# STOCK PRICE FLUCTUATION OF NEPALESE COMMERCIAL BANKS

**A Thesis**

**Submitted**

**By**

**Khagendra Prasad Joshi**

Central Department of Management

Symbol No. 1145/017

T.U Registration No: 7-2-163-1-2010

*Submitted in partial Fulfilment of the Requirements for the Degree of*
**Master of Business Studies (MBS)**

In the

**Faculty of Management**

**Tribhuvan University**

**Kirtipur, Kathmandu**

**December, 2019**

## 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 requirements 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 preparation of this thesis itself has been acknowledged. I certify that all information sources and literature used are indicated in the reference selection of this thesis.

…...……

Khagendra Prasad Joshi

December, 2019

## RECOMMENDATION LETTER

It is certified that thesis entitled **Stock price Fluctuation of Nepalese commercial Banks**submitted by Mr. **Khagendra Prasad Joshi** is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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# APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **Stock price Fluctuation of Nepalese commercial banks** presented by **Khagendra Prasad Joshi**, a candidate for the degree of **Master of Business Studies** (MBS) semester,and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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**Sushil Awale (Lecturer)**

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**Prof. Dr. Ramji Gautam**

Head of the department

Date: ……

## ACKNOWLEDGEMENTS

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A study of this kind would not have been possible without the help of all those who contributed in diverse ways towards its success. Without the continued emotional support provided by my family, I may have not reached the end of this journey. During my studies there were times when work commitments and intermittent stress made me believe that I would not be able to see this journey through. It was during these times, and many others, that their words of encouragement and confidence in my ability gave me the motivation to persist. No words of thanks can adequately express the depth of my appreciation.

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## ABBREVIATIONS

| | | |
|---|---|---|
| Avg | : | Average |
| DPS | : | Dividend Per Share |
| EBL | : | Everest Bank Limited |
| EPS | : | Earnings Per Share |
| FY | : | Fiscal Year |
| MPB | : | Machhapuchchhre Bank Limited |
| MPS | : | Market Price Per Share |
| NABIL | : | Nabil Bank Limited |
| NEPSE | : | Nepal Stock Exchange |
| No | : | Number |
| NWPS | : | Net Worth Per Share |
| P/E | : | Price Earnings |
| r | : | Correlation |
| SCB | : | Standard Chartered Bank |
| SEBON | : | Securities Exchange Board of Nepal |
| SPSS | : | Statistical Package for the Social Science |

## *ABSTRACT*

*Stock markets are the place where savings and investments are allocated effectively which plays a key element for the development of the economy. However, high level of fluctuation may adversely affect the financial system and makes the economy weak. This thesis shows the data of four commercial banks from fiscal year 2013/14 to fiscal year 2017/18. The study use Financial ratios to find out the analyze of MPS with EPS, DPS, NWPS, P/E ratio and Statistical tool to measure mean, standard deviation, correlation and regression analysis also by using SPSS version 23. The topic of stock price fluctuation of commercial bank is very crucial and important to those who are interested on it such as researcher investor etc.*

*It shows the dependent variable MPS has positive relation with independent variables EPS, DPS, NWPS but having negative relation with P/E ratio. There is positive correlation between dependent variable MPS with independent variable EPS, DPS and NWPS but negative correlation between P/E ratio. Finally, the report shows macroeconomic environment is good in Nepal but infrastructure situation, technological readiness, and inefficient labour market are the main issue which should be addressed to make Nepalese investment environment more competitive.*

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# CHAPTER -I

# INTRODUCTION

## 1.1 Background of the Study

Stock market plays a vital and massive role in the economy of any country. It also contributes in the economic development of country by promoting capital formation and raising economic growth. Fluctuation in stock prices are occurs due to the supply and demand forces. Financial intermediaries facilitate the transfer of funds from various sectors. Now days, modern banking institutions have been accepted as one of the most essential machinery to accelerate the pace of economic growth. The most important problem of developing countries is the slow rate of economic development. Economic development generally means development of leading sectors of the economic like agriculture, industry, trade and commerce etc. The development of these Sectors requires regular supply of finance. Finance serves as energy for the economic development and financial institutions serve as reservoir for supplying and controlling the stream of that fuel.

The liberalization of capital markets has been accompanied by the privatization of state-owned enterprises (SOEs). In many developing and emerging market countries, privatization programs have been enacted to stimulate the development of equity markets as well as to increase government revenues and promote economic efficiency. The programs helped expand the size of stock markets and enliven trading activity, as state assets are sold through share offerings, and large privatized firms get listed. They have also increased opportunities for investors to diversify their portfolios, reduced investment risks, and enhanced the depth of equity markets. Mobilization of such resources for investment is certainly a necessary condition for economic take off, but quality of their allocation to various investment projects is an important factor for growth. This is precisely what an efficient stock markets does to the economy (Koirala & Bajracharya, 2003).

The price of a commodity, the economist makes us to believe is determined by the forces of demand and supply in a free economy. Even if we accept the economists' view, what factors influence demand and supply behavior? price? yes, but not all the time , at least there are some other factors. In the securities market, whether the

primary or the secondary market, the price of equity is significantly influenced by a number of factors which include book value of the firm, dividend per share, earnings per share, price earning ratio and dividend cover (Gompers et al.,2003).

Financial market is the where the financial instruments such as share, bonds, debentures etc. are traded. It consists of series of channels through which savings of the community are made available to users of those funds. It provides a forum in which suppliers and demanders of funds can transact business funds directly. Financial market refers to the marketplace where buyers and sellers participate in the trade of financial instruments. Financial assets may take different forms ranging from the long term government bond to the ordinary shares of various companies. Short term finance is known as money market, which is created by a suppliers and demanders of short term funds with maturity of the one year or less than a year. Money market allows firms to borrow funds on short term basis. Long term finance is known as capital market, which created by a suppliers and demanders of long term funds with maturities of more than one year. Capital market allows corporations to gain long term funding. Financial market helps the economy in saving mobilization, investment, national growth, entrepreneurship growth and industrial development (Fama,1965).

Capital market, which refers to the stock exchanges and bond markets where securities are traded, are important element of modern financial systems. Securities are of two types: equity securities such as share in companies, and debt securities which includes bonds and debentures. It enables both individuals and firms to lend their saving to those who need them, and allow companies and government to raise long-term funds. Another important component of financial system is commercial banks that accept deposits and grant credit. Capital market and banks co-exist and constitute the most crucial sources of external financing for individuals, firms, and government. They provide a means of not only distributing risks across the economy, but also of mobilizing and channeling savings (Lindon,1996).

Stock market is an imperative part of the economy of the country. The stock market plays an essential role in the growth of the industry and commerce of the country that eventually affects the economy of the country to an unlimited extent. The stock market is important from both the industry's point of view as well as investor's point

of view. Thus, a rising stock market is the sigh of developing industrial sector and aq growing economy of the country (Ashaolu&Ogunmyiwa,2010).

The principal roles that stock market can perform can be stated as: *First*, stock market work as a vehicle for raising capital for firms. *Second*, stock market can enable investors to diversify their wealth across a variety of assets. *Third*, stock market can perform a screening & monitoring role. *Fourth*, stock markets and other financial intermediaries may function as complements, rather than substitutes and a stock market that function well may have positive externalities for the rest of the financial system.

Share or stock market is major component of the securities market. It is a place where shares of listed companies are traded and transferred from one hand to other hand at fair price through organized brokerage system. It creates and enhances liquidity in securities. As government opened and brought broad financial policies in the process of economic liberalization, various financial and insurance companies in the private sector are established with national and international investment. Stock market plays a significant role in the economy by channeling investment where it is needed. It works as the channel through which the public savings are channelized to industrial and business enterprises. These companies have to issue some of their shares to general public. so, in order to make the public issue more transparent and to facilitate buying and selling of securities in the secondary market, the government has framed law in this regard and established Nepal Stock Exchange(NEPSE) and securities exchange board, which can be considered as the favorable step towards the development of capital market on Nepal.

Banking sector plays a vital role for the country's economic development. Bank is a resource mobilizing institution which accepts deposits from various sources and invests such accumulated resources in the field of agriculture, trade, commerce, industry, tourism etc. Hence, it is clear that the banks are extremely useful and indispensable for a modern community. Thus, bank plays a vital role in the economic development of developing countries like Nepal. Stock price movement has received a great attention from both academicians and practitioners over the last two decades because it can be used as a measure of risk in financial markets. Over recent years, there has been a growth in interest in modeling of time-varying stock return volatility (Shrestha & Subedi, 2016).

### 1.1.1 Development of capital/Security market in Nepal

Nepal has its own history about development of capital market. The history of security market began with the flotation of share by Biratnagar Jute Mill Ltd. and Nepal Bank Ltd. in 1937 AD. The ownership of shares was only within Rana Family. Subsequently the development of capital market remained static. Almost two and half decades later the introduction of the company act in 1964 AD and the first issuance of government bond made in same year through Nepal Rastra Bank to collect the developmental expenditures. It carried 6% interest rate and had the maturity period of five years.

