

# COMMON STOCK PRICE BEHAVIOR OF COMMERCIAL BANKS IN NEPAL

A Thesis

By

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## **Certificate of Authorship**

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as a part of requirement for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the presentation of this thesis itself has been acknowledge. I certify that all information sources and literature used are indicated in the reference selection of this thesis.

.....  
Prakash Ojha

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## **RECOMMENDATION LETTER**

It is certified that thesis entitled "COMMON STOCK PRICE BEHAVIOR OF COMMERCIAL BANKS IN NEPAL". Prakash Ojha is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. The thesis is forwarded for examination.

.....

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## APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "**COMMON STOCK PRICE BEHAVIOR OF COMMERCIAL BANKS IN NEPAL**" presented by Prakash Ojha, a candidate for the degree of **Master of Business Studies** (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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**ABBREVIATION / ACRONYMS**

BVPS	:	Book value per share
D.Y.	:	Dividend Yield
DPR	:	Dividend Payment Ratio
DPS	:	Dividend per Share
EPS	:	Earning Per Share
EY	:	Earning Yield
FY	:	Fiscal Year
KB	:	Kumari Bank
MPS	:	Market Price per Share
MV	:	Market Value
MV/BV Ratio	:	Market Value to Book Value Ratio
MVPS	:	Market Value per Share
NEPSE	:	Nepal Stock Exchange
NB	:	Nepal Bank
NCC	:	Nepal credit and commerce
NIBL	:	Nepal Investment Bank Limited
No	:	Number
NRB	:	Nepal Rastra Bank
NSBL	:	Nepal Standard chartered Bank Ltd.
P/E	:	Price Earning
S.D.	:	Standard Deviation
SEBON	:	Security Board of Nepal
T.U.	:	Tribhuvan University

## ABSTRACT

Common stock price behavior highly depends upon financial indicators like EPS and DPS. Banks EPS and DPS are positively and negatively correlated with MVPS. Generally the EPS and DPS are positively correlated with MVPS however sometime the negative correlation is observed this is due to the technical factors like demand and supply rumors in stock market. This descriptive- comparative study was conducted on six banks on the basis of establishment date before 2000. Data were collected from the website of concerned banks. Data are analyzed using the different financial tools and statistical tools. The calculations are presented on back side on the topic appendix. On average the Nabil bank has high EPS i.e. the earning of Nabil has high than compare to others. The investors look to invest in consistence P/E Ratio banks. having less C.V. is considered as consistence in Ratio .so in this criteria NIBL is good .the Nepal bank doesn't declares the dividend in previous FY that means two things one is Bank is fail to earn profit another is the earning are invested rather than giving dividend. The MVPS/BVPS Ratio is greater than 1 i.e. the banks stocks are overvalued. The findings indicated that there are technical factors rather than fundamental factors that affect the common stock price. The EPS seems more influence market price of stocks. The correlation between the DPS and MVPS shows the highest positive i.e. 0.89 of Kumari Bank. And highest negative is -0.64 of NIBL Bank here the fundamental factors doesn't works. Random walk efficient market theory is seems to be implied.

**Key words:** *common stock, fundamental factors, technical factors, Random walk efficient market.*

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of Study

Common stock is a security that represents ownership in a corporation. Holders of common stock elect the board of directors and vote on corporate policies. This form of equity ownership typically yields higher rates of return long term. However, in the event of liquidation, common shareholders have rights to a company's assets only after bondholders, preferred shareholders, and other debt holders are paid in full. Common stock is reported in the stockholder's equity section of a company's balance sheet. With common stock, if a company goes bankrupt, the common stockholders do not receive their money until the creditors, bondholders, and preferred shareholders have received their respective share. This makes common stock riskier than debt or preferred shares (Investopedia).

The security market plays an important role in mobilizing savings and channeling them into productive investment for the development of commerce and industry in the country. It assists the capital formation and economic growth in the country. But, the Nepalese securities market still is in growing stage. Its further development is crucial. There are two approaches of predicting stock price behavior: the technical analysis and fundamental analysis. Briefly, technical analysis explains and forecasts changes in security prices by studying the market data. The technical analysts believe that the forces of supply and demand are reflected in the patterns of price and volume of trading while fundamental analysts do that economic environment and earning power are reflected in the pattern of market prices (Fischer and Jordan 2000).

Technicians predict the stock price behavior by analyzing the pattern of price and volume of trading. But the fundamentalists predict the stock price behavior by analyzing earning power and the economic environment in the risk-return framework. The fundamentalists believe that at any point in time every share has an intrinsic value which should be in principle be equal to the present value of the future stream of income from that share discounted at an appropriate risk related rate of interest (Bhalla, 1999).

Thus, the actual price of the security is considered a function of a set of anticipated capitalization rate. In Nepal, the major constituent of the securities market is the shares

of commercial Banks and behavior of price of commercial banks influences the Nepal Stock Exchange (NEPSE) index.

### **1.2 Problem of Statement and Research Question**

Basically stock price is determined by demand and supply. Both the qualitative and quantitative factors determine the stock price. However, to specify exactly what factors do determine stock price is a controversial/unpredictable issue. Share price is the function of the several factors. The stock price fluctuates time to time and stock exchanges react to the environmental changes. However, for some environmental changes, the stock exchanges have no effect. This study tries to identify the determinants of stock price and find out the degree of affection of those determinants (Fisher, 2004).

More specifically, this study is expected to answer the following research questions.

- i. What is the relationship between EPS, DPS, with MVPS of commercial banks?
- ii. What are the financial indicators of sampled banks?

### **1.3 Purpose of the Study**

This study aims to identify the factors responsible for determinants of stock price and their relationship with the EPS and DPS, so that it will give a better insight into the behavior of stock price. Furthermore, this study is proposed to meet the following objectives.

- i. To identify the relationship between EPS, DPS with MVPS of commercial banks.
- ii. To examine the financial indicators.

### **1.4 Significance of the Study**

The main significance of this study is to examine the stock price behaviors. This study helps for future research on the area of behavior of common stock price of commercial banks by providing relevant and pertinent literature. This study makes aware to the investors before investing in stock of any banks.

The listed banks can be aware about them and will take necessary steps for improvement. Those who are engaged in the field of financial management like shareholders, promoters, analysis, investors, policy makers etc, can be benefited from this research study.

### 1.5 Limitations of the Study

This study tries to explore the factors determining the stock price of commercial banks. Only secondary data are analyzed. However, this study may face the following limitations during the course of research.

- i. This study has been based on secondary sources of data i.e. annual reports of respective commercial banks.
- ii. The study is based on six commercial banks only.
- iii. There are various financial indicators, however only EPS and DPS are taken under study.
- iv. Moderating variables are not taken in study.
- v. The study covers a period of only five fiscal years (2071/72 to 2075/76).

### 1.6 Chapter Plan

This study has been organized into five chapters. The heading of the chapters are:

**Chapter 1:** This chapter is the introductory part of the study. It describes the background, introduction, and statement of problem, research question, significance of study, and limitation of study, objective of study and chapter plan.

**Chapter 2:** This chapter is concerned with the literature review this chapter deals with the historical aspect as the conceptual understanding of financial statement. The past studies have been reviewed in brief some of the journals ad reports have been reviewed too.

**Chapter 3:** This chapter deals about the methodology of research used for the study. This chapter deals about research design, population and sample sources of data collection technique and tools of data analysis.

**Chapter 4:** This chapter has covered the presentation and analysis of data with presentation charts figures and other statistical tools mathematical tools and financial tools. Data are collected from different sources are being presented in meaningful manners as per the demand and need of the study.

**Chapter 5:** This chapter is related to summary, conclusion and implication. The bibliography and appendices are also organized at the end of this research study.

## **CHAPTER 2**

### **LITERATURE REVIEW**

A literature review is a comprehensive summary of previous research on a topic. The literature review surveys scholarly articles, books, and other sources relevant to a particular area of research. The review should enumerate, describe, summarize, objectively evaluate and clarify this previous research. It should give a theoretical base for the research and help you (the author) determine the nature of your research. The literature review acknowledges the work of previous researchers, and in so doing, assures the reader that your work has been well conceived. It is assumed that by mentioning a previous work in the field of study, that the author has read, evaluated, and assimilated that work into the work at hand.

The purpose of this chapter is to find out what research studies have been conducted in one's chosen field of study, and to have some ideas for developing a research design. Thus, the previous studies cannot be ignored because they provide the foundation for the present study. In other words, there has to be continuity to research. This continuity is emerged by linking the present study with past research studies. Thus, various books, journal and articles concerned to this topic have been reviewed. The review has been organized as:

- 2.1 Conceptual review
- 2.2 Review of journal articles
- 2.3 Review of previous theses

## **2.2 Conceptual Review**

### **2.2.1 Common Stock**

Common stock is the basic form of ownership in a company. People who hold common stock have a claim on the assets of a firm after those of preferred stock holders and bond holders. Common stock holders of a corporation are its residual owners, their claim to income and assets comes after creditors and assets preferred stockholders have been paid in full. As a result, a stockholders return on investment is less certain than the return to a lender or to be a preferred stockholder. On the other hand, the return to a common stock holder is not bounded on the upside, as are return to the others. A share of common stock can be authorized either with or without par value. A par value of

stock is merely a stated figure in the corporate charter and is of little economic significance. A company should not issue stock at a price less than par value, because stockholders who bought stock for less than par value would be liable for the difference between below the par price they paid and the par value.

The founder of a corporation obtain a corporate charter from the state, have shares of common stock printed, and sell the shares to as many different people as they wish in order to raise the capital to start the new business .Thus, common is always the first security issued by every new corporation.

Common stockholders have a residual claim on the earnings and assets of the corporation. This means that the law requires corporation first to pay employees wages, suppliers bills, and bondholders' interest; then, after all other bills are paid, and the common stock holders share in whatever earnings or losses are left. Also, if the corporation comes to its demise in bankruptcy, the law says that all liability must be paid first from the assets and then whatever remains is divided to the common stockholders.

Common stockowners enjoy certain advantage from their investment .First, they enjoy limited liability, and that is, if the corporation goes bankrupt and does not have enough assets to pay all of its bills, the common stockowners cannot be forced to participate in the payout of unpaid bills. Second, stockholders enjoy unlimited participants in the firm's profit if earning becomes highly lucrative. Third, shares of common stock are marketable securities designed to be bought and sold with ease. Finally, only common stockowners are entitled to vote at the stockholder's meeting of the corporation. Thus, stockholders have a voice in management.

## **i. Common Stock Values**

### **a. Par Value**

Par value is the face value of a share of stock. It was originally used to guarantee that the corporation receives a fair price for the value of the firms represented by a share stock. The value established at the time of stock is initially issued is the par value. Without a stock split or other action by the board of directors, the par value of the stock does not change (Cheney and Mosses, 1995)



**b. Book Value**

Book value per share can be calculated by adding the common stock's total value (or par value plus paid-in surplus plus retained earnings accounts) in the net worth section of the balance sheet and then dividing by the number of shares of common stock outstanding. Book value gives a picture of the assets of the corporation, but it has no real relation to stock prices. Companies sometimes find their common stock selling for the prices for different from book value.

**c. Market Value**

Market value per share is the current price at which the stock is traded. For actively traded stocks, market price quotations are readily available. For the many inactive stock that have thin markets, prices are difficult to obtain. The market value is influenced by many factors including economic and industry conditions, expected earnings and dividends, and market and company risk considerations (Cheney and Mosses, 1995).

**ii. Classification of Common stock on the Basis of their Features****a) Growth Stocks**

Stocks whose price grows with the growth of corporation's earnings and dividend with a comparatively higher growth than the average price appreciation are called growth stocks.

**b) Blue Chip Stock**

Stocks of very large, well established companies which has dominant position, strong balance sheets and size are called blue chip- stocks. For example, foreign companies like general Motors, IBM and Xerox are often referred as to blue chips.

**c) Income Stocks**

Stocks that have a long term record of stable cash dividends are called income stocks.

**d) Speculative Stocks**

Stocks, which are viewed by investors with some speculative motives, are called speculative stocks. Most investors see as a highly risky and consequently a speculative issue would view new company without a successful track record.

**e) Cyclical and Defensive Stocks**

Stock which are influenced by economic and industrial cycles, are called cyclical stocks whereas stocks which are less susceptible to economic cycles are called defensive stocks.

**f) Small Stocks**

If the company's total capitalization is small than the stock is called small stocks. New York Stock Exchange (NYSE) of American considered a small stock with total capitalization of less than Rs 500 Million. In over the counter (OTC) market less than Rs 50 million total capitalizations referred as small stocks.

**g) Treasury Stocks**

If the corporation decides to buy back its own stock the acquired stocks are called treasury stocks (Cheney and Mosses, 1995).

**iii. Characteristic of Common Stocks****a) Voting Rights or Control**

Common stock is voting stock. The power to vote for the board of directors and for against major issues (such as merge or an expansion into new product lines) belongs to the common shareholders because they are the owners of the corporation.

**b) Preemptive Rights**

The preemptive rights allows stockholders to subscribes to any new issue of stock so that they can maintain their previous fraction of the total number of shares sold (usually called the "outstanding shares"). Some states automatically make the preemptive right a part of every corporate charter. The preemptive right, if exercised, prevents the dilution of ownership control inherent in additional stock shares .Thus, the preemptive right, if exercised, guarantees the investor's undiluted maintenance of voting control, share in earnings, and share is assets.

**c) Liquidation Right or Dissolution Right**

Another most important rights of common stockholder's is also to liquid or dissolve the company and they have their own right on all remaining capital, assets and saving amount after returning the capital of the creditors and preference shareholders.

### **2.2.2 Securities Market**

Securities Market plays a vital role in collecting funds from the issue of share .A securities Market (or financial market ) can be defined as a mechanism bringing together buyers and sellers of financial assets in order to facilitate trading. Alternatively, securities market is a place or places where securities are bought and sold, the facilities and people engaged in such transactions the demand for and people engaged in such transactions the demand for and availability of securities to be traded, and the willingness of buyers and sellers to reach agreement on sales. Over the counter market (OTC), the New York Stock Exchange (NYSE), the Chicago Board of Trade (CBT) the American Stock Exchange (AMEX) and Nepal Stock Exchange (NEPSE) are the examples of securities market. “Securities Market is one of the constituents of capital market. It has a wide embracing for the buying and selling securities and all these agencies and institution which access the sale and resale of corporate securities” Gitman, Lawrence J. (2000).

