.3	120	83	0.2	231	46	4.4	1.9
15	2078/2079	HDL	8.4	70	101	0.1	187	48.8	4.6	-36.9
16	2079/2080	HDL	10.9	27	92	0.1	187	83.3	4.6	-33.4
17	2080/2081	HDL	11.3	14	120	0.7	118	98.9	4.6	-37.6
18	2073/2074	NLO	1.3	134	15	1.3	388	1.6	3.1	11.5
19	2074/2075	NLO	1.3	150	27	1.7	511	1.5	3.2	18.8
20	2075/2076	NLO	1.4	138	22	1.9	564	1.4	3.8	4.7
21	2076/2077	NLO	1.5	33	30	1	904	9.6	3.9	69
22	2077/2078	NLO	1.4	188	19	0.9	1081	1.7	3.9	11.1
23	2078/2079	NLO	1.4	90	33	0.9	916	2.9	4	-10.5
24	2079/2080	NLO	1.3	11	268	1.2	741	23.8	4	15.1
25	2080/2081	NLO	1.3	73	34	1.1	562	3.5	4	6.9
26	2073/2074	BNT	0.6	399	7	0.7	915	15.3	4.7	3
27	2074/2075	BNT	0.7	613	7	0.3	1228	9.6	4.7	-2.9
28	2075/2076	BNT	0.4	375	11	1.1	2065	18.4	4.9	18.1
29	2076/2077	BNT	0.5	375	0	1.7	1992	27.4	5	49
30	2077/2078	BNT	0.6	350	0	1.2	2226	29.4	5	0.1
31	2078/2079	BNT	0.7	517	12	0.6	2661	25.2	5	27.3
32	2079/2080	BNT	0.8	528	12	0.7	3174	26.2	5	6.7
33	2080/2081	BNT	0.9	281	18	0.6	3279	46.3	5.1	-5.1
34	2073/2074	BNL	0.7	338	6	0.3	1047	5	4.9	1.3
35	2074/2075	BNL	0.9	499	4	0.1	1642	3.4	4.9	3.2
36	2075/2076	BNL	0.6	358	0	0.5	1935	5	5.1	4
37	2076/2077	BNL	0.7	32	0	0.5	1873	57.2	5.1	4
38	2077/2078	BNL	0.8	226	9	0.4	2225	8.1	5.1	1.1
39	2078/2079	BNL	1	393	5	0.2	2741	5	5.1	7.3

40	2079/2080	BNL	1.1	472	13	0.5	3230	4.9	5.2	22.2
41	2080/2081	BNL	1.1	192	34	0.5	3379	81.8	5.2	581.9
42	2073/2074	SHIVM	1.4	33	33	1.1	167	14.1	5	2.4
43	2074/2075	SHIVM	1	30	54	0.7	167	20.3	5.2	34.5
44	2075/2076	SHIVM	1.8	34	46	0.1	204	17.9	5.2	2.7
45	2076/2077	SHIVM	1.6	27	91	0.1	215	54	5.1	143.8
46	2077/2078	SHIVM	1.6	32	90	0.1	223	45.4	5.2	1.5
47	2078/2079	SHIVM	1.6	16	67	0.1	252	47.5	5.1	-46.9
48	2079/2080	SHIVM	1.6	14	111	0.1	211	46.5	5.1	-12.4
49	2080/2081	SHIVM	1.6	6	143	0.3	175	100	5.1	-6.5
50	2074/2075	SARBTM	1.3	48	0	1.4	183	11.6	5	39
51	2075/2076	SARBTM	1.1	53	0.3	1.5	206	10.5	5.1	2.6
52	2076/2077	SARBTM	1	39	0.3	1	245	14.3	5.1	2.2
53	2077/2078	SARBTM	1	32	11	0.6	160	17.4	5.1	63.5
54	2078/2079	SARBTM	1	12	0	0.6	172	54.2	5.2	17
55	2079/2080	SARBTM	1	5	3	0.5	185	160	5.2	25.4
56	2080/2081	SARBTM	1.2	40	0.25	0.4	185	20.4	5.2	2.9
57	2075/2076	GCIL	0.8	44	40	0.8	231	10.6	5.2	3.7
58	2076/2077	GCIL	0.6	2	941	1.2	217	770.5	5.3	235.8
59	2077/2078	GCIL	0.8	12	0	1.6	218	123.4	5.4	-4
60	2078/2079	GCIL	0.7	7	0	1.7	227	79	5.4	-62.7
61	2079/2080	GCIL	1.3	2	943	1.1	270	286	5.5	6.2
62	2080/2081	GCIL	0.8	32	0	1.1	197	17.4	5.4	-2.8

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