The process of stock market development in the country actually started in 1976 when the government established Securities Exchange Centre (SEC) to deal in government securities-development bonds and national savings bonds, and corporate securities of few companies. The introduction of Security Exchange Act in 1984 provided the systematic and favorable market environment for securities ensuring and protecting the interest of individuals and institutional investors as well as to increase the public participation in various forms and companies (Gurung, 1999).

With the adoption of privatization and economic liberalization policy the process gets further impetus and the financial institution in Nepal grew at a faster pace especially in quantitative terms. Securities exchange centre was established with the objective of facilitating and promoting the growth of capital markets. Before its conversion into Nepal stock exchange, it was only SEC undertaking the job of brokering, underwriting, managing public issues, market making for government bonds and other financial services. In 1993 government divided the SEC into two distinct entities namely Security Board of Nepal (SEBON) and Nepal Stock Exchange Ltd. (NEPSE).

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets. The Governing Board of SEBON is composed of seven members. Government appoints the chairman for tenure of four years. Other members of the Board include the representative from government institutions as well as private institutions.

The major functions of SEBON are:

1. Provide advice to Government on matters related with the development of capital market.

2. Issue necessary securities regulations and directives.
3. Register the securities of public companies.
4. Regulate and systematize the issue, transfer, sale and exchange of registered securities.
5. Issue license to operate stock exchange.
6. Issue license to stock broker, dealer, merchant banker and fund manager.
7. Issue license to Depository Company, depository participant and credit rating agency.
8. Register mutual funds, grant permission to operate collective investment schemes, and supervise and monitor them.
9. Approve the bye-laws of stock exchange and Depository Company.
10. Take necessary actions to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
11. Establish coordination and exchange cooperation with appropriate agencies in order to supervise and regulate matters concerning securities or companies.
12. Discharge or make arrangements for discharging such other functions as are necessary for the development of the capital market (SEBON, 1993).

Nepal Stock Exchange Ltd. (NEPSE) is established under company act, operating under Securities Exchange Act, 1983. It is only Stock Exchange of Nepal. It opened its trading floor on January 13, 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation is shareholders of NEPSE. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc.

Major financial instruments trading in NEPSE include corporate shares, debentures, government bonds and mutual funds. NEPSE introduced fully automated screen based, order driven market trading since 2007 B.S.

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 62 member

brokers and 2 market makers, who operate on the trading floor as per the Securities Act, 2007, rules and bye-laws.

### 1.1.2 Significance of Stock Market in the Nepalese Economy

During last one and half decade stock market in Nepal has made some noticeable progress. For example, between the fiscal year 1993/94 and 2017/18, the number of listed companies in Nepal Stock Exchange Limited increased almost from 62 to 208. Despite this, stock market in Nepal is yet at a developing stage and has yet to make its presence felt in the overall economy of the country.

The level of stock market development and its impact on the national economy can be measured by using various indicators such as size of stock market, liquidity, concentration, and volatility. Impact of stock market in any economy can be judged from its size and liquidity. Generally large stock market size indicates developed stock market. In Nepal the number of companies listed with the Nepal Stock Exchange Limited increase from 62 in 1993/94 to 208 in 2017/18. Although the number of companies listed with the stock exchange shows an increase in the size of stock market in Nepal, the market capitalization ratio indicates relatively low importance of stock market to the national economy. It is interesting to note only about one-tenth of the companies registered with the Office of the Company Registrar as public limited company are listed with the Nepal Stock Exchange Limited during the period. Most of the companies that are listed with the exchange belong to banking, finance, and insurance sectors. While only few companies from the trading, hotel, manufacturing, and aviation sectors are listed with the exchange, very few companies from power, information technology, and construction sectors have entered the organized stock exchange of the country. This indicates that firms tend to avoid stock market as an alternative source of long-term capital in Nepal (K. C. 2004).

Capital market is a catalyst in the development of the country's economy. It is the intermediary link in facilitating the flow of funds from savers to investors. By providing an institutional mechanism for mobilizing domestic and international savings and efficiently channeling them into productive investments, they lower the cost of capital to investors and accelerate economic growth of the country. As such, developed economics have highly sophisticated financial institutions and capital markets. Over the past decade or two, many developing economies have established

capital markets as they moved towards more liberal economic policies. These emerging markets have shown extraordinary growth with very high volatility, which have attracted many investors into these markets. Capital market plays a crucial role in the economy by channeling investment where it is needed and can be put to best use. The capital market works as the channel through which the public savings are channeled to industrial and business enterprises. Mobilization of such resources for investment is certainly a necessary condition for economic take off but the quality of their allocation to various investment projects is as important as a factor for growth. Capital market helps agents manage liquidity and productivity risk by eliminating premature capital liquidation, which increases corporate sector productivity. Capital market also accelerates growth indirectly by reducing liquidity risk, which encourages firm investment (Neupane, 2006).

In recent years movement in the stock market in Nepal has shown a rising tendency. High movement in the stock market denotes risk in equity investment. However, it should be understood that high movement does not necessarily imply undeveloped stock market. It is generally expected that stock markets, when well developed, absorb risks in financial assets and offer higher return with less movement. Put simply, it means that as an indicator of a country's stock market development less movement is preferred to high. A high ratio indicates the ability of the stock market to provide liquidity and handle risk. Movement, when measured as a ratio of value-traded-ratio to movement, showed an increasing trend during last three years indicating inability of stock market in Nepal to handle risk relatively to volume of trading of shares.

In the new and challenging environment, capital market would have a relatively more important role in the allocation of resources and diversification of risks. As an integral part and indicator of the nation's development, the capital market represents a vital part of the financial market infrastructure which, together with the banking sector, supports the economic growth of the country. From a broader economic perspective, the capital market contributes directly to national economic growth in terms of employment and tax revenues, and indirectly through facilitating greater knowledge development. Given the information-and technology- intensive nature of the capital market, it will be an important facilitator of development as the nation moves towards becoming a knowledge-based economy and with the increasing use of information

and communications technology. A fair, efficient and liquid capital market facilitates the mobilization and allocation of funds within the domestic economy, and acts as a gateway to country for global investors. Thus capital market assumes a greater role and significance in the present day economies. (Adhikari, 2016)

**Background of Commercial Banks studied**

**Table 1.1**

**List of Commercial Banks studied**

| S.N | Name of Banks | Date of operation(AD) |
|---|---|---|
| 1 | Nabil Bank Ltd. | 1984/11/15 |
| 2 | Machhapuchre Bank Ltd. | 1998/03/08 |
| 3 | Standard Chartered Bank Ltd. | 1987/01/30 |
| 4 | Everest Bank Ltd. | 1994/10/18 |

(Source: Annual Report of NEPSE, 1995)

**1.2Statement of the problem and research questions**

In today's context most of the investors are attractive to banking sectors. Many researchers have been conducted in the issue of stock price movement. The stock price fluctuates time to time and stock exchange reacts to the environment changes. The investors couldn't identify the good and bad stocks among many. Further, there is not adequate number of organized investors to analyze the information regarding risk and return of the companies in the stock market in Nepal. In this situation any investors cannot take rational investment decision. Investor must have knowledge of business environment, stock price behavior, sensitivity of stock price, company's dividend policy, company's earning, net worth, price earnings ratio, government policy towards general public investors. The investors are also tended to rely on the explanatory information and do not show interest on the statistical data and technical analysis. Since, the sufficient information of financial performance of the listed companies has not been disseminated to the general public; the state and dynamism of stock market suffer to the lack of transparency.

Thus, this study deals with the following research questions:

1. What is the trend of stock price in Nepal?
2. How earnings, dividend, net worth, and price earnings ratio affect the stock price of the company?

### 1.3Purpose of the Study

The main aim of the study is basically to analyze the fluctuation of share price of selected commercial banks of Nepal and their relationship with some variables (Earnings per share, Dividend per share, Net worth per share, and Price earnings ratio). Besides that the specific purpose are as follows:

1. To assess the trend of Stock Market in Nepal of Selected banks.
2. To analyze the impact of earnings, dividend, net worth, and price earnings ratio on stock price of selected banks.

### 1.4 Significance of the study

Every people are attracted to invest in share for purpose of getting more return as well as to maximize his or her wealth. So an analysis of sensitivity of share price in Nepalese stock market has become an effective way to attract new investors. The study will be significant for individual investors who are willing to trade in securities of Nepalese and multinational organization. This study also will be helpful to understand the share price of the various listed companies in Nepal. It will be helpful to related person like policymakers, shareholders, management and all parties involved in Nepalese share market. This study may help investors to think about restructuring their investment portfolio. Similarly, the potential investors may take better timely investment decision on the basis of the finding of the study. The finding will be importance for the further researches and scholars who are related to Nepalese stock market.

This study helps us to find out possibilities, problems, and prospects of stock market in Nepal. It will also help to out the financial status of the selected banks. Therefore, this study is expected to helpful for general investor and organizations thatare related with stock market.