To cite the definition of securities as defined by Securities Exchange Act 2040 (1983). According to this Act-“Securities means shares, stock, bond, debenture, debenture stock issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificates of deposit or treasury bond issued by His Majesty Governments and it includes the securities issued under full guarantee of His Majesty’s Government by a notification published in Nepal Gazette or receipts relation to deposit of securities as well as rights and interest relating to securities.”

There are various ways of categorizing the security market. They can be on the basis of lifespan of the securities traded, such as money market and capital market; on the basis of financial claims, such as debt market and equity market; on the basis of economic functions such as primary market and secondary market. The classification on the basis of economic function is the predominant among all. So it has been explained briefly below:

#### **2.2.2.1 Primary Market**

Securities issued for the first time are traded in the primary market. The issuer may be a brand new company or one that has been in business for many years. Primary market is used to denote the market for the original sale of securities by an issuer to the public.

The volume of new issues in the primary market, particularly of common stock, is directly related to market conditions. When the market is high or rising, the number of new issues being offered to the public rises and when the market is low or falling, the number declines (J.M Cheney and E.A Moses, 1992).

The institution that dominates the primary market is the investment- banking house. It is a traditional middleman in the primary market. When a company decides to acquire new funds from the outside, it will frequently do so through the intermediation of investment bankers in the developed countries .The investment banker's principle activity is to bring sellers and buyers together in the market. They are specialists in the marketing of new securities. They advise companies in the design of the security. Although they are a number of possible arrangements, the investment banking house underwrites a new issue of securities .In underwriting agreement, an investment bankers agree to buy the securities from the issuing company and then sell them to the public.

In addition, placing new securities through the intermediation of investment bankers, many companies engage in the private placement of securities .In private placement, the issuer of the securities sell securities directly to investors without underwriting services of an investment bankers .This method id cheaper, and it avoids the underwriting costs.

#### **2.2.2.2 Secondary Market**

Securities that have been previously issued are traded in the secondary market. The majority of all capital market transactions occur in the secondary market. The process of sales securities in the secondary market do not go to the original issuer but to the owners of the securities. In other words, securities are traded among the individual as well as institutional investors.

“The existence of well-functioning secondary market, where investors come together to trade existing securities, assures the purchase of primary securities that they can quickly sell them to securities, if the need arises.” (John, 1992)

The function of the secondary market is to provide liquidity for securities purchased in the primary markets. Once investors have purchased securities in the primary market, they need the place to sell those securities in the secondary market. Secondary markets are divided into

- i. The over the counter market
- ii. The organized stock exchanges.

### **i. The over- other counter market**

The over the- counter market (OTC) is the market for these securities which are not listed on the stock exchanges .When the company first sell its securities to the public, the securities are traded in the OTC. It includes all transactions in the securities other than those taking place on the stock exchanges .In practice, however, the term is usually limited to the activities of dealers and brokers specializing in unlisted securities. OTC market have very low entry barriers and traders may range in size from very large houses doing an international business to one person or firms that trade only in local markets.

### **ii. The organized stock Exchange**

The organized stock exchanges are voluntary association of members who come together for the purpose of buying and selling, for the general public, the securities of the great companies. Only listed securities are traded in the exchange and are bought and sold by auction.

## **2.2.3 Theory of Stock Price Behaviors**

Market prices are the functions of various factors, these factors affects the market prices of security .Thus market prices fluctuate and it is not for a short period but over a century. Broadly there are three schools of thought concerning the valuation of securities and their price behaviors.

- i. Technical Analysis
- ii. Fundamental Analysis
- iii. Random Walk or Efficient Market Analysis

### **2.2.3.1 Technical Analysis**

The technical analysis theory of share price behaviors is based on past market information. Technical analysis seeks to identify price pattern and trends in financial markets and attempts to exploit those patterns. While technical use various methods and tools, the study of price charts is primary. This theory includes the study of the past price and value date of stocks to forecast future price movement.

Technical analysis has some assumption; they are:

- i. Market value is determined by the interaction of demand and supply.
- ii. Supply and demand are governed by the numerous factors, both rational and irrational,
- iii. Security price tend to move in trends that persist for an appreciable length of time, despite minor fluctuations in the market,
- iv. Changes in supply and demand, no matters why they occur, can be detected sooner or later in charts of markets transactions ,and
- v. Some chart pattern trend to repeat themselves.

Technical analysis has become increasingly popular over the past several years as more and more people believe that the historical performance of a stock is strong indicators of future performance. Many more technical tools and theories have been developed and enhanced in recent decades, with an increasing emphasis on computer assisted technique.

Technical analysis believes that important information about future stock price movements can be obtained by studying the historical movement of stock prices. Financial data are recorded on graph paper and the data are scrutinized in search of repetitive patterns .Technical analysis base their buy and sell decision on the charts they prepare (Aryal, Mukti 1995).

Since technical analysis focus most of their attention on charts of securities market prices and on related statistics about security transactions, technical analysis are sometimes called chartists. Most technical analysis prepares and study charts of various financial variables in order to forecast security prices. But the existence of technical analysis in Nepal is still doubtful. The methodology of technical analysis rest upon the assumption that history tends to repeats itself in the stock exchange. If a certain pattern of activity has in the past produced certain result nine times out of ten, one can assume a strong likelihood of the same outcome whenever this pattern appears in the future. It should be emphasized, however, that a large part of the methodology of technical analysis lacks strictly logical explanation.

Various study evidence that technical analysis is useful in enabling investors to beat the market. Many proofs of the ability of technical analysis to beat the market were offered, but they committed at least one of the errors. However, several recent studies have

indicated that technical analysis may be useful to the investors. As technical analysis give more emphasis on when to buy or sell the stock.

### **2.2.3.2 Fundamental Analysis**

Fundamental analysis (FA) is a method of measuring a security intrinsic value by examining related economic and financial factors. Fundamental analysts study anything that can affect the security's value, from macroeconomic factors such as the state of the economy and industry conditions to microeconomic factors like the effectiveness of the company's management.

The end goal is to arrive at a number that an investor can compare with a security's current price in order to see whether the security is undervalued or overvalued.

This method of stock analysis is considered to be in contrast to technical analysis which forecasts the direction of prices through an analysis of historical market data such as price and volume.

- i. Fundamental analysis is a method of determining a stock's real or "fair market" value.
- ii. Fundamental analysts search for stocks that are currently trading at prices that are higher or lower than their real value.
- iii. If the fair market value is higher than the market price, the stock is deemed to be undervalued and a buy recommendation is given.
- iv. In contrast, technical analysts ignore the fundamentals in favor of studying the historical price trends of the stock.

### **2.2.3.3 Random Walk Efficient Market Theory**

Random walk theory suggests that changes in stock prices have the same distribution and are independent of each other. Therefore, it assumes the past movement or trend of a stock price or market cannot be used to predict its future movement. In short, random walk theory proclaims that stocks take a random and unpredictable path that makes all methods of predicting stock prices futile in the long run.

Random walk has some assumption; they are

- i. Random walk theory suggests that changes in stock prices have the same distribution and are independent of each other.
- ii. Random walk theory infers that the past movement or trend of a stock price or market cannot be used to predict its future movement.

- iii. Random walk theory believes it's impossible to outperform the market without assuming additional risk.
- iv. Random walk theory considers technical analysis undependable because it results in chartists only buying or selling a security after a move has occurred.
- v. Random walk theory considers fundamental analysis undependable due to the often-poor quality of information collected and its ability to be misinterpreted.

#### **2.1.4 Evolution of the Capital Market in Nepal**

The history of capital market in Nepal dates back to the era of Rana Prime Minister Juddha Shumser when Gunjaman Singh, the first secretary at Nepalese Embassy in England returned back to Kathmandu and set up the “Industrial Council”, The council drafted company act and Nepal Bank Act for the first time in 1936. Biratnagar Jute Mills Ltd. Initiated the first time in 1936. Biratnagar Jute Mills Ltd. Initiated the first public flotation of shares in the securities market in 1937. In the same year Nepal Ltd. Also issued the shares. However at the time the participation on the ownership structure of the corporate sector was restricted mostly to the Rana family.

In 1951 the “Company Act 1951” was introduced and first issued of government bond in 1964 was other important developments relating to capital markets. The establishment of securities exchange center (SEC) in 1976 was the first and most important attempt by the government. After the establishment of SEC under Company Act, institutional development of securities market in Nepal was started.

The function of SEC was very limited on trading government bonds and national savings certificates only, which had predominantly held by Nepal Rastra Bank. SEC started secondary market for the corporate securities in 1984.

Securities Board Nepal (SEBON) was established on 26 May 1993 after the first amendment in the securities Exchange Act 1983 became effective. After eighteen years of incorporation, HMG Nepal converted security exchange center into Nepal Stock exchange (NEPSE) on 16 may 1993, under a program initiated to develop a competitive and efficient security market. Thus, NEPSE has the basic objective to impact free marketability and liquidity to government bonds and cooperate securities by facilitating transaction in the trading floor through market intermediaries such as brokers and market makers. After the conversion of SEC into NEPSE, 25 brokers and 5 market



makers were appointed. It started open outcry system of trading through brokers and market maker on 13<sup>th</sup> January 1994 (Thapa, 2008)

#### **2.4.5 Nepal Stock Exchange**

Nepal Stock Exchange in short NEPSE is a non- profit organization operating under, Securities Exchange Act, 2040. The former Securities Exchange Centre was converted into NEPSE under the program initiated to reform the capital market. The basic objective of NEPSE is to arrange marketability and liquidity to the government and corporate securities by facilitating transactions in the trading floor through market intermediaries such as brokers, market makers and others.

The shareholders of the NEPSE are Nepal Rastra Bank, the central bank, his Majesty's Government of Nepal, Nepal Industrial Development Corporation and licensed numbers.

NEPSE has its own Board of directors to direct, control and monitor. It consists of 9 directors in accordance with the Securities Exchange Act, 2040. HMG and difference institutional investors nominate six directors and two from the licensed members. The General Manager of the NEPSE in the Ex- officio directors of the board. Difference companies are listed and sometimes de-listed in NEPSE. Presently NEPSE has 149 listed companies. This number can be increased and decreased by passage of time. (NEPSE, Trading Report 2008/09).

#### **2.5 Review of Journal Articles**

Basnet (2007) concluded that market price per share (MPS) is well explained by dividend and retained earnings. It further concluded that the high price of the stock of financial institutions is the high dividend offered by this sector.

Adhikari (2009) found that dividend announcement does convey some significant information and the market tries to adjust itself to new pieces of information as and when they become available. There is positive return following the announcement of cash dividend.

K.C. (2009) revealed that book-to-market equity is the most significant positive determinants of stock returns in Nepalese stock market.

Joshi (2012) found that the impact of dividends is more pronounced than that of retained earnings in the context of Nepal. Dividend has a significant effect on market stock price in both banking and non-banking sector.

To sum up, the studies on fundamental variables have not documented consistent results. Some of these studies found that fundamental characteristics associated with Firms are significant in explaining the common stock returns where others do not. Not only the little is known in Nepalese context but also the effect of such fundamental Variables vary across the studies as in the case of developed capital markets.

## **2.6 Review of Previous Theses**

Jha (2010) analyzed the effect of financial indicators DPS and EPS with the MVPS. The study covers the five commercial Nepalese Banks. The fundamental factors show the strong effect on stock price. To construct a relationship between the variables various statistical tools were used. The thesis concludes the stock market of Nepal is still in preliminary stage & it is developing in slow rate .It needs help from all concerned bodies to function properly. However the only fundamental factors are focus of study.

Karki (2015) the result of the study concludes that the earnings and stock dividend are the more significant determinants of stock prices of commercial banks in Nepal. The effects of these variables on stock prices are consistent and statistically significant across all the analyses and all the specifications of the model. The performance of the stock dividend is especially noteworthy; this variable is statistically and economically the most important of the six firm specific variables investigated.

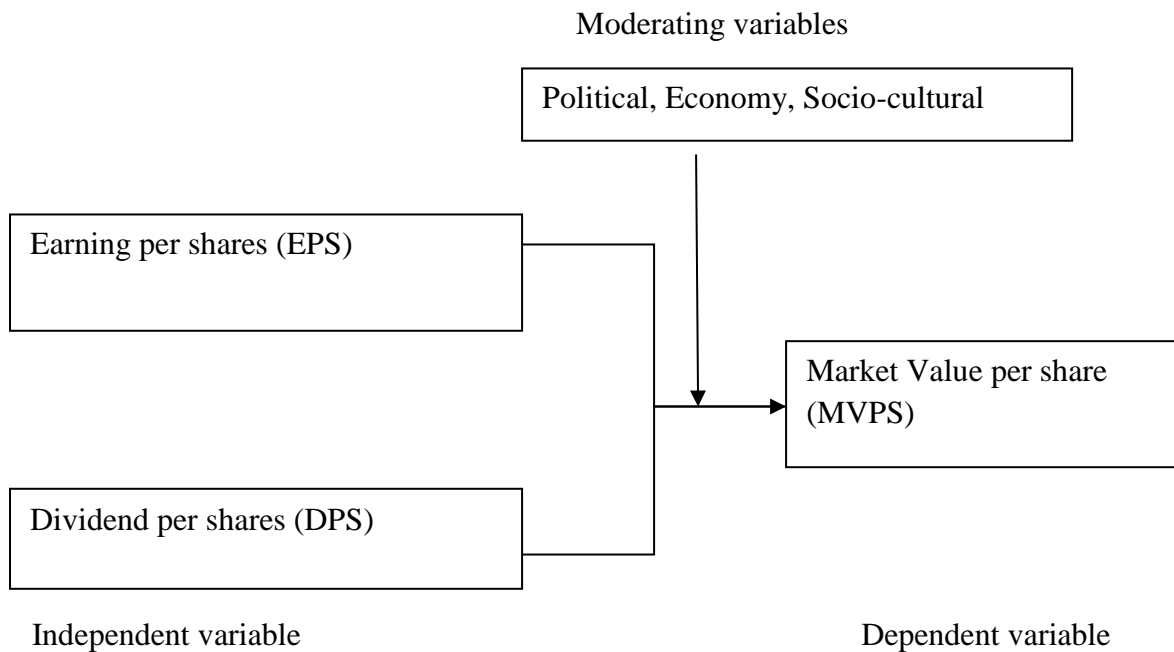
Baker and Wurgler (2004) revealed that the disappearance of dividends can be explained by lower market valuations of payers during such periods. Companies pay dividends in order to raise the stock prices of their shares above their fundamental values.

Shrestha (1999) carried out a study based on date of randomly selected thirty stocks out of all listed securities mostly started from the commencing day of organized trading system on NEPSE. His study covers the period from the 13<sup>th</sup> January 1994 to Mid July 1998. However, this study implies technical concept but not emphasis had been given on fundamentalism. His study remains silent to say whether the trading with the help of past information could earn profit

Likewise, Upadhaya (2001) has carried out another study in share price behavior. Though his study attempted to cover the limitations of previous studies but yet it is

not enough to say whether DPS or EPS influence market price of stocks i.e. which of the variables (DPS and EPS) has more effect on share prices. EPS and DPS hit the psychology of investors in greater extent and hence they are the most important factors so as to attract public interest.

## 2.7 Theoretical framework



## 2.8 Research gap

The findings of previous researches are equally important. The study gives attention on technical factors as well as fundamental factors affecting the stock price. Finding the more influencing variable between DPS and EPS to MVPS is another important gap to fulfill by this study. The focus of the research is to analyze the performance, growth and downfalls of the current stock market. And analyze whether the stock market is in increasing or in decreasing trend. Furthermore, this study updates the price behavior of concerned banks.

## **CHAPTER 3**

### **METHODOLOGY**

This chapter deals with the methodology of research. An attempt is made to present a basic frame of methodology with in which the research will be conducted. This chapter simply deals with short introduction to financial parameters used in this study and short description of techniques that are used in the time of research and also about Research design, Sources and Nature of Data, Sampling Methods used, and financial and Statistical tools used for the data analysis.

#### **3.6 Research Design**

Research design is defined as a framework of methods and techniques chosen by a researcher to combine various components of research in a reasonably logical manner so that the research problem is efficiently handled. This study has been based on the data extracted from the annual reports of sample banks. The data are taken from 2071/72 to 2075/76 B.S. the descriptive research has been used for this study. Secondary data is used the research design taken from their sources.

#### **3.7 Population and Sample**

The population of this study is selected commercial banks. Out of 27 commercial banks 3 are private commercial banks, 2 Joint venture banks and 1 government bank is selected. While selecting the bank for the study convenience sampling technique has been adopted. Convenience sampling is a type of non-probability sampling that involves the sample being drawn from those parts of population that is close to hand. Although, there are some limitations, convenience sampling can be used by almost anyone and has been around for generation. One of the reasons that it is most often used is due to the numerous advantages it provides. This method is extremely speedy, easy, readily available and cost effective, causing it to be an attractive option to most attractive option to most researchers (Dusovski, 2018).

The banks are selected in the ratio of 3:2:1 of commercial bank, joint venture bank and government banks respectively.

Commercial banks as Nepal investment bank, Nepal credit and commerce bank, and kumari bank. Joint venture banks as Nabil bank and Standard chartered bank. Government bank is Nepal Bank Limited.

### 3.8 Sources of Data

This research study is primarily based on secondary data. Most of the data related to this thesis are from annual report of sampled banks.

### 3.4 Data Collection Procedure

Secondary data are downloaded from concerned banks websites.

### 3.9 Data Analysis Tool

Once the data have been collected from various sources, it needs to be analyzed properly, to get solution to the research problem. The collected data has no meaning, if they are not properly analyzed. So, to have analyzed the data, different statistical and financial tools have been used in this research. They can be explained below:

#### 3.9.1 Financial Tools

The financial tools used in this research are

##### 1. Earning Price Per Share (EPS)

Earnings per share measure the profit available to the equity shareholders on a per share basis. i.e. the amount that they get in every share held by them.

$$\text{EPS} = \frac{\text{Net Profit after tax} - \text{Preference dividend}}{\text{No of share outstanding}}$$

##### 2. Dividend Per Share (DPS)

The dividend per share is the amount paid as dividend to the holders of one share of the stock.

$$\text{DPS} = \frac{\text{Total dividend paid}}{\text{No of share outstanding}}$$

##### 3. Dividend payout Ratio

The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company. It is the percentage of earnings paid to shareholders in dividends.

$$\text{DPR} = \text{DPS/EPS}$$

##### 4. Price Earning Multiple

A valuation ratio of a company's current Share price compared to its per- share earnings. Price earnings multiple is the relationship between earnings per share and market price of the stock. Earnings per share shows the company's performance in the

sense that how well the company has managed its material as well as human resources to satisfy the interest of stockholders. So, P/E multiple reflects the price currently being paid by the market for each rupee of currently reported EPS

$$\text{P/E ratio} = \frac{\text{Market Price per Share}}{\text{Earnings per share}}$$

### 5. Dividend Yield

Dividend yield is a way to measure how much cash flow you are getting for each dollar invested in an equity position- in other words, how much “bang for your buck” you are getting from dividends .Dividends yields shows the relationship between dividend per share and market price per share. Investors who require a minimum stream of cash flow from their investment portfolio can secure this cash flow by investing in stocks paying relatively high, stable dividend yields. The dividend yield is calculated by dividing the cash dividend per share by the market value per share.

$$\text{Dividend Yield} = \frac{\text{Annual Dividends per Share}}{\text{Price per share}}$$

### 6. Earning Yield

The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each dollar invested in the stock that was earned by the company .The earning yield be defined as the ratio of earning per share to the market value per ordinary share.

$$\text{Earning Yield (EY)} = \frac{\text{Earnings per Share}}{\text{Market value per share}}$$

### 7. Market Value to Book Value Ratio

Market value to book value ratio shows the ratio of market value to book value of share. It is the ratio of the share price of book value per share.

$$\text{MV/BV Ratio} = \frac{\text{Market value per share}}{\text{Book value per share}}$$

#### 3.9.2 Statistical Tools

The descriptive measures particularly mean and standard deviation has been considered for the statistical analyses. Furthermore, to measure the relationship coefficient of correlation is used.

Lastly, to check the consistency coefficient of variance is used.

## CHAPTER-4

### RESULTS

This chapter is the heart of the study, where collected data are presented and analyzed. In this chapter the effort has been made to analyze “common stock price behavior of commercial banks”. With the help of various financial and statistical tools common stock price behavior of listed commercial banks are tried to evaluate.

#### Analysis of Financial Performance of the Banks

The performances of individual banks are analyzed on the basis of financial indicators. A bank having a good performance has highest market price, high earning and high dividend paid.

#### 4.1.9 Earning Price Per Share

Earnings per share are the same as any profitability or market prospect ratio. Higher earnings per share are always better than a lower ratio because this means the company is more profitable and the company has more profits to distribute to its shareholders. Although many investors don't pay much attention to the EPS, higher earnings per share ratio often make the stock price of a company rise. Since so many things can manipulate this ratio, investors tend to look at it but don't let it influence their decisions drastically.

EPS = Net profit after tax- preference dividend/no. of shares outstanding.

**Table 4.1.1**

#### EPS of the Sample Banks

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	7.48	44.59	38.77	39.98	26.99	31.56
NSCB	57.38	45.96	35.49	27.33	30.39	39.31
NABIL	57.24	59.27	59.86	51.84	50.57	55.75
KB	16.24	26.53	13.29	14.54	14.81	17.082
NCCB	17.17	30.08	14.02	23.51	15.77	20.11
NIBL	30.9	29.3	29.9	35.7	26.4	30

Source: Annual Report of Sample Banks

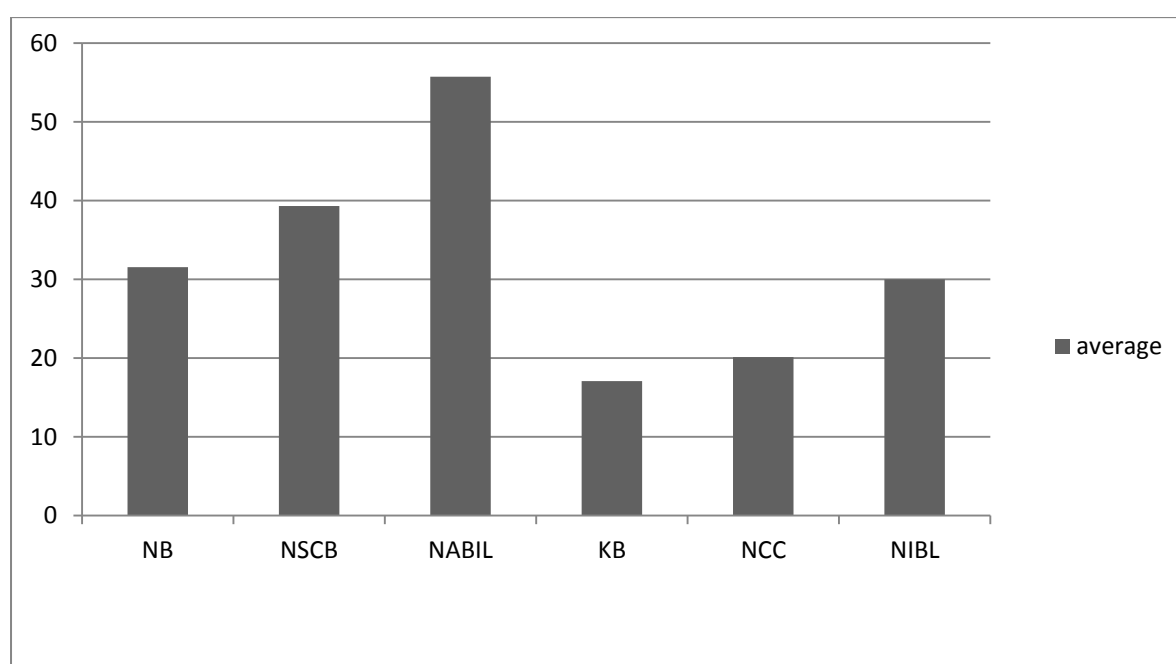
The average EPS of all sample banks are more than Rs20 except of the KB. The market leader in this segment is Nabil bank with the average EPS of Rs.55.75. The lowest average EPS is Rs17.08 of KB.

As seen Nabil Bank EPS average for five FY is 55.75 this means that if Nabil Bank distributed every Rs of income to shareholders each share will receive 55.75 Rs on average.

The table can be presented in graph to understand the data more clearly. The following figure presents the average of EPS of sample banks during the period of 5Years.

**Figure 4.1.1**

**EPS of Sample Banks**



The figure clearly shows that the average EPS of NABIL is the highest among all selected samples. On the basis of EPS, the stock of EBL is the best one to invest. The higher level of EPS will generally increase the market price of stock.

#### **4.1.10 Dividend Per Share**

Dividend is the portion of profit that is ready to be available for shareholders or the amount paid as dividend to the holder of one share of the stock.

$$\text{DPS} = \frac{\text{Total dividend Paid}}{\text{No. of shares outstanding}}$$

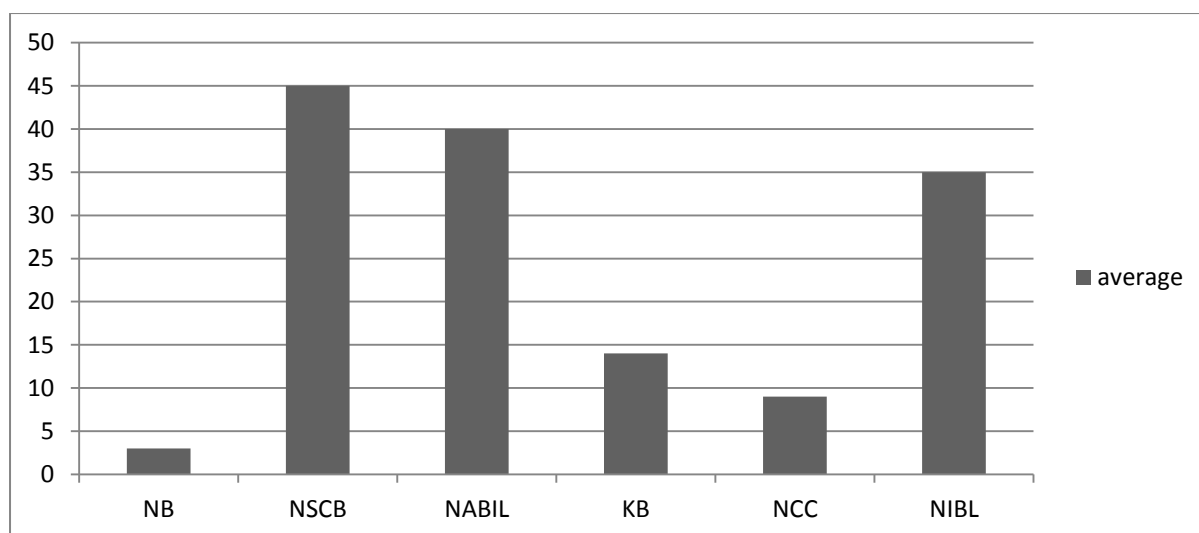


**Table 4.1.2****DPS of the Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	-	-	-	-	15	3
NSCB	44.21	35.09	105.26	17.5	22.5	45
NABIL	36.84	45	48	34	34	40
KB	11	21	12.75	8.5	10	14
NCCB	16	-	-	15.89	15	9
NIBL	34.7	41	40	40	19	35

Source: Annual Report of Sample Banks

NSCB seems prominent in declaring large amount of dividend. The average dividend of NSCB is Rs.45 per share. The lowest dividend paying bank Nepal Bank Limited whose average is 3. Only two banks NSCB and Nabil bank seem to be highest & regular on offering dividend to shareholders. Having a growing dividend per share can be a sign that the company's management believes that the growth can be sustained.

**Figure 4.1.2****DPS of Sample Banks**

The figure clearly states that the NSCB is the top on dividend per share. The Nabil and NIBL are also good in paying dividends. It is believed that the declaration of dividend has positive impact on the price of share. In Nepalese context, only the banking sector

is regular on paying dividend. This may be one of the reasons of such high prices of banking sector in stock market.