### 1.5 Limitations of the Study

The following are some limitation of the study:

1. The topic "stock price movement " (analysis of selected banks) is much more dynamic and it takes huge resources including human and financial to cover the whole aspects of the research but the research has focused only on the stock price movement due to changes in EPS , DPS , NWPS , and P/E ratio as independent variable.
2. The dependent variable, market price per share used in this study is computed only on the basis of the average of quarterly average price of the stock in a year.
3. The study is mainly concentrated on the stock price movement of five commercial banks. Because banks have just merged with some development banks and finance companies and some are in process of merger.
4. This study included the observation period of 5 years from FY 2013/014 to 2017/18 of 5 commercial banks.
5. The result is strictly based on information provided by secondary source the company's website, SEBON, NEPSE, NRB etc.

### 1.6 Chapter Plan

The study will be organized into five chapters, as per the standard rule of thesis writing of Tribhuvan University, which is as follows:

**Chapter I: Introduction**

This Chapter will include the background of the study, focus of the study, statement of the problems, objectives of the study, significance of the study, limitations of the study, and organization of the study.

**Chapter II: Literature Review**

This chapter includes the reviews of the relevant previous writing and the studies to find the existing gaps. So, the past studies in relation to the concerned topic will be reviewed to examine what new can be contributed to make the study more relevant. Reviews of the journals, books, newspapers, annual reports are also going to be included.

**Chapter III: Methodology**

This chapter deals with the methodology used in the study. It briefly explains about the statistical tools which will be used to evaluate the risk and return analysis for the concerned topic. It will consist of the research design, population and sample, sources of data, data collection procedure, data analysis tools and methods of data analysis.

**Chapter IV: Results**

This chapter will comprise the main part of the study. It deals with the presentation and analysis of the data and information collected from primary as well as secondary sources and scoring the empirical findings of the study through definite course of the research methodology.

**Chapter V: Summary, Conclusions and Implications**

This chapter will state the summary of the whole study. After the summary it will be followed by the basic conclusions of the study based on the fourth chapter and lastly, the recommendations will also be presented for considerations on the basis of the conclusions.

# CHAPTER-II

# LITERATURE REVIEW

The main objective of this chapter is to review some of the basic literature on share price behavior and movement as well as review of empirical evidences of previous studies. This chapter is divided into two sections. The first section includes review of previous studies, and second section includes conceptual framework.

## 2.1 Conceptual review

### 2.1.1 Concept of Security Market

A security market, or financial market, can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. One of its main functions is "price discovery" that is, to ensure that security prices reflect currently available information. Financial markets are the ones in which funds are transferred from those who have excess available to those who have a shortage in encouraging higher economic efficiency.

The securities market plays an important role in mobilizing savings, and channeling them into productive investment for the development of commerce and industry of the country. The trading of securities generates sufficient liquidity and profit through efficient allocation of fund. The security market in any country performs two important functions:

a) It facilitates the transfer of real economic source from the saver to the users

b) It makes funds available to economically efficient borrowers to carry out their plans and activities of business and industry

#### 2.1.1.1 Common Stock

Common stock refers the ownership capital of a company. It is one of the important sources of capital of the company. No other securities are as important as common stock because it commands largest share in the market. Many investors are interested in common stock because it provides higher return though with greater risk. Common stock is also known as equity share representing ownership interest in the organization. The company issues common shares to raise equity capital, which is

permanent capital of the company because common stock has infinite life. The common stockholder or shareholders are real owner of the company, therefore, they bear all kinds of risk associated with the company and have residual claim on income and assets.

There are mainly two parties that trade the stock i.e.

a) Vendor or Company.

b) Buyer or Stockholder

Vendor Companies issues the equity share in the security market and purchasing companies purchase theirs' stock to be an owner of the company. These kinds of issue may be in lump sum basis or installment basis. "There are shares which don't carry any special or preferential rights in the payment of annual dividend or repayment of capital. The rate of dividend on such shares is not fixed. Dividend on equity shares is paid out of the residual profits left after paying interest on debentures and preference shares dividend. Similarly, equity shareholders are paid at the time of winding up to receive what is left after all the prior claims have satisfied. Therefore, equity shareholders are the real risk bearers. They also enjoy voting right in the management and control of the company". While issuing the equity share, company can achieve great advantages i.e.

- **Permanent Capital**: Equity shareholders provide the permanent capital to the company. There is no any obligation to return the money except at the time of liquidation of the company.
- **No Obligation for Dividend**: Equity shares do not impose an obligation to pay a fixed dividend but are payable only if the company has adequate profit.
- **Sources of Prestige**: A company with substantial equity capital has a high credit standing. Creditors readily lend money to it because they regard company is not required to mortgage or pledge it's assets for issuing common stock. The assets remain free of charge for borrowing money in future.

"Common stockholders of a corporation are its residual owners, their claim to income and assets come after creditors and preferred stockholders have been paid in full. As a result, a stockholder's return on investment is less certain than the return to a lender or to a preferred stockholder. On the other hand, the return to a common stockholder is

not bounded on the upside, as are returns to the others. 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." (Van Horne, 1997)

Usually common stock is issued with a perpetual life. These stocks are subjected to issue and trading in primary market where it is generally issued with its face value and once the stock gets listed in the stock exchange the trading starts to take place and this particular market is called secondary market. Each share of stock is a fraction of the rights that belongs to the owners of a business. A stock certificate is evidence of that fractional ownership; it is tangible evidence, a certificate of title, to be a part of the company.

**Value of the Common Stock**

There are mainly three kinds of value of the common stock:

• Par Value

• Book Value

• Market Value

**Par Value**

The par value is nominal or face value of a stock indicated in common stock certificate and in the company's Memorandum of Association. According to the company Act 2053, par value of a share of common stock must be Rs. 100 for Nepalese Company. In Nepal, the company cannot issue common stock at a price less than par value (i.e. at discount).

**Book Value**

It represents the assets value per share after entire obligation of the corporation is met and is calculated by dividing the total shareholder equity on the buying and selling by number of equity shared outstanding.

**Market Value**

This value is based on the market demand and supply. Market value is determined by the demand and supply factors and reflects the negotiation between investor and seller for the transaction. The market value is influenced by many factors like economic and

industry condition, expected earnings and dividends, speculations and other signaling effects like major events inside the country, Governments stability.

**Features of Common Stocks**

Study of the key features of common stocks would be the important to find out the causes of stock price movement. Common stockholders are the true owner of the business firm. Common stockholders are the residual owner in the same that they received what is left after all other claims on the firm's income have been satisfied. The main positive consideration involve in equity ownership are income and control. The key features of common stock are:

**Par Value**

The par value is nominal or face value of a stock indicated in common stock certificate and in the company's Memorandum of Association. According to the company Act 2053, par value of a share of common stock must be Rs. 100 for Nepalese Company. In Nepal, the company cannot issue common stock at a price less than par value (i.e. at discount).

**Dividend**

The common stockholders invest in stock of the company with the expectation of dividend. But the dividend of common stock is not fixed. It depends upon the earning of the company and dividend policy. Common stockholders are the real owner of the company, therefore they have residual claim on income. So the company may distribute the residual income as dividend to common stockholders or retain some part or all the residual earnings. The form of dividend may be cash or common stock.

**Maturity**

The common stock has no maturity date. It is not returned to stockholders until the company is dissolved. It exists as long as a firm does. So, the capital raised by the sell of common stock is also called the permanent capital of the company.

**Claim on Assets**

As, a real owner of the company, the common stock holders bear all kinds of risk and benefit associated with the company. Therefore, shareholders of common stock have claim on all residual assets either more than their investment or less, in case of the liquidation of the company.

**Liabilities**

Liability of common stockholders is limited to the extent of their capital investment. The liability of shareholders will be equal to par value of common stock if paid up capital is less than par value. Shareholders should not pay the debt of the company from their private property, if company fails to pay debt in case of the liquidation.

**Voting Right**

The common stockholders have right to attend general meeting for voting, amend the charter of the company and pass the resolution. Shareholders have voting right according to the number of stocks held by them. The voting system may be straight or cumulative. In straight voting system, each share has one vote for each director. Under the cumulative voting system, the shareholder can use all his or her votes for a single director. The shareholders can transfer their voting right to their person by using proxy.

**Preemptive Rights**

Preemptive right is the right of existing shareholders to purchase new securities on a pro-rata basis if the company issues new additional common stock or convertibles. The preemptive right is included in the charter or bylaws. Preemptive right enables existing shareholders to maintain control over the company and it protects shareholders against a dilution of vale of stocks. The preemptive right is carry out by the use of right offering.

**2.1.1.2 Theories of Common Stock Behavior**

Basically, there are three theories concerning the valuation of securities and their price behavior. They are i. Technical Analysis ii. Fundamental Analysis iii. Random Walk or Efficient Market Analysis

**Technical Analysis**

Technical analysis involves the study of stock market prices in an attempt to predict future movement. Under this analysis, past prices are examined to identify recurring trends or patterns in price movements. Some of the important tools like charts, moving average, relative strength, and contrary opinions are used to analyze the price situation of individual common stock. On the other hand tools like Dow Theory, Breath the market, Confidence Index are used to analyze the stock market as a whole.