#### 4.1.11 Dividend Payout Ratio

The payout ratio is important because it tells investors how much of the company's profits are being given back to shareholders.

$$\text{DPS} = \text{Dividend per shares} / \text{Earning per shares.}$$

**Table 4.1.3**

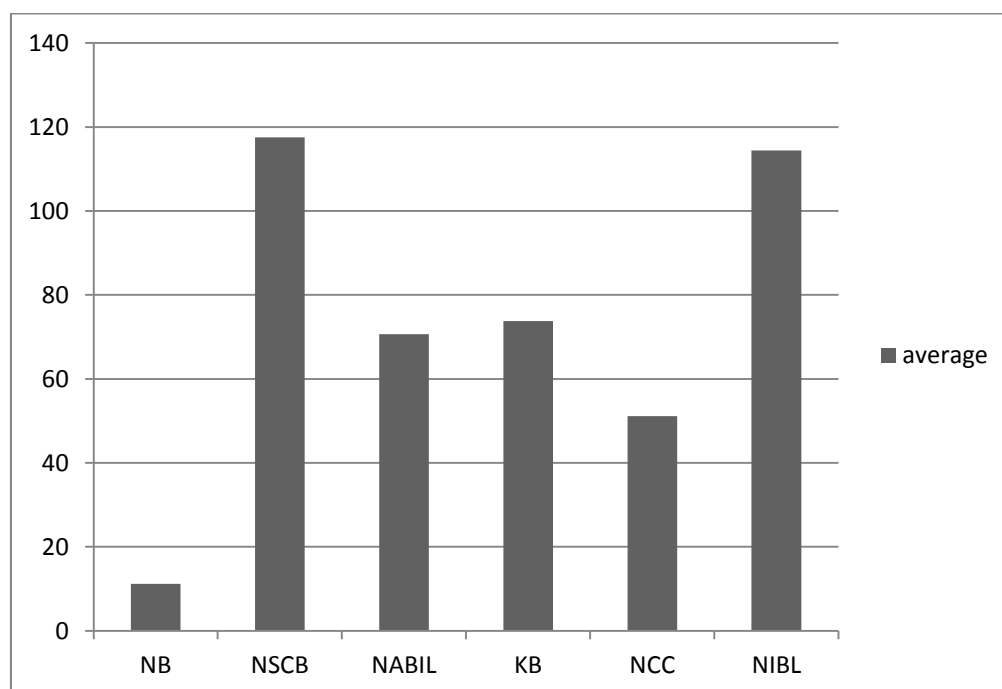
#### **DPR of the Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	-	-	-	-	55.75	11.15
NSCB	77.04	76.34	296.5	64	74	117.58
NABIL	64.36	75.92	80.14	65.58	67.23	70.64
KB	67.73	79.15	95.93	58.45	67.52	73.75
NCCB	93.18	-	-	67	95.11	51.17
NIBL	112.29	140	136	112	71.9	114.43

Source: Annual Report of Sample Banks

A low payout ratio can signal that a company is reinvesting the bulk of its earnings into growing the business. A payout ratio over 100% indicates that the company is paying out more in dividends than it is earning.

The average DPR of NSCB is highest. It means NSCB pays 117.58 percent of net profit to shareholder on average. As a result higher the market price of share.

**Figure 4.1.3****DPR of Sample Banks**

The figure shows that expect Nepal Bank other bank has very good DPR ratio its means commercial banks are book at giving profit ratio to their shareholders this helps to increase their market share.

**4.1.12 Price Earnings Ratio**

The Price Earnings Ratio (P/E Ratio) is the relationship between a company's stock price and earnings per share (EPS). It is a popular ratio that gives investors a better sense of the value of the company. The P/E ratio shows the expectations of the market and is the price you must pay per unit of current earnings (or future earnings, as the case may be).

Earnings are important when valuing a company's stock because investors want to know how profitable a company is and how profitable it will be in the future. Furthermore, if the company doesn't grow and the current level of earnings remains constant, the P/E can be interpreted as the number of years it will take for the company to pay back the amount paid for each share.

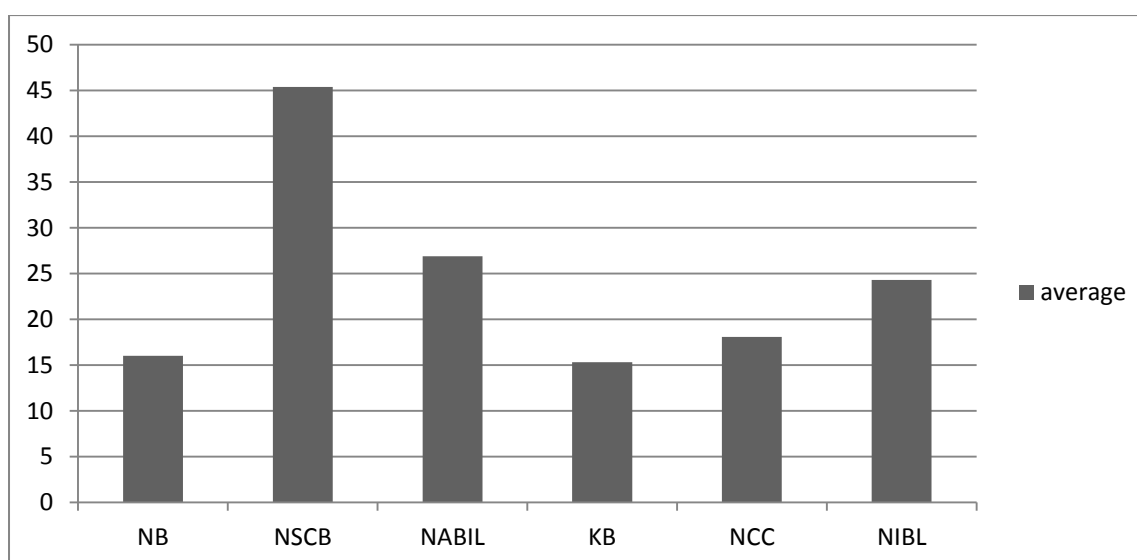
$$\text{P/E ratio} = \text{Market price per share} / \text{Earning per share}$$

**Table 4.1.4****P/E Ratio of Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	40.78	10.54	9.39	7.03	12.45	16.03
NSCB	33.86	78.33	64.67	27.62	22.44	45.38
NABIL	33.37	39.55	25.94	18.6	17.01	26.9
KB	23.41	-	24.61	13.68	14.85	15.31
NCCB	26.73	12.07	27.32	8.72	15.6	18.08
NIBL	22.78	35.49	26.27	17.39	19.65	24.31

Source: Annual Report of Sample Banks

Banks with a high Price Earnings Ratio are often considered to be growth stocks. This indicates a positive future performance, and investors have higher expectation for future earnings growth and are willing to pay more for them. The NSCB has the highest average P/E ratio among all samples. It has 45.38 average P/E ratios during the period of study. Kumari Bank Limited has the lowest average P/E ratio of 15.31. The consistency in P/E ratio is important than having higher P/E ratio with high degree of volatility. The consistency in P/E ratio will have positive impact on the price of share in the market. Rational investors will look for the consistency than high fluctuating P/E ratio.

**Figure 4.1.4****P/E Ratio of Sample Banks**

The above figures shows the average P/E ratio of Nepal SBI Bank Limited's highest from all sample banks for the given period of study.

#### 4.1.13 Earning Yield

The earning yield may be defined as the ratio of earning per share to the market value per ordinary share.

$$EY = \text{Earnings per share} / \text{Market value per share}$$

**Table 4.1.5**

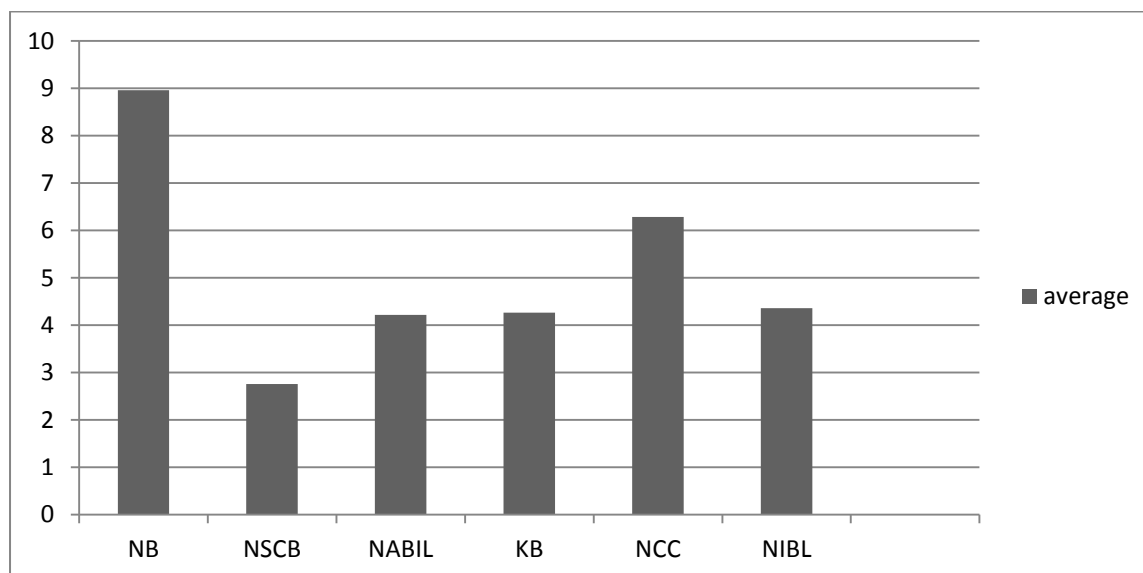
#### **Earning Yield of Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	2.45	9.48	10.65	14.22	8.12	8.96
NSCB	2.95	1.27	1.54	3.61	4.45	2.76
NABIL	2.99	2.52	3.93	5.62	6.32	4.27
KB	4.27	-	4.06	7.3	6.73	4.47
NCCB	3.74	8.28	3.66	9.4	6.41	6.29
NIBL	4.38	2.81	3.8	5.74	5.08	4.36

Source: Annual Report of Sample Banks

The earnings yield is another phenomenon that has impact on the behaviors of stock price. Generally, a high and consistent yield is considered good among all stakeholders. In this parameter, the Nepal is best among the selected banks. Its share is earning a good return in each of the year with steady rate. The yielding rate of NSCB is irregular and very low comparatively to other banks. Its share is yielding only 2.72% on average and is the lowest among all banks.

**Figure 4.1.5**  
**EY of Sample Banks**



In the above figures, the earning of Nepal Bank & NCC Bank is the peak and is above 6%. The lowest yield can be seen of NSCB in range of 2% to 3%. The calculations above show that every Rupee invested in Nepal Bank stock generate 8.96 percent.

#### 4.1.6 Dividend Yield

. The dividend yield is a financial ratio that measures the amount of cash dividends distributed to common shareholders relative to the market value per share. The dividend yield is used by investors to show how their investment in stock is generating either cash flows in the form of dividends or increases in asset value by stock appreciation.

$$\text{Dividend Yield} = \text{Annual dividend per share} / \text{Price per share}$$

**Table 4.1.6**

#### Dividend Yield of Sample Banks

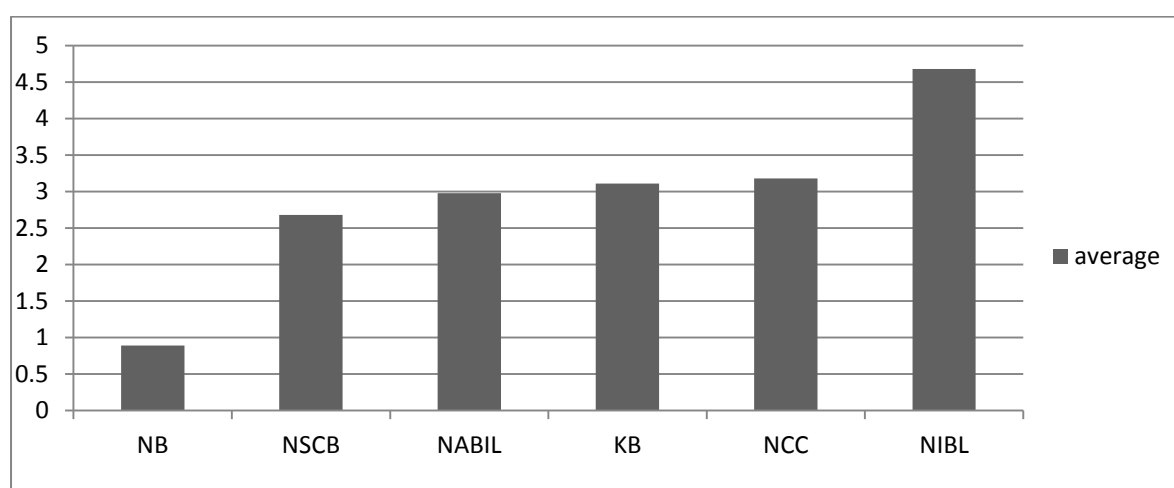
Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	-	-	-	-	4.46	0.9
NSCB	2.27	0.97	4.58	2.31	3.29	2.68
NABIL	1.92	1.91	3.15	3.69	4.25	2.98
KB	2.89	-	3.89	4.27	4.54	3.11
NCCB	3.48	-	-	6.35	6.09	3.18
NIBL	4.92	3.94	5.2	6.44	3.66	4.68

Source: Annual Report of Sample Banks

Investors want to know how much dividends they are getting for every rupee that the stock is worth. In this parameter, the NIBL Bank is the best among the selected banks. Its share is earning a good average return. The yielding rate of Nepal Bank is irregular and very low comparatively to other banks. Its share is yielding less than 1.0% on average and these banks have lowest DY among all banks. The following figure shows the average dividend yield rate.

**Figure 4.1.6**

**DY of Sample Banks**



The above figures that NIBL has the highest average DY among all the banks.

**4.1.14 Market Price to Book Value Ratio**

Market value to book value ratio is the ratio of the share price to book value- per share.

MV/BV Ratio= Market Value per share / Book value per share

**Table 4.1.7**

**MP/BV Ratio of Sample Banks**

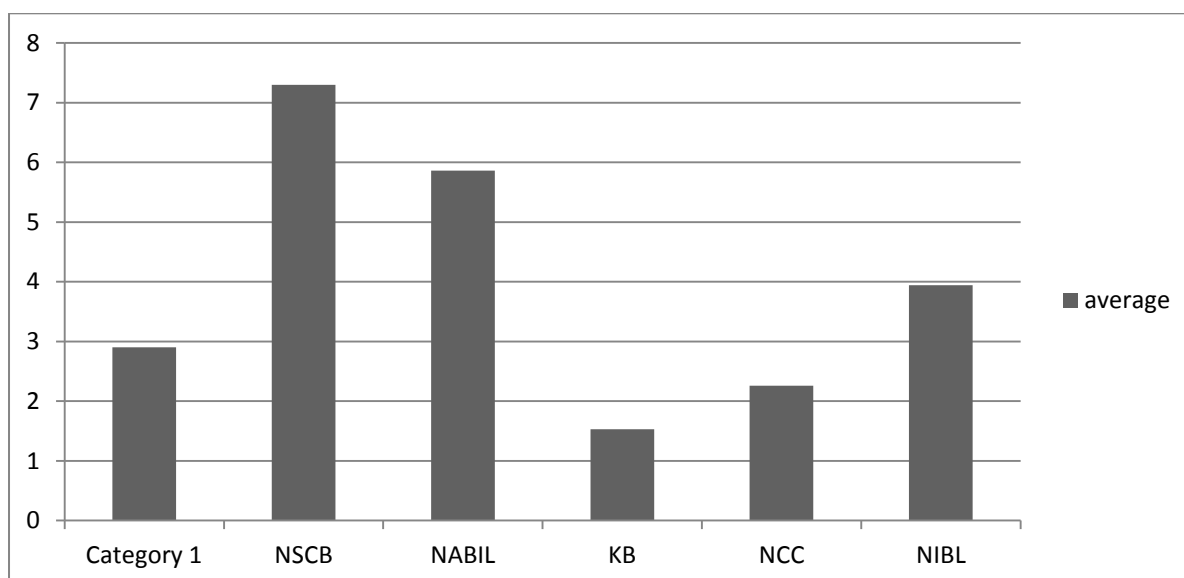
Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	5.14	4.52	2.55	0.98	1.344	2.9
NSCB	7.33	13.43	7.75	4.33	3.66	7.3
NABIL	7.37	9.6	5.64	3.59	3.11	5.86
KB	2.34	2.75	2.19	1.47	1.67	2.08
NCCB	3.64	2.32	2.5	1.38	1.43	2.26
NIBL	4.54	5.55	4.375	2.65	2.60	3.94

Source: Annual Report of Sample Banks

A low ratio (less than 1) could indicate that the stock is undervalued (i.e. a bad investment), and a higher ratio (greater than 1) could mean the stock is overvalued (i.e. it has performed well). In this criterion, NSCB on average seems the best among all selected samples. The NSCB has the ratio of 7.30 while the lowest ratio of 2.08 of KB. The following figures illustrate the average market value to book value ratio.

**Figure 4.1.7**

**MP/BV of Sample Banks**



The above figures show that NSCB has the highest MP/BV Ratio among all other banks.

#### **4.1.8 Market Price Per Share**

The market value per share is the price that a stock can be readily bought or sold in current market place. Generally; good market price per share is the fate of a company. If the market price is well high, the investors perceive it very positively disregarding the other factors. Any decrease in the market price will adversely affect the company. If the market price of a particular company decreases very sharply and consistently, it may lead to bankruptcy.

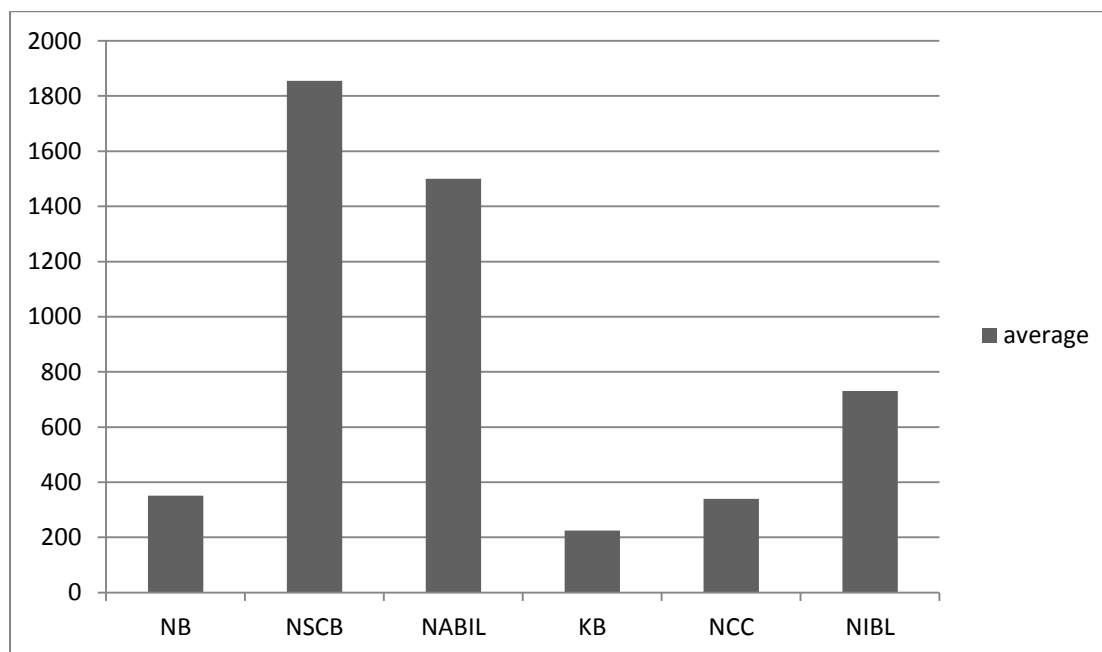


**Table 4.1.8****MPS of the Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	305	470	364	281	336	351.2
NSCB	1943	3600	2295	755	682	1855
NABIL	1910	2344	1523	921	800	1499.6
KB	380	380	327	199	220	301
NCCB	459	363	383	250	246	340.2
NIBL	704	1040	770	623	519	731.2

Source: Annual Report of Sample Banks

A stock market value largely influenced by not only economy as a whole but also investor's predictions and expectation. From the above table, the average MPS of NSCB has the highest value in comparison of other banks. It has the average value of Rs 1855. That means NSCB is showing good performance over this period than the other banks. The lowest of all banks is the KB, which average MPS is Rs 301.

**Figure 4.1.8****Market Price of Sample Banks**

The above figure clearly shows that market price of NSCB have the highest value whereas Nepal KB Bank Limited has the lowest market price.

### 4.3 Analysis of relationship of MVPS with EPS and DPS

It can be attempted to analyze whether earnings and dividends are directly affected or not with the rise and fall of prices. In other words, this study tries to know that if the earning per share raises the price of share also rises and if there is an increment in dividend per share of a certain company, the share price also increases. The relationship can be measured through various statistical tools. Amongst them, coefficient of correlation (Karl Pearson's) is widely used.

#### 4.2.1 Coefficient of Correlation between MVPS and EPS

Correlation analysis establishes the closeness of relationship between two or more variables. It measures the degree of relationship or association between variables. Karl Person's Coefficient of correlation is used to measure the degree of association among the variables. Correlations are useful because they can indicate a predictive relationship that can be exploited in Practice. Correlations can also suggest possible causal, or mechanistic relationships .The formula used to calculate the coefficient of

#### A. Nepal Bank

**Table 4.2.1 (a)**

#### **Correlation between EPS and MPS of Nepal Bank**

Year	EPS	MPS
2071/72	7.48	305
2072/73	44.59	470
2073/74	38.77	364
2074/75	39.98	281
2075/76	26.99	366
Average	31.56	351
Standard Deviation	13.65	65.68
Coefficient of Correlation	0.51	

Source: Annual Report of Sample Bank

The table shows the earnings per share and market price per share of Nepal Bank Limited from the year 2071/72 to 2075/76. The average of earning per share is Rs31.56 and the average market price per share is Rs351. The standard deviation of earning per

share and market price per share is 13.65 and 65.68 respectively. The standard deviation shows the volatility of EPS and MPS.

The coefficient of correlation between earnings per share and market price per share is 0.51. This shows that EPS and MPS are positively correlated.. It means both variable moves in same direction. The fundamental factors like EPS, DPS, DPR, P/E Ratio, EY, and DY have major impact on MVPS rather than Demand and supply rumors in market.

## **B. Nepal Standard Chartered Bank**

**Table 4.2.1(b)**

### **Correlation between EPS and MPS of Nepal Standard Chartered Bank**

Year	EPS	MPS
2071/72	57	1943
2072/73	46	3600
2073/74	35	2295
2074/75	27	755
2075/76	30	682
Average	195	9275
Standard Deviation	11.08	1707.6
Coefficient of Correlation	0.59	

Source: Annual Report of Sample Bank

The table shows the earnings per share and market price per share of Nepal standard chartered from the year 2071/72 to 2075/76. The average of earning per share is Rs.195 and the average market price per share is Rs 9275. The standard deviation of earning per share and market price per share is 11.08 and 1707.6 respectively. The standard deviation shows the volatility of EPS and MPS.

The coefficient of correlation between earning per share and market price per share is 0.59. This shows that EPS and MPS are positively correlated. It means both variable moves in same direction. The fundamental factors like EPS, DPS, DPR, P/E Ratio, EY, and DY have major impact on MVPS rather than Demand and supply rumors in market.

### C. Nabil Bank

**Table 4.2.1(c)**

#### **Correlation between EPS and MPS of Nabil Bank**

Year	EPS	MPS
2071/72	57	1910
2072/73	59	2344
2073/74	60	1523
2074/75	52	921
2075/76	51	800
Average	56	1500
Standard Deviation	3.66	584
Coefficient of Correlation	0.82	

Source: Annual Report of Sample Bank

The table shows the earnings per share and market price per share of Nabil bank from the year 2071/72 to 2075/76. The average of earning per share is Rs.56 and the average market price per share is Rs1500. The standard deviation of earning per share and market price per share is 3.66 and 584 respectively. The standard deviation shows the volatility of EPS and MPS.

The coefficient of correlation between earning per share and market price per share is 0.82. This shows that EPS and MPS are positively correlated. It means both variable moves in same direction. The fundamental factors like EPS, DPS, DPR, P/E Ratio, EY, and DY have major impact on MVPS rather than Demand and supply rumors in market.

### D. Nepal Credit and Commerce Bank

**Table 4.2.1(d)**

#### **Correlation between EPS and MPS of Nepal credit and commerce Bank**

Year	EPS	MPS
2071/72	17	459
2072/73	30	363
2073/74	14	383
2074/75	24	250
2075/76	16	246
Average	20	340
Standard Deviation	5.59	81.82
Coefficient of Correlation	-0.15	

Source: Annual Report of Sample Bank

The table shows the earnings per share and market price per share of NCC bank from the year 2071/72 to 2075/76. The average of earning per share is Rs.20 and the average market price per share is Rs340. The standard deviation of earning per share and market price per share is 5.59 and 81.82 respectively. The standard deviation shows the volatility of EPS and MPS.

The coefficient of correlation between earning per share and market price per share is - 0.15. This shows that EPS and MPS are negatively correlated. This mean both variables move in opposite direction. The technical factors like demand and supply are seen dominant rather than fundamental factors EPS, DPS, DPR, P/E Ratio, EY, and DY.

### **E. Kumari Bank**

**Table 4.2.1(e)**

#### **Correlation between EPS and MPS Kumari Bank**

Year	EPS	MPS
2071/72	16	380
2072/73	27	-
2073/74	13	327
2074/75	15	199
2075/76	15	220
Average	17	225
Standard Deviation	5	83.82
Coefficient of Correlation	0.50	

Source: Annual Report of Sample Bank

The table shows the earnings per share and market price per share of Kumari bank from the year 2071/72 to 2075/76. The average of earning per share is Rs.17 and the average market price per share is Rs225. The standard deviation of earning per share and market price per share is 5 and 141.5 respectively. The standard deviation shows the volatility of EPS and MPS.

The coefficient of correlation between earning per share and market price per share is 0.50. This shows that EPS and MPS are positively correlated. It means both variable moves in same direction. The fundamental factors like EPS, DPS, DPR, P/E Ratio, EY, and DY have major impact on MVPS rather than Demand and supply rumors in market.

## F. Nepal Investment Bank

**Table 4.2.1(f)**

### **Correlation between EPS and MPS of NIBL Bank**

Year	EPS	MPS
2071/72	31	704
2072/73	29	1040
2073/74	29	770
2074/75	36	623
2075/76	26	519
Average	30	730
Standard Deviation	3.31	175.94
Coefficient of Correlation	-0.64	

Source: Annual Report of Sample Bank

The table shows the earnings per share and market price per share of NIBL bank from the year 2071/72 to 2075/76. The average of earning per share is Rs.30 and the average market price per share is Rs730. The standard deviation of earning per share and market price per share is 3.31and 175.94 respectively. The standard deviation shows the volatility of EPS and MPS.

The coefficient of correlation between earning per share and market price per share is - 0.64. This shows that EPS and MPS are negatively correlated. This mean both variables move in opposite direction. The technical factors like demand and supply are seen dominant rather than fundamental factors EPS, DPS, DPR, P/E Ratio, EY, and DY.

#### **4.2.2 Coefficient of Correlation between MVPS with DPS**

A correlation between MVPS and dividend measures the relationship between these two important financial indicators. A rational investors looks for the high dividend and rather than high market price in long term investment. For short-term investment, high market price is more preferable than high dividend. A positive degree of correlation between these two variables shows that any increase in one variable increases the other and vice-versa. In this section of the study, it is attempted to find out the relationship between these two variables for each and sample banks during the period of five years.