Technical analysis is the study of the internal stock exchange information. The word "technical" implies a study of the market itself and not of those external factors which are reflected in the market all the relevant factors, whatever they may be, can be reduced to the volume of the stock exchange transactions and the level of share prices; or more generally, to the sum of the statistical information produced by the market. (Alexander, Sharpe & Bailey, 2000)

The technical Analysis Theory of share price behavior is based on the past market information. On the assumption that history tends to repeat itself, it is believed that knowledge of past patterns of share prices will help to predict future prices under similar circumstances. It involves the study of past market behavior with reference to various financial and economic variables to forecast the future. Financial and economic variables do change, but these variables are to be adjusted in the light of the present situation. Charles Dow is the greatest protagonist of this theory. Since the followers of this theory anticipate future share prices on the basis of charts and graphs of past movements in prices, this approach is popularly known as Chartist Approach. Thus, under this approach technicians are interested to interpret the past trend to predict the future prices of equity shares. Technical Analysis is based on the widely accepted premise that security prices are determined by the supply and demand. The tools of Technical Analysis are therefore designed to measure supply and demand. Technical analyst record historical finance data on charts, which can be meaningful in predicting future prices. The basic assumptions underlying technical analysis are:

- Market value is determined by the interaction of supply and demand,
- Supply and demand is governed by numerous factors both rational and irrational,
- Security prices tend to move in trends that persist for an appreciable length of time, despite fluctuation in the market.
- Change in trend is caused by shifts in supply and demand,
- Shifts in supply and demand, no matter why they occur, can be detected sooner or later in charts of market action, and
- Some chart patterns tend to recur and the recurring patterns can be used to forecast the price movement.

Technical analysts, or chartists, believe that they can discern patterns in price or volume movements, and that by observing and studying the past behavior patterns to given stocks, they can use this accumulated theoretical information to predict future price movements in the security. Technical analyst believes in the history behind chart formation and patterns. They read charts much like ancient astrologers read the stars, looking for "head and shoulders" formation. When the supply of a stock is greater than the demand, the trend will be down as there are more sellers than buyers; when demand exceeds supply, the trend will be up as buyers "bid up" the price; and if the forces of supply and demand are nearly equal, the market will move sideways which is called a "Trading Range". Eventually, new information will enter the market and the market trend will begin to go either up or down.

Depending whether the new informant is taken as positive or negative. Trend which are very brief are called minor trends; those lasting a few weeks are known as Intermediate Trends; and trends for a period of months are major trends. It helps us to act in market both in bullish and bearish market. Price moves in trends. A trend indicates there exists an inequality between the forces of supply and demand. Such changes in the forces of supply and demand usually are readily identifiable by the action of the market itself as displayed in the prices. (Alexander, Sharpe & Bailey, 2000)

**Fundamental Analysis**

The fundamental analysis tries to identify the real or true value of financial assets. Fundamental analysts forecast, among other things, future levels of the economy gross domestic product, future sales and earnings for a large number of industries, and future sales and earnings for a larger number of firms. Eventually such forecasts are converted to estimates of expected returns of specific stocks and perhaps, certain industries and the Stock Market itself. In some cases the conversion is explicit. (Alexander, Sharpe & Bailey, 2004)

Fundamental analysis forecast stock market on the basis of economic, industry, and company statistics. The principal decision variables ultimately take the form of earning and dividends. The fundamentalist makes a judgment of the stocks with risk return framework based upon earnings power and the economic situation of the country.

Some of the way to go through with the fundamental analysis may be following:

**a. Top Down Versus Bottom-Up Forecasting**

Under top down analysis approach the analysis is done by making forecast for the economy, industries, and companies. The industries forecast are based on the forecast for the economy and a company's forecast are based on the forecast for the economy and a company's forecast are based on the forecasts for both its industries and the economy likewise while doing bottom up forecasting estimation of the prospects for the companies is down and then only estimation of the prospects for the companies is down and then only estimation of the prospects for the industries in carried out and ultimately the economy's prospects is conducted.

**b. Probabilistic Forecasting**

Probabilistic forecasting often focuses on economy wide forecasts, as uncertainty at this level is of the greatest importance in determining the risk and expected return of well-diversified portfolio. A few alternatives economic sceneries may be forecasts along with their respective probability of occurrence. Then accompanying projections are made of the prospects for industries, companies and stock prices. Such exercise provides an idea of the likely sensitivities of different stocks to surprises concerning the economic and hence it sometimes referred to as what if analysis.

**c. Financial Statement Analysis**

A company's financial statement can be regarded as the output of a model of a firm. Many analysts do study financial statement to predict the future. Financial statement analysis can be help an analyst to understand a company's current situation where it may be going, what factors affect it and how these factors affect it. To fully understand a company and comparing this with other financial statements are required to analyze carefully to determine the value of the firm. The price of the share can be estimated by examining the ratio of earning, after tax to the book value of equity.

**Random Walk-Efficient Market Theory**

"Random walk efficient market theory consists of the study of random walk or efficient market hypothesis. In 1900 a French mathematician, Louis Bachelor wrote a scientific paper suggesting that day to day security price fluctuation were random. His idea is known as the Random Walk Theory" (Coother, 1962). These tests to see if

stock price fluctuate randomly used to be called test of the "random walk theory" of stock prices. "The random walk efficient theory is a completely at variance with the technical and fundamental analysis. A number of empirical researcher have been done on varied set of data for different time periods to test the random walk efficient market model for describing share price behavior.

**a. The Random Walk Hypothesis (RWH)**

The random walk hypothesis is a financial theory stating that stock market prices evolve according to a random walk and thus cannot be predicted. It is consistent with the efficient-market hypothesis. The work from of efficient market hypothesis stipulates that historical price and volume data for securities contain no information which can be used to earn a trading profit above what could be attained with a buy-an-hold investment strategy. The random walk hypothesis states that current price fully reflect the information contained in the Historical price movement. "The previous prices or the series of price changes are random phenomenon.

Random walk theory implies that the future path of the price level of a security is no more predictable than the path of a series of cumulated random numbers. The series of price changes has no memory, that is, the past cannot be predicting the future in any meaningful way. It means that current size and direction of price changes is independent and unbiased outcome of previous price changes" (Fama, 1965).

**b. The Efficient Market Hypothesis (EMH)**

A perfectly efficient market is a market in which all investors have access to all relevant information in which news Library that affects stock market is immediately available through the market. "An efficient financial market exists when security prices reflect all available public information about the economic, about financial markets, and all about the specific company involved" (Vanhorne, 1998).

"An efficient capital market is one in which it is impossible to earn an abnormal return by trading on the basis of publicly available information" (Brown, 1978).

According to Fama, an efficient market share prices instantaneously and fully reflect all relevant available information, which is known as the efficient market hypothesis. The market efficiently of any stock is based on how fast the available new information reflects on the security price adjustment. The favorable information

results in an upward revision and unfavorable information push downward revision of security price. However, the assumptions to the efficient market being perfect capital market are:

- information freely and instantaneously available to all
- homogeneous product
- no taxes
- costless transactions
- Perfect competition amongst investors

"If new information becomes known about a particular company, how quickly do market participants find out about the information and buy or sell the securities of the company on the basis of the information? How quickly do the prices of securities adjust to reflect the new information? If price respond to all relevant new information in a rapid fashion, we can say the market throughout the market, and if investors take time in analysis the information and reacting and possibly overreacting to it, prices may deviate from values based on a careful analysis of all available relevant information. Such market could be characterized as being relatively inefficient" (Haugen, 1997).

In a major review of the theoretical an empirical work done in capital market, (Fama, 1970) proposed three information subsets by which the efficient market model could be appraised and tested. These three are weakly efficient, semi strongly efficient and strong form efficient. The weak form efficient market hypothesis (WEMH) assumes that all past information is reflected in security prices. In this market past information has already been discounted in price, so excess profit cannot be derived from the investment strategy based on past information. If current prices of the stocks reflect all the publicly available information i.e. past prices and volume data and all the published accounting information, the market is semi strongly efficient. In that market, even fundamental analysis of the published accounting information has no value, because participates would have discounted it accurately and instant annually when they are disclosed.

And the Strong Form Efficient Market Hypothesis (SEMH) assumes that all information affecting stock prices, both public and private is reflected in security

prices thus, in such condition even those who have access to private information cannot consistently earn excess return. The measure of efficiently evolved from the notion of perfect competition, which assumes free and instantly available information, rational investors with no taxes or transaction cost.

### 2.1.2 Factors Affecting Performance of Nepalese Stock Market

Over the years, economists, financial analysts, academicians and researchers have conducted numerous researches on the impact of macroeconomic variables on stock prices in the United States and other developed economies. Interest in financial markets and the efforts to forecast their performance is connected to the growing recognition among economists, financial analysts, and policy makers of the increasing impact of macroeconomic variables on these markets.