### A. Nepal Bank

**Table 4.2.2 (a)**

#### **Correlation between DPS and MPS of Nepal Bank**

Year	DPS	MPS
2071/72	0	305
2072/73	0	470
2073/74	0	364
2074/75	0	281
2075/76	15	336
Average	3	351
Standard Deviation	6	65.68
Coefficient of Correlation	-0.62	

Source: Annual Report of Sample Bank

The table shows the dividend per share and market price per share from the year 2071/72 to 2075/76. The average of DPS and MPS is Rs3 and 351. The standard deviation of dividend per share and market price is 6 and 65.68.

The coefficient of correlation between dividend per share and market price per share is -0.62. This means both variables move in opposite direction. The technical factors like demand and supply are seen dominant rather than fundamental factors EPS, DPS, DPR, P/E Ratio, EY, and DY.

### B. Nepal Standard Chartered Bank

**Table 4.2.2 (b)**

#### **Correlation between DPS and MPS of Nepal Standard Chartered Bank**

Year	DPS	MPS
2071/72	44	1943
2072/73	35	3600
2073/74	105	2295
2074/75	18	755
2075/76	23	682
Average	45	1855
Standard Deviation	31	1707.6
Coefficient of Correlation	0.38	

Source: Annual Report of Sample Bank

The table shows the dividend per share and market price per share from the year 2071/72 to 2075/76. The average of DPS and MPS is Rs45 and 1855 .The standard deviation of dividend per share and market price is 31 and 1707.6.

The coefficient of correlation between dividend per share and market price per share is 0.38. This shows that DPS and MPS are positively correlated.. It means both variable moves in same direction. The fundamental factors like EPS, DPS, DPR, P/E Ratio, EY, and DY have major impact on MVPS rather than Demand and supply rumors in market.

### C. Nabil Bank

**Table 4.2.2 (c)**

#### **Correlation between DPS and MPS of Nabil Bank**

Year	DPS	MPS
2071/72	37	1910
2072/73	45	2344
2073/74	48	1523
2074/75	34	921
2075/76	34	800
Average	40	1500
Standard Deviation	6	584
Coefficient of Correlation	0.63	

Source: Annual Report of Sample Bank

The table shows the dividend per share and market price per share from the year 2071/72 to 2075/76. The average of DPS and MPS is Rs40 and 1500 .The standard deviation of dividend per share and market price is 6 and 584.

The coefficient of correlation between dividend per share and market price per share is 0.63. This shows that DPS and MPS are positively correlated. It means both variable moves in same direction. The fundamental factors like EPS, DPS, DPR, P/E Ratio, EY, and DY have major impact on MVPS rather than Demand and supply rumors in market.



## D. Nepal Credit and Commerce Bank

**Table 4.2.2 (d)**

### Correlation between DPS and MPS of NCC bank

Year	DPS	MPS
2071/72	16	459
2072/73	0	363
2073/74	0	383
2074/75	16	250
2075/76	15	246
Average	9	340
Standard Deviation	7.7	81.82
Coefficient of Correlation	-0.30	

Source: Annual Report of Sample Bank

The table shows the dividend per share and market price per share from the year 2071/72 to 2075/76. The average of DPS and MPS is Rs9 and 340 .The standard deviation of dividend per share and market price is 7.7 and 81.82.

The coefficient of correlation between dividend per share and market price per share is -0.30. This shows that DPS and MPS are negatively correlated. This mean both variables move in opposite direction. The technical factors like demand and supply are seen dominant rather than fundamental factors EPS, DPS, DPR, P/E Ratio, EY, and DY.

## E. Kumari Bank

**Table 4.2.2 (a)**

### Correlation between DPS and MPS of Kumari Bank

Year	DPS	MPS
2071/72	16	380
2072/73	21	-
2073/74	12.75	327
2074/75	8.5	199
2075/76	10	220
Average	14	225
Standard Deviation	4.35	83.82
Coefficient of Correlation	0.89	

Source: Annual Report of Sample Bank

The table shows the dividend per share and market price per share from the year 2071/72 to 2075/76. The average of DPS and MPS is Rs14 and 225 .The standard deviation of dividend per share and market price is 4.35 and 83.82.

The coefficient of correlation between dividend per share and market price per share is 0.89. This shows that DPS and MPS are positively correlated. It means both variable moves in same direction. The fundamental factors like EPS, DPS, DPR, P/E Ratio, EY, and DY have major impact on MVPS rather than Demand and supply rumors in market.

## **F. Nepal Investment Bank**

**Table 4.2.2 (a)**

### **Correlation between DPS and MPS of Nepal Investment Bank**

Year	DPS	MPS
2071/72	35	704
2072/73	41	1040
2073/74	40	770
2074/75	40	621
2075/76	19	519
Average	35	730
Standard Deviation	8.27	176
Coefficient of Correlation	-0.25	

Source: Annual Report of Sample Bank

The table shows the dividend per share and market price per share from the year 2071/72 to 2075/76. The average of DPS and MPS is Rs35 and Rs730 .The standard deviation of dividend per share and market price is 8.27 and 176.

The coefficient of correlation between dividend per share and market price per share is -0.25. This shows that DPS and MPS are negatively correlated. This mean both variables move in opposite direction. The technical factors like demand and supply are seen dominant rather than fundamental factors EPS, DPS, DPR, P/E Ratio, EY, and DY.

### **4.3 Major Findings of the Study**

- i. The market price has the variability during study period. NSC Bank has high average Market Price of Rs 1855 and KB has the lowest market price of 301. The high market price shows the NSCB has the better performance than others.

- ii. The overall profit of the company from the view of ordinary shareholders is the EPS. The Nabil Bank has the high average of 55.75 followed by NSCB with 39.31.
- iii. KB has minimum S.D. of DPS i.e.4.35 whereas NIBL has minimum S.D. of EPS i.e. 3.31.
- iv. For FY 2073/74 Nabil bank EPS is Rs 59.86 this mean that if Nabil distributed every Rs of income to shareholders each share will receive 59.86 rupee. The better the earning, the better is the performance.
- v. There is fluctuation in the dividend per share. NSCB shows high dividend of Rs 45 whereas NB shows the lowest of all i.e. Rs3. The investors who is eager to invest for the long term chooses the company with high dividend and one which provide high dividend has high price of share.
- vi. All the banks have the healthy and positive P/E multiples. Earning and price relation shows the mixed behaviors. Bank like NSCB has the highest P/E multiple among the entire sample banks i.e.45.38 which shows a good performance due to their managerial efficiency and professional management whereas Kumari Bank has low P/E ratio with average P/E ratio of 15.31. P/E multiple always does not provide the clear picture for the price of stock. Investors should always look for consistent P/E multiple rather than highest P/E multiple. The banks having less C.V. has more consistency i.e. NIBL.
- vii. Among the sample Banks, NSCB has the highest average dividend payout ratio of 117.58. NB has the least dividend payout ratio of 11.15. A low payout ratio can signal that banks are reinvesting the bulk of its earnings into growing the business. A payout ratio over 100% indicates that the bank is paying out more in dividends than it is earning. Study shows NSCB pays 117.58 percent of net profit to shareholder on average.
- viii. The earning yield, which measures the yield of outstanding stock of Nepal Bank, is the highest of all selected samples banks, which was 8.96% .Similarly the lowest average earning yield was registered by NSCB with 2.76%. However, each banks has good earning yield which is one of the reason why banking sectors is dominating the stock market. On the other hand, the dividend yield, which measures the return of each outstanding stock, is irregular. Although all the sample banks have satisfactory earning yield but the dividend yield is very low. The entire Bank retained maximum or all amount of earning for future investment. The highest

dividend yield is 4.68% of NIBL while the dividend yield of NB is the lowest with 0.9%.

- ix. The market value to book value that shows the efficiency of stock price in market than the book. In this regard, all the selected samples have ratio greater than 1. This shows the market price of banks is exceeding their book values i.e. they are overvalued. NSCB seems best among all selected samples with 7.30 ratios and lowest ratio is of Kumari Bank with 2.08 times which can be considered good.
- x. The coefficient of correlation between DPS and MPS shows mixed pattern. The degree of correlation between the DPS and MPS of KB is the highest with 0.89 that is if DPS increases by 100% the MPS also increases by 89%. However some of the banks have negatively correlated DPS and MPS. NB, NCC, NIBL have negative correlation this mean MPS and DPS moves in opposite direction. This happen only when the technical factors overcomes the fundamentals factors.
- xi. The coefficient of correlation between EPS and MPS shows mixed equation .The degree of correlation between EPS and MPS of NABIL is the highest with 0.82.It indicates that if the EPS increases by 100%, the MPS will also increases by 82% and vice- versa. However some of the banks have negatively correlated EPS and MPS. NCC and NIBL banks have negative correlation .this means that technical factors overcome the fundamental factors.

## CHAPTER-5

### CONCLUSION

#### 5.1 Discussion

This research attempts to analyze the stock price behavior of listed banks in Nepal. This chapter deals with discussion conclusions and implication.

The banks who declares low or no dividend shows the low market price as it re confirmed the previous finding. Previous study shows the positive correlation between the dependent and independent variables however this thesis study shows both positive and negative correlation between the variables. Which means previous study result goes with the fundamental factors like financial statement of banks and there was no affect of technical factors. However fundamental variables have not documented consistent result. And these thesis fundamental variables are also not consistent with FY.

Basnet (2007) concludes that banks having higher dividend have higher market price, the same result have been reconfirmed by this study. The banks NSCB and Nabil pays highest dividend and they also have the highest market value among sampled population. Joshi (2012) shows the DPS more influencing than R/E however in this study EPS seems to be dominant in influencing variables.

As previous study shows the market value of stock are more than 1 its means its exceed book value i.e. the banks stocks are overvalued same result goes with this study too, taken sample banks are overpriced.

All the data used in the study are secondary data published by and collected from the annual reports of respective banks. The data gathered for this purpose are presented in tables and bar diagram as in previous study.

#### 5.2 Conclusions

The result documented in this study shows the relationship between MVPS with EPS and DPS. The coefficient of correlation between DPS and MPS shows mixed pattern. The degree of correlation between the DPS and MPS of KB is the highest with 0.89 that is if DPS increases by 100% the MPS also increases by 89%. However some of the banks have negatively correlated DPS and MPS. NB, NCC, NIBL have negative correlation this mean MPS and DPS moves in opposite direction. This happens only

when the technical factors overcomes the fundamentals factors.. The degree of correlation between EPS and MPS of NABIL is the highest with 0.82. It indicates that if the EPS increases by 100%, the MPS will also increases by 82% and vice- versa. However some of the banks have negatively correlated EPS and MPS. NCC and NIBL banks have negative correlation. This means the relationship between EPS and DPS is influenced by the moderating variables. The moderating variables may include macro factors. EPS has high degree correlation with MVPS so we conclude among two financial indicators i.e. EPS and DPS, EPS is more influencing variable.

P/E Ratio is important indicators of the performance of stock market. The consistency in P/E ratio is more important than having higher P/E ratio. NIBL is good to choose regarding the P/E ratio.

From the secondary data analysis it is revealed that, pricing behavior differs from bank to bank. Even though DPS, EPS with MVPS jointly have significant effect on the share price, individually they do not have consistent relationship with MVPS. It means that there may be other major factors influencing and determining the share price significantly. So both the technical and fundamental factors should be considered during stock price behavior.

Furthermore comparing the finding with industry average; the industry averages have EPS of 26.38. From this site NB, NSCB, Nabil, NIBL are above average with 31.56, 39.31, 55.75 and 30 respectively. Nabil is leading the industry. However, KB and NCC are below average with 17.08 and 20.11 respectively. In term of DPS the industry average is 19.26. From this site we see NSCB, Nabil, and NIBL are above average with 45, 40, and 35 respectively. NSCB is leading the industry. However, NB, KB, NCC are below average with 3, 14, and 9 respectively.

The stock market of Nepalese Banks is in increasing trends. The result of the study concludes that EPS and DPS with MVPS show more significant determinants of commercial banks in Nepal. The effects of these variables on stock price are consistent and statistically significant.

### **5.3 Implication**

After analyzing the price behaviors of stock market with the help of various literatures, relevant data, financial tools and techniques following implication can be outlined.

- i. Investors must consider on high market price and consistence P/E Ratio before making an investment if they want to get maximum benefit from the investment i.e., investors can choose NSCB and NIBL .
- ii. Banks with below industry average must take necessary steps.
- iii. Financial information must be published regularly so that existing as well as prospective investors are informed about the changes that take place.
- iv. The price of stock widely depends upon EPS, DPS. The Nepalese stock market authorities take some effective initiative to control the random fluctuation of EPS and DPS due to monitoring variables and establish the system of regular monitoring and evaluation of stock price.
- v. The stock exchange should be investors focused and market oriented along with strong operation with effective management.
- vi. Buying and selling procedures of shares should be systematic, fast and less time consuming.
- vii. The regulatory body should regulate and discourage any negative rumors that may affect the price of stock. The behaviors of stock price should be free and fair without any manipulation.
- viii. The investors should analyze all the aspects & factors that may affect the price of share before investing in any Banks share. The government should make proper arrangement for general public so that they can get accurate and expert's analysis the financial positions of any banks and also risk involved.
- ix. The company should have close monitoring system to check the behaviors of stock price and should make an effort to uplift the market price than its competitors.
- x. The positive relation of EPS and DPS show the better performance of the banks and invests should be done in high correlated variables banks. However negative correlation shows technical factors like demand and supply affecting on stock prices.

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<a href="http://www.nccbank.com">www.nccbank.com</a>	-	Nepal Credit and Commerce Bank Limited
<a href="http://www.kumaribank.com">www.kumaribank.com</a>	-	Kumari Bank Limited
<a href="http://www.niblcom.np">www.niblcom.np</a>	-	Nepal Investment Bank Limited.