Most investors have shifted their attention to the stock markets and so over the last decade stocks of some listed companies have been oversubscribed. Investing in stocks provides a higher return than the other financial instruments but there are also risks associated with these stocks. Most investors invest in the stock market with the objectives of maximizing their return without taking into consideration the effect of macroeconomic variables such as inflation, and exchange rate on the stock prices of companies listed.

Nepalese stock market has witnessed spectacular change in the recent decades. The economic instability in the global and national context has made its influence on the market movement. Arbitrage Pricing Theory states the relationship between stock market and macroeconomic determinants. The stock market of emerging economics like Nepal carries huge expectations of the investors.

It is essential that the policymakers must keep eyes on the stock market development and be ready to take appropriate measures, if needs arise, to prevent the buildup of bubbles in the market. For this, it is necessary to understand the relationship between the stock index and the factors that influence it. Several factors may affect the stock market such as economic growth, government policies, financial literacy, political stability, external stability, etc. However, which factors affect to what degree will vary from country to country, depending on the size, type and other characteristics of the economy and the market. There are various factors that affect the stock price and

cause movement in the stock price up and down. The factors are summarized as below:

#### 2.1.2.1 General Factors Affecting Stock Price

**Industry Performance**

The stock price of the companies in the same industry will move in cycle with each other. This is because market conditions generally affect the companies in the same industry the same way. But sometimes, the stock price of a company will benefit from a piece of bad news for its competitor if the companies are competing for the same market.

**Investor Sentiment**

Investor sentiment or confidence can cause the market to go up or down, which can cause stock prices to rise or fall. The general direction that the stock market takes can affect the value of a stock.

- Bull market – it is a strong stock market where stock prices are rising and investor confidence is growing. It's often tied to economic recovery or an economic boom, as well as investor optimism.
- Bear market – it is a weak market where stock prices are falling and investor confidence is fading. It often happens when an economy is in recession and unemployment is high, with rising prices.

#### 2.1.2.2 Macroeconomic Factors Affecting Stock Price

Evidence from the financial theory suggest that as the global financial markets become more liberalized, there has been a close relationship between stock returns and the macroeconomic variables including interest rates, exchange rate, Gross Domestic Product(GDP), inflation, money supply, etc. These variables have been viewed as the most important determinants of stock market behavior as they are used to describe the state of macro economy that an investor must monitor and forecast in order to make choices regarding their investment decisions (Junkin, 2012).

**1. Monetary Policy**

Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting an inflation rate or interest rate to ensure price

stability and general trust in the currency. The goal of monetary policy is to contribute to economic growth and stability, to lower unemployment, and to maintain predictable exchange rates with other currencies. The monetary policy may be expansionary as well as contractionary. A policy is referred to as contractionary if it reduces the size of the money supply or increases it only slowly, or if it raises the interest rate. An expansionary policy increases the size of the money supply more rapidly, or decreases the interest rate.

**Interest rates**

The interest rate on borrowing can largely influence the stock price. The central bank of Nepal i.e. Nepal Rastra Bank can raise or lower interest rates to stabilize or stimulate the Nepalese economy. This is known as monetary policy. High interest rate regimes lead to high cost of borrowing and hence a reduction in economic activity. This affects the company's profit, future cash flow of the business and dividend. As a result, its share price may drop. Moreover, changes in both short term and long-term rates are expected to affect the discount rate in the same direction through their effect on the nominal risk-free rate (Mukherjee and Naka, 1995). And, in times of higher interest rates, investments that pay interest tend to be more attractive to investors than stocks. Therefore interest rates are expected to be negatively related to market returns either through the inflationary or discount factor effect.

**Inflation**

Inflation means higher consumer prices. This often slows sales and reduces profits. Higher prices will also often lead to higher interest rates. For example, during inflation Nepal Rastra Bank may raise interest rates to slow down inflation. These changes will tend to bring down stock prices. Commodities however, may do better with inflation, so their prices may rise. High rate of inflation increase the cost of living and a shift of resources from investments to consumption. This leads to a fall in demand for market instruments which lead to reduction in the volume of stock traded. Also the monetary policy responds to the increase in the rate of inflation with economic tightening policies, which in turn increases the nominal risk – free rate and hence raises the discount rate model (Adam & Twenoba, 2008). High Inflation affects corporate profits, which in turn causes dividends to diminish. Consequently, the expected return of stocks decreases thereby causing stocks to depreciate in value.

Conversely, low inflation implies lower cost of borrowing. Corporate performance goes up leading to increase in production and corporate profit. This results in the payment of attractive dividends by companies. So, inflation has negative relationship with share price (Shrestha & Subedi, 2014).

**Exchange Rates**

Establishing the relationship between stock prices and exchange rates is important. Knowledge about the link between currency rates and other assets in a portfolio is vital for the performance of the fund. Stock prices are expected to react ambiguously to exchange rates. Depreciation could either raise or lower the value of a company, depending on whether the company mainly imports or mainly exports. When the stock market index is considered, the net effect cannot be predicted. The exchange rate has various effects on stock price. First, a depreciating currency causes a decline in stock prices because of expectations of inflation (Ajayi & Mougoue, 1996). Second, foreign investors will be unwilling to hold assets in currency that depreciates as that would erode the return on their investment. Third, the effect of exchange rate depreciation will be different for each company depending on whether it imports or exports more, whether it owns foreign units, and whether it hedges against exchange rate fluctuation. Heavy importers will suffer from higher costs due to weaker domestic currency and will have lower earnings, thus lower share prices.

**2. Fiscal Policy**

Fiscal policy is the policy administered by the government of nation and it deals with the use of government revenue collection mainly tax and expenditure to influence the economy. The two main instruments of fiscal policy are changes in the level, composition of taxation, and government spending in various sectors. These changes can affect the aggregate demand, saving and investment and distribution of income.

As government deficits increase the supply of government debt, government bond prices fall and their yields rise in the absence of greater demand. In this scenario, government deficits induce investors to allocate more of their portfolio toward government debt. This reallocation away from equity leads to higher expected equity returns. An alternative flight-to-quality scenario has government bond prices and deficits both increasing as investors demand less risky government debt in bad economic conditions. In both scenarios, government deficits are associated with

higher expected equity returns although bond yields are lower and higher, respectively. However, as a result of balanced budget amendments, cumulative debt ratios are relatively stable for state governments since deficits are eventually offset by surpluses. Thus, dynamic portfolio allocations attributable to state-level fiscal policies are unlikely to affect long-term equity returns (Daniel, 2006).

**3. Political Events**

Company stock prices and the stock markets in general can be influenced by world events such as war, civil unrest and terrorism. These influences can be direct and indirect and they often occur in chain reactions. Political events which can affect the stock markets are government elections. Elections impact on a country's currency and are viewed by traders as a case of potential political instability and uncertainty which typically equates to greater volatility in the value of a country's currency.

Political events can therefore have a profound effect on stock markets and seasoned investors often take advantage of this volatility. While it is very difficult to plan for the unexpected in the markets during these unsettling times, an informed trader will be quicker to react to global events than one who is unsure of what moves to make in their wake. Researching relevant information and following the trends in times of political conflict or uncertainty will allow you to make quick, informed decisions regarding your trading activities so that you can ultimately maximize your profits (Kithinji,A, 2005).

For example: On August 10, 2015 NEPSE had soared due to the latest political development. "The expectation that the political situation will go in a positive way in the future has attracted investors in the stock market", and the domestic capital market was highly influenced by political developments. The index leaped to 1,057.44 points from 1,040.39 within 10 minutes of opening. And political instability has negative impact on stock price and stock market. An effect of undeclared economic blockade imposed by India was felt in Nepal Stock Exchange Limited (NEPSE). During the blockade the NEPSE index went down and the stock market grew, due to easing of the Indian blockade, mergers of a number of financial institutions, companies offering bonus and right shares.

### 2.1.3 Security Market Indices

Security market index is an indicator that indicates the performance of security market of a particular time on the basis of overall change in overall change of securities prices in a particular stock exchange. Index is one of the most important indicators of secondary market which is also considered as barometer of country's economy. NEPSE index group consists of various indices and they are calculated on the basis of market capitalization. Out of them overall NEPSE index is the oldest one which is being calculated since 1994.

NEPSE Index is calculated by considering all listed shares including that of promoter shares of all listed companies in Nepal Stock Exchange Limited.

### 2.1.4 Dematerialization (Demat)

Dematerialization is the process by which physical certificates of an investor are converted into an equivalent number of securities in electronic form and credit into the Beneficial Owner's (BO) account with his/her DP (Depository Participant). This is a form of indirect holding system where an intermediary, such as a broker or central securities depository holds a record of the ownership of shares usually in electronic format. The dematerialization of securities such as stocks has been a major trend since the late 1960s, with the result that by 2010 the majority of global securities were held in dematerialized form.

In Nepal SEBON issued a notice on katika 2076 regarding compulsorily opening of Demat account and trading of securities through Demat account only. Demat is opened by the investor while registering with Depository Participant (DP). A Depository Participant (DP) is an agent of the depository through which it interfaces with investor and provides depository services. There are around 60 licensed DPs/Brokers in Nepal.

However, the phenomena of dematerialization of securities issued by large firms is mostly undertaken via Central Securities Depository, a national or regional institution holding the notary function, such as CDS and Clearing Limited, a company established under company act, promoted by Nepal Stock Exchange (NEPSE) in 2010 to provide centralized depository, clearing and settlement services in Nepal. The main objective of the company is to act as a central depository for various instruments (Equity, Bonds, and Warrants etc) especially to handle securities in dematerialized

form. This organization is entrusted with the safekeeping, deposit, and withdrawal of securities certificates and transfer of ownership/rights of the said instruments. The depository functions will be performed by the company under the securities regulations of Securities Board of Nepal (SEBON).

The Dematerialized account number is quoted for all transactions to enable electronic settlements of trades to take place. Every shareholder will have a Dematerialized account for the purpose of transacting shares. Access to the Dematerialized account requires an internet password and a transaction password. Transfers or purchases of securities can then be initiated. Purchases and sales of securities on the Dematerialized account are automatically made once transactions are confirmed and completed.

According to report as of October, 2019 of CDS and Clearing Limited there are 560,889 Demat account opened and 1,145,363,662 shares are in demat form.

The advantages of demat are enumerated as follows:

- Easy and convenient way to hold securities
- Immediate transfer of securities
- No stamp duty on transfer of securities
- Safer than paper-shares (earlier risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc. are mostly eliminated)
- Reduced paperwork for transfer of securities
- Reduced transaction cost
- No "odd lot" problem: even one share can be sold
- Change in address recorded with a Depository participant (DP) gets registered with all companies in which investor holds securities eliminating the need to correspond with each of them separately.
- Automatic credit into demat account for shares arising out of bonus/split, consolidation/merger, etc.
- Traders can work from anywhere (e.g. even from home).

There are some disadvantages of opening demat account. They are enumerated as follows:

Trading in securities may become uncontrolled in case of dematerialized securities.

- Demat account holders are likely to be subjected to internet frauds if they are not technology friendly. Due to their lesser technological knowledge, most investors have to depend on their parties that may defy their trust.
- It is incumbent upon the capital market regulator to keep a close watch on the trading in dematerialized securities and see to it that trading does not act as a detriment to investors.
- For dematerialized securities, the role of key market players such as stock-brokers needs to be supervised as they have the capability of manipulating the market.

## 2.2 Review of previous works

### 2.2.1 Review of journal articles

Different articles published by Nepal Rastra Bank, NEPSE, SEBON and other institutions especially related to capital market have consulted in order to find out the causes of movement of stock price i.e. the NEPSE index.

Moreover, this different magazines and newspapers like Aarthikabhiyan, share bazaar, and so on are taken as the guidelines in tracing out the opinions of the investors, other specialists and institutional investors. Similarly, basic information, data and other aspects of NEPSE and its operation is traced out from its website i.e. www.nepalstock.com,www.nrb.org.np,www.sebonp.com.np,www.nepalsharemarket.com.np etc.

### 2.2.2 Review of previous theses

This section presents a review of major empirical study with firm specific influence on market price per share. The review of empirical study has presented in two sections. In the first section, reviews related to various studies in different countries are presented. Second section is related to market price and specific variables in the context of Nepal.

Modigliani and Miller (1961) showed that a firms ‘dividend policy does not affect its value; the basic premise of their argument is that firm value is determined by

choosing optimal investments. The net payout is the difference between earnings and investments, and simply a residual. Because the net payout comprises dividends and share repurchases, a firm can adjust its dividends to any level with an offsetting change in share outstanding. From the perspective of investors, dividends policy is irrelevant, because any desired stream of payments can be replicated by 14 appropriate purchases and sales of equity. M&M concluded that given firms optimal investment policy, the firm‘s choice of dividend policy has no impact on shareholders wealth. In other words, all dividend policies are equivalent. The most important insight of Miller and Modigliani‘s analysis is that it identifies the situations in which dividend policy can affect the firm value. It could matter, not because dividends are "safer" than capital gains, as was traditionally argued, but because one of the assumptions underlying the result is violated. The propositions rest on the following assumptions namely: Information is costless and available to everyone equally, no distorting taxes exist, floatation and transportation costs are non- existent and non-contracting or agency cost exists.

Friend and Puckett (1964) conducted a study on the relationship between dividend policy and price of stock by running regression analysis on the data taken from 110 firms from five industries in the year 1956 to 1958. Industries taken as samples were chemicals, electric utilities, food, steels, and electronics. They used dividends, retained earnings and price earnings ratio as independent variable in their regression model of price function and dividends as supply function. They also found that the dividend and retained earning coefficient are closer to each other for all industries in the both the years except for steels in 1956 and the correlations are higher again except for steels. Finally, Friend and Puckett concluded that, management might be able, at least in some measure, to increase stock prices in non-growth by raising dividends payout and in growth industries by greater retention.

Browns (1978) studied the behavior of the earning changes, stock prices and market efficiency. According to him, earning per share information is central to be valuation of equity securities. The determination of market efficiency is especially important but is yet unsettled. The purpose of his study was to present further information, which will help to resolve the issue. The study used the standard residual paradigm and daily price differencing interval to closely examine the market adjustment to EPS reports by using a native annual forecast model and a more sophisticated quarterly

forecast model. Based on the sample of securities chosen, results indicated that the announcement of unusual EPS significantly affects stock prices that the prices do not adjust instantaneously and that an abnormal return in excess of transaction costs could be earned by using the forecast models.

Chawla and Srinivasan (1987) carried out a study to identify the impact of dividend and retention on share price in Indian context. They attempt to test dividend retained earning hypothesis and examine the structural changes in the estimated relation over time. They followed equation model as developed by Friend and Puckett (1964) in their analysis. Their analysis based on relevant data of 18 chemicals and 13 sugar companies collected from the official directory of Bombay stock exchange for the year 1969 to 1973. They used two stages least square techniques for estimations. They concluded that the dividend hypothesis holds well in the chemical industry. Both dividend and retained earning significantly explain the variation in stock price in chemical industry. They also stressed that the impact of dividend was more pronounced than that of retained earnings but the market started shifting more weight for retained earnings.

Wu and Wang (2000) used the empirical models to examine the predictive ability of dividend and earning yields for long term stock returns. Results showed that dividend and earning yield shared a similar predictive power of dividend yield increases with return horizon, but that yields forecast future returns and growth over a much longer horizon. Finally, dividend and earnings yield exhibition of high autocorrelation and strong contemporaneous relations. Ultimately they found that both dividend and earnings yields are highly correlated with future returns and the growth of the firm.

Liu &Shrestha (2008) investigates the long run relationship between Chinese stock market and asset of macroeconomic variables which includes industrial production, exchange rate, inflation, money supply and interest rate. They used secondary data of all various from January 1992 to December 2001 and applied heter osciatic counter action test on the above variables. Findings of this study suggest that industrial production and money supply have the positive relationship with Chinese stock indices while inflation, interest rate and exchange rate have the negative impact on stock prices. They recommended that the investors who want to invest in Chinese stock market they should invest for long term horizon because in short term the Chinese stock market is very volatile and risky.

Khan (2009) found the evidences that dividends, retained earnings and other determinants have dynamic relationship with market share price in the context of Bangladesh. The study suggests that the overall impact of dividends on stock prices is comparatively better that of retained earnings. The expected dividends play an important role in the determination of stock prices whatever determinants, like lagged price earnings ratio or lagged price, are considered.

A study on dividend policy and share price volatility in Kenya seeks to determine the impact of dividend policy on share price volatility. A number of theoretical mechanisms have been suggested that dividend policy vary inversely with share price volatility like the duration effect. The study used data from the actively trading companies listed in the Nairobi securities exchange for a period of ten years from 1999-2008. The estimation is based on multiple regression analysis between dividend policy measures (dividend payout ratio and dividend yield) and share price volatility. The most important results of the study were that payout ratio is important determinant for share price volatility, payout ratios reduce price volatility due to high confined of the managers of the firm in both the stability and increase in the firms' future earning based on public and private information (Kenyoru et al., 2016).

Masum (2017) study on dividend policy and its impact on stock in Bangladesh investigated excess stock market returns for all the thirty banks listed in Dhaka Stock Exchange for the period of 2011 to 2015. Attempts are made to examine, what kind of relationship exists between dividend policy and stock market returns of private commercial banks in Bangladesh, and to what degree the returns on stocks can be explained by their respective dividend policy for the same period of time. Sample size is large i.e. all the listed commercial banks of Dhaka Stock Exchange so the results are reliable and valid. Panel data approach is used to explain the relationship between dividends and stock prices after controlling the variables like earnings per share, return on equity, retention ratio have positive relation with stock prices and significantly explain the variations in the market prices of shares, while the dividend yield and profit after tax has negative, insignificant relation with stock prices. Overall results of the study indicate that dividend policy has significant positive effect on stock prices.