**APPENDIX 1****EPS of the Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	7.48	44.59	38.77	39.98	26.99	31.56
NSCB	57.38	45.96	35.49	27.33	30.39	39.31
NABIL	57.24	59.27	59.86	51.84	50.57	55.75
KB	16.24	26.53	13.29	14.54	14.81	17.08
NCCB	17.17	30.08	14.02	23.51	15.77	20.11
NIBL	30.9	29.3	29.9	35.7	26.4	30

Source: Annual Report of Sample Banks

**APPENDIX- 2****DPS of the Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	-	-	-	-	15	3
NSCB	44.21	35.09	105.26	17.5	22.5	45
NABIL	36.84	45	48	34	34	40
KB	11	21	12.75	8.5	10	14
NCCB	16	-	-	15.89	15	9
NIBL	34.7	41	40	40	19	35

Source: Annual Report of Sample Banks

**APPENDIX-3****DPR of the Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	-	-	-	-	55.75	11.15
NSCB	77.04	76.34	296.5	64	74	117.58
NABIL	64.36	75.92	80.14	65.58	67.23	70.64
KB	67.73	79.15	95.93	58.45	67.52	73.75
NCCB	93.18	-	-	67	95.11	51.17
NIBL	112.29	140	136	112	71.9	114.43

Source: Annual Report of Sample Banks

**APPENDIX-4****P/E Ratio of Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	40.78	10.54	9.39	7.03	12.45	16.03
NSCB	33.86	78.33	64.67	27.62	22.44	45.38
NABIL	33.37	39.55	25.94	18.6	17.01	26.9
KB	23.41	-	24.61	13.68	14.85	15.31
NCCB	26.73	12.07	27.32	8.72	15.6	18.08
NIBL	22.78	35.49	26.27	17.39	19.65	24.31

Source: Annual Report of Sample Banks

**APPENDIX-5****Earning Yield of Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	2.45	9.48	10.65	14.22	8.12	8.96
NSCB	2.95	1.27	1.54	3.61	4.45	2.76
NABIL	2.99	2.52	3.93	5.62	6.32	4.27
KB	4.27	-	4.06	7.3	6.73	4.47
NCCB	3.74	8.28	3.66	9.4	6.41	6.29
NIBL	4.38	2.81	3.8	5.74	5.08	4.36

Source: Annual Report of Sample Banks

**APPENDIX-6****Dividend Yield of Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	-	-	-	-	4.46	0.9
NSCB	2.27	0.97	4.58	2.31	3.29	2.68
NABIL	1.92	1.91	3.15	3.69	4.25	2.98
KB	2.89	-	3.89	4.27	4.54	3.11
NCCB	3.48	-	-	6.35	6.09	3.18
NIBL	4.92	3.94	5.2	6.44	3.66	4.68

Source: Annual Report of Sample Banks

**APPENDIX-7****MVPS/BVPS of Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	5.14	4.52	2.55	0.98	1.344	2.9
NSCB	7.33	13.43	7.75	4.33	3.66	7.3
NABIL	7.37	9.6	5.64	3.59	3.11	5.86
KB	2.34	2.75	2.19	1.47	1.67	2.08
NCCB	3.64	2.32	2.5	1.38	1.43	2.26
NIBL	4.54	5.55	4.375	2.65	2.60	3.94

Source: Annual Report of Sample Banks

**APPENDIX-8****MVPS of Sample Banks**

Year / Banks	2071/72	2072/73	2073/74	2074/75	2075/76	Average
NB	305	470	364	281	336	351.2
NSCB	1943	3600	2295	755	682	1855
NABIL	1910	2344	1523	921	800	1499.6
KB	380	380	327	199	220	301.2
NCCB	459	363	383	250	246	340.2
NIBL	704	1040	770	623	519	731.2

Source: Annual Report of Sample Banks

## APPENDIX- 9

## Standard Coefficient &amp; Correlation between MVPS and Dividend of the sample banks

## APPENDIX- 9A

## Nepal Bank

Year	DPS (X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	xy
2071/72	0	305	-3	-46	9	2116	138
2072/73	0	470	-3	119	9	14161	-357
2073/74	0	364	-3	13	9	169	-39
2074/75	0	281	-3	-70	9	4900	210
2075/76	15	336	12	-15	144	225	-180
Total	15	1756			180	21571	-228

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{15}{5} = 3$$

$$\text{Mean } (Y) = \frac{\sum Y}{N} = \frac{1756}{5} = 351$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{180}{5}} = 6$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{21571}{5}} = 65.68$$

$$\text{Coefficient of Correlation} = r(X, Y) = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

$$= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{-228}{\sqrt{180} \sqrt{21571}} = -0.62$$

## APPENDIX- 9B

## Nepal Standard Chartered Bank

Year	DPS (X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	xy
2071/72	44	1943	-1	88	1	7744	88
2072/73	35	3600	-10	1745	100	3045025	17450
2073/74	105	2295	60	440	3600	193600	26400
2074/75	18	755	-27	-1100	729	121000	29700
2075/76	23	682	-22	-1173	484	1375929	25806
Total	225	9275			4914	5832298	64368

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{225}{5} = 45$$

$$\text{Mean } (Y) = \frac{\sum Y}{N} = \frac{9275}{5} = 1855$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{914}{5}} = 31$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{2916149}{5}} = 1707.6$$

$$\text{Coefficient of Correlation} = r(X, Y) = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

$$= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{64368}{\sqrt{4914} \sqrt{5832298}} = 0.38$$



## APPENDIX- 9C

## Nabil Bank

Year	DPS (X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	xy
2071/72	37	1910	-3	410	9	168100	-1230
2072/73	45	2344	5	844	25	712336	4220
2073/74	48	1523	8	23	64	529	184
2074/75	34	921	-6	-579	36	335241	3474
2075/76	34	800	-6	-700	36	490000	4200
Total	198	7498			170	1706206	10848

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{198}{5} = 40$$

$$\text{Mean } (Y) = \frac{\sum Y}{N} = \frac{7498}{5} = 1500$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{170}{5}} = 6$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{1706206}{5}} = 584$$

$$\text{Coefficient of Correlation} = r(X, Y) = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

$$= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{10848}{\sqrt{170} \sqrt{1706206}} = 0.63$$

## APPENDIX- 9D

## Kumari Bank

Year	DPS (X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	xy
2071/72	16	380	2	79	4	6241	158
2072/73	21	380	7	79	49	6241	553
2073/74	12.75	327	-1	26	1	676	-26
2074/75	8.5	199	-5	-102	25	10404	510
2075/76	10	220	-4	-81	16	6561	324
Total	68.25	1506			95	30123	1519

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{68.25}{5} = 14.0$$

$$\text{Mean } (Y) = \frac{\sum Y}{N} = \frac{1506}{5} = 301$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{95}{5}} = 4.35$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{30123}{5}} = 77.61$$

$$\begin{aligned} \text{Coefficient of Correlation} = r(X, Y) &= \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}} \\ &= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{1519}{\sqrt{95} \sqrt{30123}} = 0.89 \end{aligned}$$

## APPENDIX 9E

## NCC Bank

Year	DPS (X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	xy
2071/72	16	459	7	119	49	14161	833
2072/73	0	363	-9	23	81	529	-207
2073/74	0	383	-9	43	81	1849	-387
2074/75	16	250	7	-90	49	8100	-630
2075/76	15	246	6	-94	36	8836	-564
Total	47	1701			296	33475	-955

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{47}{5} = 9.4$$

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{1701}{5} = 340.2$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{296}{5}} = 7.7$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{33475}{5}} = 81.82$$

$$\begin{aligned} \text{Coefficient of Correlation} = r(X, Y) &= \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}} \\ &= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{-955}{\sqrt{296} \sqrt{33475}} = -0.30 \end{aligned}$$

## APPENDIX- 9F

## NIBL Bank

Year	DPS (X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	xy
2071/72	35	704	0	-26	0	676	0
2072/73	41	1040	6	310	36	96100	1860
2073/74	40	770	5	40	25	1600	200
2074/75	40	621	5	-109	25	11881	-545
2075/76	19	519	-16	211	256	44521	-3376
Total	175	3654			342	154778	-1861

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{175}{5} = 35$$

$$\text{Mean } (Y) = \frac{\sum Y}{N} = \frac{3654}{5} = 730$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{342}{5}} = 8.27$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{154778}{5}} = 176$$

$$\text{Coefficient of Correlation} = r(X, Y) = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

$$= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{-1861}{\sqrt{342} \sqrt{154778}} = -0.25$$

## APPENDIX 10

**Standard Coefficient & Correlation between MVPS and Earning of Sample Banks**

## APPENDIX- 10A

## Nepal Bank

Year	EPS(X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	x y
2071/72	7	305	-25	-46	625	2116	1150
2072/73	45	470	13	119	169	14161	1547
2073/74	39	364	7	13	49	169	91
2074/75	40	281	8	-70	64	4900	-560
2075/76	27	336	-5	-15	25	225	75
Total	158	1756			932	21571	2303

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{158}{5} = 32$$

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{1756}{5} = 351$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{932}{5}} = 13.65$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{4314.2}{5}} = 65.67$$

$$\begin{aligned} \text{Coefficient of Correlation} = \gamma(X, Y) &= \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}} \\ &= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{2303}{\sqrt{932} \sqrt{21571}} = 0.51 \end{aligned}$$

## APPENDIX- 10B

## Nepal Standard Chartered Bank

Year	EPS(X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	$x y$
2071/72	57	1943	18	88	324	7744	1584
2072/73	46	3600	7	1745	49	3045025	12215
2073/74	35	2295	-4	440	16	193600	-1760
2074/75	27	755	-12	-1100	144	1210000	13200
2075/76	30	682	-9	-1173	81	1375929	10557
Total	195	9275			614	5832298	35796

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{195}{5} = 39$$

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{9275}{5} = 1855$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{614}{5}} = 11.08$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{5832298}{5}} = 1707.6$$

$$\begin{aligned} \text{Coefficient of Correlation} = r(X, Y) &= \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}} \\ &= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{35796}{\sqrt{614} \sqrt{5832298}} = 0.59 \end{aligned}$$

## APPENDIX- 10C

## Nabil Bank

Year	EPS(X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	x y
2071/72	57	1910	1	410	1	168100	410
2072/73	59	2344	3	844	9	712336	2532
2073/74	60	1523	4	23	16	4529	92
2074/75	52	921	-4	-579	16	335241	2316
2075/76	51	800	-5	-700	25	490000	3500
Total	280	7498			67	1706206	8850

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{280}{5} = 56$$

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{7498}{5} = 1500$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{67}{5}} = 3.66$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{1706206}{5}} = 584$$

$$\begin{aligned} \text{Coefficient of Correlation} = r(X, Y) &= \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}} \\ &= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{8850}{\sqrt{67} \sqrt{1706206}} = 0.82 \end{aligned}$$

## APPENDIX- 10D

## Kumari Bank

Year	EPS(X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	$x y$
2071/72	16	380	-1	79	1	6241	-79
2072/73	27	380	10	79	100	6241	790
2073/74	13	327	-4	26	16	676	-104
2074/75	15	199	-2	-102	4	10404	204
2075/76	15	220	-2	-81	4	6561	164
Total	86	1506			125	30123	975

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{86}{5} = 17$$

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{1506}{5} = 301$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{125}{5}} = 5$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{30123}{5}} = 77.61$$

$$\begin{aligned} \text{Coefficient of Correlation} = r(X, Y) &= \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}} \\ &= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{975}{\sqrt{125} \sqrt{30123}} = 0.50 \end{aligned}$$



## APPENDIX- 10E

## NCC Bank

Year	EPS(X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	$x y$
2071/72	17	459	-3	119	9	14161	-357
2072/73	30	363	10	23	100	529	230
2073/74	14	383	-6	43	36	1809	-258
2074/75	24	250	4	-90	16	8100	-360
2075/76	16	246	-4	-94	16	8836	-376
Total	101	1701			177	33475	-369

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{101}{5} = 20$$

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{1701}{5} = 340$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{101}{5}} = 5.95$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{33475}{5}} = 81.82$$

$$\text{Coefficient of Correlation} = r(X, Y) = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

$$= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{-369}{\sqrt{177} \sqrt{33475}} = -0.15$$

## APPENDIX- 10F

## NIBL Bank

Year	EPS(X)	MPS (Y)	$X = (X - \bar{X})$	$Y = (Y - \bar{Y})$	$x^2$	$y^2$	$x y$
2071/72	31	704	1	-26	1	676	-26
2072/73	29	1040	-1	310	1	96100	-310
2073/74	29	770	-1	40	1	1600	-40
2074/75	36	623	6	-109	36	11881	-654
2075/76	26	519	-4	211	16	4452	-844
Total	151	3654			55	154778	-1874

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{151}{5} = 30$$

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{3654}{5} = 730$$

$$\text{Standard Deviation } (X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{\sqrt{N}} = \sqrt{\frac{x^2}{N}} = \sqrt{\frac{55}{5}} = 3.31$$

$$\text{Standard Deviation } (Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{\sqrt{N}} = \sqrt{\frac{y^2}{N}} = \sqrt{\frac{154778}{5}} = 175.94$$

$$\begin{aligned} \text{Coefficient of Correlation} = r(X, Y) &= \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}} \\ &= \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{-1874}{\sqrt{55} \sqrt{154778}} = -0.64 \end{aligned}$$

## APPENDIX 11

### Coefficient of Variance of Sample Banks

#### A. Nepal Bank

Step 1: calculate mean

$$\begin{aligned} \text{Mean} &= (40.78+10.54+9.39+7.03+12.45)/5 \\ &= 16.03 \end{aligned}$$

Step 2: calculate standard deviation

$$\begin{aligned} &= \sqrt{(1/(5-1)) * (40.78-16.03)^2 + (10.54-16.03)^2 + (9.39-16.03)^2 + (7.03-16.03)^2 + (12.45-16.03)^2} \\ &= \sqrt{(1/4) * 781.74} \\ &= \sqrt{195} \\ \sigma &= 13.96 \end{aligned}$$

Step 3: calculate coefficient of variance

$$\begin{aligned} \text{CV} &= (\text{Standard Deviation } (\sigma) / \text{Mean } (\mu)) \\ &= 13.96 / 16.03 \\ &= 0.87 \end{aligned}$$

#### B. Nepal Standard Chartered Bank

Step 1: calculate mean

$$\begin{aligned} \text{Mean} &= (33.86+78.33+64.67+27.62+22.44)/5 \\ &= 45.38 \end{aligned}$$

Step 2: calculate standard deviation

$$\begin{aligned} &= \sqrt{(1/(5-1)) * (33.86-45.38)^2 + (78.33-45.38)^2 + (64.67-45.38)^2 + (27.62-45.38)^2 + (22.44-45.38)^2} \\ &= \sqrt{(1/4) * 2432.16} \\ &= \sqrt{608.04} \\ \sigma &= 24 \end{aligned}$$