Almumani (2018) attempted to identify the quantitative factors that influence Share Prices for the listed banks in Amman Stock Exchange over the period 2011-2017

using a linear multiple regression model. There is a significant positive relationship between earnings per share and the market price share of the listed banks in Jordan. Moreover, there is a significant relationship between banks book value and market value. Another empirical finding from the regression analysis shows a positive relationship between price earnings ratio and market price. Empirical finding from the regression analysis on the relationship between Size and market price indicate that there is an inverse relationship between Size and market price. Finally, other variable dividend per share and dividend yield have in significant impact on market price.

### 2.2.3 Review of Nepalese Studies

Nepalese capital market is small and at emerging stage, there are limited studies regarding market price and its relationship with fundamental variables. Here is a review of studies in Nepalese perspective.

Pradhan (2003) also carried out a study on stock market behavior in a small capital market. The study determined the relative important of dividend and retained earnings in determining the market price of stock. The study showed relationship of market equity, market value to book value, price earnings and dividend with liquidity, leverage, profitability, assets turnover and interest coverage. The major findings of the study were that larger stocks have larger price earnings ratios, larger ratio of market value to book value of equity, lower liquidity, lower profitability and smaller dividends. Dividend payment is more important as opposed to retained earnings in Nepal. The results revealed the customary strong dividends effect and a very weak retained earning effect indicating the attractiveness of divided among Nepalese investors.

Koirala & Bajracharya (2003) carried out a study on Issues and Challenges of Nepalese Capital Market. The study tried to explore about the problems of Nepalese Stock Market. The study concluded that the Nepal Lag behind to develop a healthy capital market with a sound financial infrastructure. Regulatory measures are slowly updating incorporating the contemporary issues but that has not been found effective because of governance problem in the corporate sector. Corporate sector is generally not transparent. The culture of keeping books of account secret is still alive. Unless, it is changed capital market will not contribute in a desirable way to contribute to growth. In order to improve it, accounting and auditing standards, disclosure and

corporate governance need to be upgraded significantly and on the other the monitoring and policy response capacity of SEBON should be enhanced.

Chhetri (2008) examined a relationship between dividend and stock price; the study explained that there are differences in financial position of high dividend paying and low dividend paying companies. The study revealed that there is a positive relationship between dividend and stock prices. Further, the coefficient of dividends is higher as compared to the coefficient of retained earnings.

Joshi (2011) conducted a study on effects of dividends on stock prices in Nepal. This study aimed at understanding dividend has a strong effect than return earnings. The study examines whether this is consistent in the context of Nepal or not and the implication particularly to the banking and non-banking sectors. A descriptive and analytical research design had been administered. The secondary data were used to test this impact in order to examine the impact of dividends on stock prices; a multivariate liner regression analysis had been implied in which current market stock. The study found that DPS is a motivating factor in the Nepalese financial sector which is strong enough to increase market price per share of the banking and non-banking firms. Comparatively, it is also found that the effect of DPS greater than REPS on the impact of market price per share. Lagged market price per share is an accelerator to increase market price per share in subsequent years. Finally, the study shows that dividends and retained earnings significantly explain the variations in share price in both banking and non- banking sectors.

Bhattarai (2016) studied the "Determinants of Share Price of Nepalese Commercial Banks", taking nine commercial banks of Nepal as sample. The study results that the shares of commercial banks offer the investment opportunities to Nepalese investors because these shares are more frequently traded in the market than as compared to others in Nepalese context. The findings of the study over the period 2006-2014 revealed that earning per share and price-earnings ratio have the significant positive association with share price while dividend yield showed the significant inverse association with the share price of the banks. The study concludes that dividend yield, earnings per share and price- earnings ratio are the major determinants of share price of Nepalese commercial banks.

Shrestha & Subedi (2016) studied the determinants of stock market performance in

Nepal. The finding revealed that stock price has strong positive relationship with inflation and growth of money supply, and negative response to interest rate. It shows that people have been gradually taking stock market as a hedge against inflation and invest in this market when there is ample liquidity available at a low interest rate. A positive political development with stability can promote share market further which can play a vital role for financial intermediation and resource mobilization through capital market. As our results reveal that share market is also influenced by rumors, news and speculations, transparency should be increased in this market by making information related to listed companies easily accessible. Transparency and communication should, in fact, be enhanced by the concerned authorities in order to clear gossips and rumors in the market.

Pathak & Gupta (2018).Examined the effect of rights share issue on share price movement in the banking sector covering the period 2007/08 to 2016/17. In order to find out the share price movement in different selected points of time, pre and post right issue and price relatives were calculated considering the price of 90 days before the right announcement date as the beginning index. Five different points of time were selected to observe the share price movements assuming the announcement date as the reference point of time. Stock price data were obtained from the website of NEPSE. The paper uses correlation coefficient to examine whether the overall market movement has any relationship with the individual share price change. Coefficient of determination is used to identify what proportion of the variation in the share price is explained by the event of right share issue. The result shows that right offering announcements have the signaling effect, but it is negative. The share price of Nepalese commercial banks decreases after the announcement of right in spite of the increase in the market index in the corresponding period. The results highlight the information asymmetry behavior which induces a negative change in share price after the rights announcements. The implication of the result is that investors can anticipate the nature of change in share price after rights issue announcements and develop strategic plans to improve the trading activity.

Karki (2018).Related cross-sectional differences in stock prices of Nepalese commercial banks to the underlying behavior of six fundamental variables: earnings per share, book value per share, cash dividend per share, stock dividend per share, price earnings ratio, and firm size. This study uses secondary sources of data. The

balanced panel data from commercial banks including 150 observations are used for the period of 2000-2014. The earnings per share and stock dividend per share are the more significant determinants of stock prices of commercial banks in Nepal. The performance of the stock dividend is especially noteworthy; this variable is statistically and economically the most important of the six fundamental variables investigated.

Thapa (2019) explored the influencing factors of stock price in Nepal (with referenceto Nepalese commercial banks) listed on the Nepal Stock Exchange Ltd. over the period of 2008 to 2018AD. The information were collected from questionnaire and financial statement of concerned organizations and analyzed using simple linear regression model. The conclusions of the work revealed that earning pershare (EPS), dividend per share (DPS), effective rules and regulations, market whims and rumors, company profiles and success depend upon luck have the significant positive association with share price while interest rate (IR) and price to earnings ratio (PER), showed the significant inverse association with share price. Further, accessibility of liquidity, fundamental and technical analysis stimulates the performance of the Nepalese stock market. More importantly, stock market has been found to respond significantly to changes in dividend and interest rate.

**Table 2.2 Major Nepalese Studies and Their Findings**

| Study | Findings |
|---|---|
| Pradhan (2003) | The results of the study show that dividend payment has strong relation with stock price while retained earnings have very weak relation with stock market price. The results further explain that Nepalese stockholders give more importance to dividend income than capital gains. |
| Koirala and Bajracharya (2003) | The study pointed out various issues faced in Nepalese Capital Market like corporate governance, shareholders right, disclosure and transparency etc. In order to improve it, accounting and auditing standards, disclosure and corporate governance need to be upgraded and the monitoring and policy response capacity of SEBON should be enhanced. |

| | |
|---|---|
| Chhetri (2008) | The study revealed that there is a positive relationship between dividend and stock prices. Further, the coefficient of dividends is higher as compared to the coefficient of retained earnings. |
| Joshi (2011) | The major findings were dividend per share is a motivating factor in the Nepalese financial sector which is strong enough to increase MPS of the banking and non-banking firms. The study shows that dividend and retained earnings significantly explain the variation in share price. |
| Bhattarai (2016) | This study found that that earning per share and price-earnings ratio have the significant positive association with share price while dividend yield showed the significant inverse association with the share price of the bank |
| Shrestha and Subedi (2016) | The result of the study is that stock price has strong positive relationship with inflation and growth of money supply, and negative response to interest rate. It shows that people have been gradually taking stock market as a hedge against inflation and invest in this market when there is ample liquidity available at a low interest rate. |
| Pathak and Gupta (2018) | The results highlight the information asymmetry behavior which induces a negative change in share price after the rights announcements. The implication of the result is that investors can anticipate the nature of change in share price after rights issue announcements and develop strategic plans to improve the trading activity. |
| Karki (2018) | The earnings per share and stock dividend per share are the more significant determinants of stock prices of commercial banks in Nepal. The performance of the stock dividend is especially noteworthy; this variable is statistically and economically the most important of the six fundamental variables investigated. |
| Thapa (2019) | The conclusions of the work revealed that earning per share (EPS), dividend per share (DPS), effective rules and regulations, market whims and rumors, company profiles and success depend upon luck have the significant positive association with share price while interest rate (IR) |

and price to earnings ratio (PER), showed the significant inverse association with share price. Further, accessibility of liquidity, fundamental and technical analysis stimulates the performance of the Nepalese stock market. More importantly, stock market has been found to respond significantly to changes in dividend and interest rate.

## 2.3 Research Gap

Many researches on the stock market price in Nepal have been conducted to find the determinants, which cause the fluctuation of share price. All of those researches have many useful findings and their own limitations.