Step 3: calculate coefficient of variance

$$\begin{aligned}
 CV &= (\text{Standard Deviation } (\sigma) / \text{Mean } (\mu)) \\
 &= 24 / 45.38 \\
 &= 0.52
 \end{aligned}$$

### **C. Nabil Bank**

Step 1: calculate mean

$$\begin{aligned}
 \text{Mean} &= (33.33+39.55+25.94+18.6+17.01)/5 \\
 &= 26.9
 \end{aligned}$$

Step 2: calculate standard deviation

$$\begin{aligned}
 &= \sqrt{((1/(5 - 1)) * (33.37-26.9)^2 + (39.55-26.9)^2 + (25.94-26.9)^2 + (18.6-26.9)^2 + (17.01-26.9)^2)} \\
 &= \sqrt{(1/4) * 369.5)} \\
 &= \sqrt{92.37} \\
 \sigma &= 9.61
 \end{aligned}$$

Step 3: calculate coefficient of variance

$$\begin{aligned}
 CV &= (\text{Standard Deviation } (\sigma) / \text{Mean } (\mu)) \\
 &= 9.61 / 26.01 \\
 &= 0.35
 \end{aligned}$$

### **D. Kumari Bank**

Step 1: calculate mean

$$\begin{aligned}
 \text{Mean} &= (23.41+24.61+13.68+14.85)/5 \\
 &= 15.31
 \end{aligned}$$

Step 2: calculate standard deviation

$$\begin{aligned}
 &= \sqrt{((1/(5 - 1)) * (23.41-15.31)^2 + (24.61-15.31)^2 + (13.68-15.31)^2 + (14.85-15.31)^2)} \\
 &= \sqrt{(1/4) * 155)} \\
 &= \sqrt{38} \\
 \sigma &= 6.16
 \end{aligned}$$

Step 3: calculate coefficient of variance

$$\begin{aligned}
 CV &= (\text{Standard Deviation } (\sigma) / \text{Mean } (\mu)) \\
 &= 6.16 / 15.31 \\
 &= 0.40
 \end{aligned}$$

### **E. NCC Bank**

Step 1: calculate mean

$$\begin{aligned}
 \text{Mean} &= (26.73+12.07+27.32+8.72+15.6)/5 \\
 &= 18.08
 \end{aligned}$$

Step 2: calculate standard deviation

$$\begin{aligned}
 &= \sqrt{((1/(5 - 1)) * (26.73-18.08)^2 + (12.07-18.08)^2 + (27.32-18.08)^2 + (8.72-18.08)^2 + (15.6-18.08)^2)} \\
 &= \sqrt{(1/4) * 304.06)} \\
 &= \sqrt{76} \\
 \sigma &= 8.71
 \end{aligned}$$

Step 3: calculate coefficient of variance

$$\begin{aligned}
 CV &= (\text{Standard Deviation } (\sigma) / \text{Mean } (\mu)) \\
 &= 8.71 / 18.08 \\
 &= 0.48
 \end{aligned}$$

### **F. NIBL Bank**

Step 1: calculate mean

$$\begin{aligned}
 \text{Mean} &= (22.78+35.49+26.27+17.39+19.65)/5 \\
 &= 24.31
 \end{aligned}$$

Step 2: calculate standard deviation

$$\begin{aligned}
 &= \sqrt{((1/(5 - 1)) * (22.78-24.31)^2 + (35.49-24.31)^2 + (26.27-24.31)^2 + (17.39-24.31)^2 + (19.65-24.31)^2)} \\
 &= \sqrt{(1/4) * 201)} \\
 &= \sqrt{50.24} \\
 \sigma &= 7
 \end{aligned}$$

Step 3: calculate coefficient of variance

$$CV = (\text{Standard Deviation } (\sigma) / \text{Mean } (\mu))$$

$$= 7 / 24.31$$

$$= 0.29$$

**COMMON STOCK PRICE BEHAVIOR OF COMMERCIAL BANKS IN  
NEPAL**

**A Thesis Proposal**

**By**

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## **1. Background of Study**

Common stock is a security that represents ownership in a corporation. Holders of common stock elect the board of directors and vote on corporate policies. This form of equity ownership typically yields higher rates of return long term. However, in the event of liquidation, common shareholders have rights to a company's assets only after bondholders, preferred shareholders, and other debt holders are paid in full. Common stock is reported in the stockholder's equity section of a company's balance sheet. With common stock, if a company goes bankrupt, the common stockholders do not receive their money until the creditors, bondholders, and preferred shareholders have received their respective share. This makes common stock riskier than debt or preferred shares (Investopedia).

The security market plays an important role in mobilizing savings and channeling them into productive investment for the development of commerce and industry in the country. It assists the capital formation and economic growth in the country. But, the Nepalese securities market still is in growing stage. Its further development is crucial. There are two approaches of predicting stock price behavior: the technical analysis and fundamental analysis. Briefly, technical analysis explains and forecasts changes in security prices by studying the market data. The technical analysts believe that the forces of supply and demand are reflected in the patterns of price and volume of trading while fundamental analysts do that economic environment and earning power are reflected in the pattern of market prices (Fischer and Jordan 2000).

Technicians predict the stock price behavior by analyzing the pattern of price and volume of trading. But the fundamentalists predict the stock price behavior by analyzing earning power and the economic environment in the risk-return framework. The fundamentalists believe that at any point in time every share has an intrinsic value which should be in principle be equal to the present value of the future stream of income from that share discounted at an appropriate risk related rate of interest (Bhalla, 1999).

Thus, the actual price of the security is considered a function of a set of anticipated capitalization rate. In Nepal, the major constituent of the securities market is the shares of commercial Banks and behavior of price of commercial banks influences the Nepal Stock Exchange (NEPSE) index.

## **2. Problem of Statement and Research Question**

Basically stock price is determined by demand and supply. Both the qualitative and quantitative factors determine the stock price. However, to specify exactly what factors do determine stock price is a controversial/unpredictable issue. Share price is the function of the several factors. The stock price fluctuates time to time and stock exchanges react to the environmental changes. However, for some environmental changes, the stock exchanges have no effect. This study tries to identify the determinants of stock price and find out the degree of affection of those determinants (Fisher, 2004).

More specifically, this study is expected to answer the following research questions.

- iii. What is the relationship between EPS, DPS, with MVPS of commercial banks?
- iv. What are the financial indicators of sampled banks?

## **3. Purpose of the Study**

This study aims to identify the factors responsible for determinants of stock price and their relationship with the EPS and DPS, so that it will give a better insight into the behavior of stock price. Furthermore, this study is proposed to meet the following objectives.

- iii. To identify the relationship between EPS, DPS with MVPS of commercial banks.
- iv. To examine the financial indicators.

## **4. Significance of the Study**

The main significance of this study is to examine the stock price behaviors. This study helps for future research on the area of behavior of common stock price of commercial banks by providing relevant and pertinent literature. This study makes aware to the investors before investing in stock of any banks.

The listed banks can be aware about them and will take necessary steps for improvement. Those who are engaged in the field of financial management like shareholders, promoters, analysis, investors, policy makers etc, can be benefited from this research study.

## 5. Limitations of the Study

This study tries to explore the factors determining the stock price of commercial banks. Only secondary data are analyzed. However, this study may face the following limitations during the course of research.

- vi. This study has been based on secondary sources of data i.e. annual reports of respective commercial banks.
- vii. The study is based on six commercial banks only.
- viii. There are various financial indicators, however only EPS and DPS are taken under study.
- ix. Moderating variables are not taken in study.
- x. The study covers a period of only five fiscal years (2071/72 to 2075/76).

## 6. Review of Literature

**A literature review is a comprehensive summary of previous research on a topic. The literature review surveys scholarly articles, books, and other sources relevant to a particular area of research.** The review should enumerate, describe, summarize, objectively evaluate and clarify this previous research. It should give a theoretical base for the research and help you (the author) determine the nature of your research. The literature review acknowledges the work of previous researchers, and in so doing, assures the reader that your work has been well conceived. It is assumed that by mentioning a previous work in the field of study, that the author has read, evaluated, and assimilated that work into the work at hand.

The purpose of this chapter is to find out what research studies have been conducted in one's chosen field of study, and to have some ideas for developing a research design. Thus, the previous studies cannot be ignored because they provide the foundation for the present study. In other words, there has to be continuity to research. This continuity is emerged by linking the present study with past research studies. Thus, various books, journal and articles concerned to this topic have been reviewed

### Common Stock

Common stock is the basic form of ownership in a company. People who hold common stock have a claim on the assets of a firm after those of preferred stock holders and bond holders. Common stock holders of a corporation are its residual owners, their claim to income and assets comes after creditors and assets preferred stockholders have

been paid in full. As a result, a stockholders return on investment is less certain than the return to a lender or to be a preferred stockholder. On the other hand, the return to a common stock holder is not bounded on the upside, as are return to the others .A share of common stock can be authorized either with or without par value. A par value of stock is merely a stated figure in the corporate charter and is of little economic significance. A company should not issue stock at a price less than par value, because stockholders who bought stock for less than par value would be liable for the difference between below the par price they paid and the par value.

The founder of a corporation obtain a corporate charter from the state, have shares of common stock printed, and sell the shares to as many different people as they wish in order to raise the capital to start the new business .Thus, common is always the first security issued by every new corporation.

Common stockholders have a residual claim on the earnings and assets of the corporation. This means that the law requires corporation first to pay employees wages, suppliers bills, and bondholders' interest; then, after all other bills are paid, and the common stock holders share in whatever earnings or losses are left. Also, if the corporation comes to its demise in bankruptcy, the law says that all liability must be paid first from the assets and then whatever remains is divided to the common stockholders.

Common stockowners enjoy certain advantage from their investment .First, they enjoy limited liability, and that is, if the corporation goes bankrupt and does not have enough assets to pay all of its bills, the common stockowners cannot be forced to participate in the payout of unpaid bills. Second, stockholders enjoy unlimited participants in the firm's profit if earning becomes highly lucrative. Third, shares of common stock are marketable securities designed to be bought and sold with ease. Finally, only common stockowners are entitled to vote at the stockholder's meeting of the corporation. Thus, stockholders have a voice in management.

Basnet (2007) concluded that market price per share (MPS) is well explained by dividend and retained earnings. It further concluded that the high prices of the stocks of financial institutions are the high dividend offered by this sector.

Adhikari (2009) found that dividend announcement does convey some significant information and the market tries to adjust itself to new pieces of information as and when they become available. There is positive return following the announcement of cash dividend.

K.C. (2009) revealed that book-to-market equity is the most significant positive determinants of stock returns in Nepalese stock market.

Joshi (2012) found that the impact of dividends is more pronounced than that of retained earnings in the context of Nepal. Dividend has a significant effect on market stock price in both banking and non-banking sector.

To sum up, the studies on fundamental variables have not documented consistent results. Some of these studies found that fundamental characteristics associated with Firms are significant in explaining the common stock returns where others do not. Not only the little is known in Nepalese context but also the effect of such fundamental Variables vary across the studies as in the case of developed capital markets.

## **7. Methodology**

This chapter deals with the methodology of research. An attempt is made to present a basic frame of methodology with in which the research will be conducted. This chapter simply deals with short introduction to financial parameters used in this study and short description of techniques that are used in the time of research and also about Research design, Sources and Nature of Data, Sampling Methods used, and financial and Statistical tools used for the data analysis.

### **7.1 Research Design**

Research design is defined as a framework of methods and techniques chosen by a researcher to combine various components of research in a reasonably logical manner so that the research problem is efficiently handled. This study has been based on the data extracted from the annual reports of sample banks. The data are taken from 2071/72 to 2075/76 B.S. the descriptive research has been used for this study. Secondary data is used the research design taken from their sources.

### **7.2 Population and Sample**

The population of this study is selected commercial banks. Out of 27 commercial banks 3 are private commercial banks, 2 Joint venture banks and 1 government bank is selected. While selecting the bank for the study convenience sampling technique has

been adopted. Convenience sampling is a type of non-probability sampling that involves the sample being drawn from that part of population that is close to hand. Although, there are some limitations, convenience sampling can be used by almost anyone and has been around for generation. One of the reasons that it is most often used is due to the numerous advantages it provides. This method is extremely speedy, easy, readily available and cost effective, causing it to be an attractive option to most attractive option to most researchers (Dusovski, 2018).

The banks are selected in the ratio of 3:2:1 of commercial bank, joint venture bank and government banks respectively.

Commercial banks as Nepal investment bank, Nepal credit and commerce bank, and kumari bank. Joint venture banks as Nabil bank and Standard chartered bank. Government bank is Nepal Bank Limited.

### **7.3 Sources of Data**

This research study is primarily based on secondary data. Most of the data related to thesis are from annual report of sampled banks.

### **7.4 Data collection procedure**

Secondary data are downloaded from concerned banks websites.

### **7.5 Data Analysis Tool**

Once the data have been collected from various sources, it needs to be analyzed properly, to get solution to the research problem. The collected data has no meaning, if they are not properly analyzed. So, to have analyzed the data, different statistical and financial tools have been used in this research. The statistical tools are arithmetic mean, S.D., C.V., correlation. And financial tools are EPS, DPS, DPR, EY, DY, and MVPS/BVPS.

## **8. Chapter Plan**

This study has been organized into five chapters. The heading of the chapters are:

**Chapter 1:** This chapter is the introductory part of the study. It describes the background, introduction, and statement of problem, research question, significance of study, and limitation of study, objective of study and chapter plan.

**Chapter 2:** This chapter is concerned with the literature review this chapter deals with the historical aspect as the conceptual understanding of financial statement. The past studies have been reviewed in brief some of the journals ad reports have been reviewed too.

**Chapter 3:** This chapter deals about the methodology of research used for the study. This chapter deals about research design, population and sample sources of data collection technique and tools of data analysis.

**Chapter 4:** This chapter has covered the presentation and analysis of data with presentation charts figures and other statistical tools mathematical tools and financial tools. Data are collected from different sources are being presented in meaningful manners as per the demand and need of the study.

**Chapter 5:** This chapter is related to summary, conclusion and implication. The bibliography and appendices are also organized at the end of this research study.

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