Nowadays, Nepalese share market has entered to the new horizon. Its size and market capitalization are growing day by day. New By laws are being established to control stock market price. But it is clearly realized that share prices are fluctuating abnormally. If earning, dividend, net worth and price earnings ratio are taken as the main determinants of price fluctuating, then why the share prices are increased without the increment in such factors. Therefore, there is still lack of appropriate researches to find out the cause of volatility of share price in Nepalese share market.

Therefore, this study is analyzing the various reasons on the fluctuation of price trend and the cause and effect of different signaling factors over stock price. Thus, the earlier studies on share price behavior needed to be updated and validated because of the many changes taking place in stock market in Nepal. This study is an effort to attempt in the same direction.

## Conceptual Frame work

A conceptual framework is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organize ideas. Strong conceptual framework capture something real and do this in a way that is easy to remember and apply. Dividend, Earnings, Price Earnings Ratio and Net Worth are taken as independent variable whereas market price is dependent variable. The conceptual framework that describes the dependent and independent variable used in the study are shown in figure:

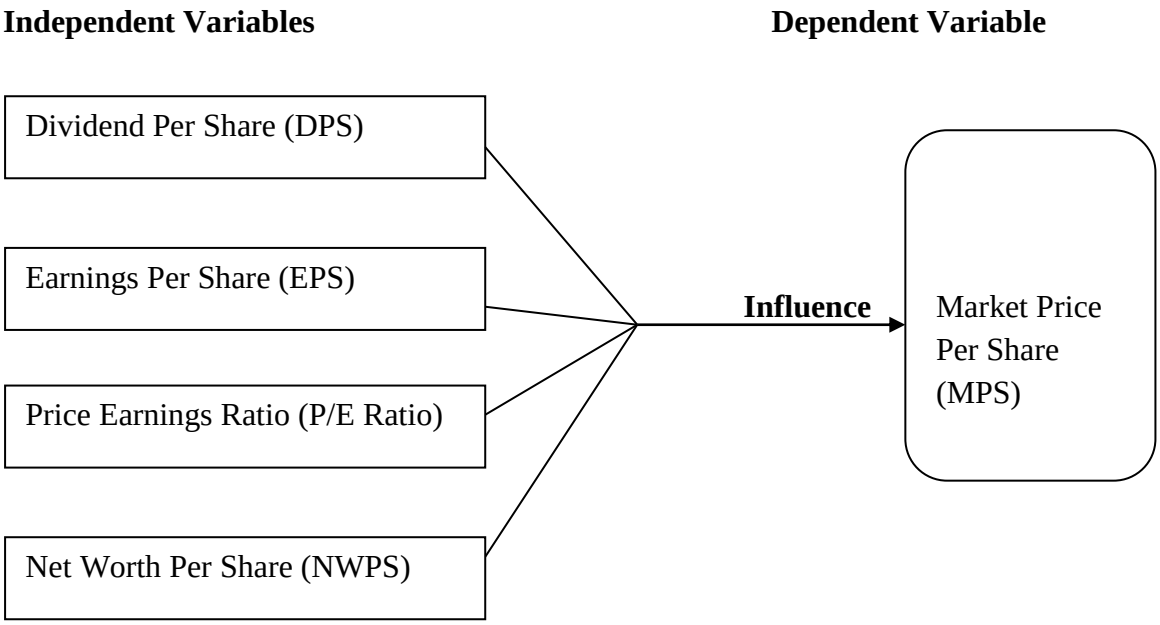



**Figure 2.1: Conceptual Framework (Relationship between Dependent and Independent Variable)**

The figure 2.1 shows that independent variable DPS, EPS, P/E Ratio and NWPS used in this study to measure its impact on market price per share. Market price per share used as dependent variable.

# CHAPTER – III

# METHODOLOGY

Research methodology explains the method and process applied in the entire aspects of study. Every research should be outline in the systematic manner and for that reason research methodology is one of the most importance part of every research. To achieve the basic objective of the study, the various research methodology including research design, populations and sample, sources of data, data collection procedure and so on are adopted.

## 3.1 Research Design

The research design used in this study is both descriptive and analytical. Descriptive research design is used for describing the effect of EPS, DPS, NWPS, and P/E ratio on stock price from tables, graphs, and figures with basic calculation of present collected data. Similarly analytical research design is used for analyzing the standard deviation, correlation coefficient, regression analysis of sampled banks. Research design focuses on the data collection methods, the research instruments utilized, and the sampling plan to be used.

## 3.2 Population and sample

There are various sectors in the stock market such as financial institutions, insurance companies, manufacturing & processing, hotel, trading, hydropower and others. In this study 28 commercial banks listed in NEPSE are taken as population. Out of total 28 commercial banks, convenience sampling technique was used to select 4 commercial banks because the selected banks had high net profit than other banks. I had invested some amount in the share and debenture of the banks selected. Also, all 4 of the selected banks had their branches in my home district 'Dadeldhura'.

In conclusion, Population size =28 commercial banks, sample size = 4 commercial banks, sample percentage = 14.29 %.

## 3.3 Sources of data

The necessary information and data are collected from secondary source. The data are taken from annual report, trading report and publication made by the NEPSE, SEBON

and sampled banks. Other data pertaining to NRB, national journals and concerned websites.

### 3.4 Data collection procedure

Most of the data necessary for the study were collected from secondary source and from survey. However, opinion**s** were also taken with some individual investors, related organizational officials, SEBON and NEPSE staffs and other related personalities. Data related to market prices of share, market capitalization and volatility of NEPSE index etc were taken from the trading report published by NEPSE. Other data of related companies were taken from the companies as well as their concerned websites.

The collection procedure is summarized below:

a) Annual report of the banks

b) Previous study and reports

c) Summary sheet of NEPSE

### 3.5 Data processing procedure

It includes all the collected data and their interpretation. In the study the data of the market price of the shares of selected companies, earnings, dividend paid, net worth, market return, NEPSE index and many other related terms were presented and analyzed. Tables and Figures in this study clearly state the result of the findings.

### 3.6 Data analysis tool and techniques

To study the relationship between stock price, dividend, earnings, net worth, and price earnings ratio. Following financial and statistical tools have been used to analyze the variables of this study.

#### 3.6.1 Financial Ratios

**1. Market Price Per Share (MPS)**

Market price per share is the closing price of the stock on which the stock has been traded in Nepal Stock Exchange Ltd during study period. Market price per share is the depended variable in this research model.

$$MPS = \frac{\text{Total Market Capitalization}}{\text{No. of Shares Outstanding}}$$

**2. Earnings Per Share (EPS)**

The earnings per share is the portion of a company's profit that is allocated to each outstanding share of common stock. It is one of the indicators of company's profitability. A higher earnings indicate the better achievement in terms of profitability and of financial institutions by mobilizing their funds and vice-versa. EPS is the independent variable for this study.

$$EPS = \frac{\text{Total Earning of the Organization}}{\text{No. of Shares Outstanding}}$$

**3. Dividend Per Share (DPS)**

Dividend per share is the sum of declared dividends for every ordinary shares issued. It is the total dividends paid out to shareholders over an entire year divided by the number of outstanding shares issued. Both cash and stock dividend declared by each company have taken into account for the purpose of this study. It is one of the independent variable in this study.

Total amount of dividend = Cash Dividend +Stock Dividend % * Next Year's MPS

$$DPS = \frac{\text{Total Dividend Paid}}{\text{No. of Shares Outstanding}}$$

**4. Net Worth Per Share (Book Value per Share) (NWPS)**

The NWPS represents the real value of the company. It is simply the ratio of net worth (share capital plus retained earnings/genera reserve) divided by the number of shares outstanding. It is also one of the independent variable in this study.

$$\text{NWPS} = \frac{\text{Net Worth}}{\text{No. of Shares Outstanding}}$$

**5. Price Earnings Ratio (P/E ratio)**

Price earnings ratio examines the current price of the stock of a company relative to its earnings. It also reflects investors' expectations about the growth in the firm's earnings, which affects the stock price. It is also an independent variable in this study.

$$\text{P/E Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Price Per Share}}$$

**3.6.2 Statistical Tools**

**1. Arithmetic Mean or Average**

An average represents a group of values. It is the number which is obtained by adding the various numbers of all the items of a series and dividing the total by the total number of items. It is a useful tool in statistical analysis. It can be calculated by using following formula.

Mean ( $\overline{X}$ ) = $\frac{\Sigma X}{N}$

Where,

$\overline{X}$ = Arithmetic Mean

ΣX = Sum of Elements

N = Number of Observation

**2. Standard Deviation**

Standard deviation is a measure that is used to quantify the amount of variation or dispersion of a set of data values. The greater the standard deviation for the greater will be the magnitude of deviation. A small deviation means a high degree of uniformity of observation as well as homogeneity of a series. It can be calculated by using the following formula.

$$\sigma j = \sqrt{\frac{\sum X^2}{N}}$$

Where,

σj =Standard deviation of returns on stock 'j' during the time period n

$X = X - \overline{X}$

N=No. of observations

**3. Correlation Coefficient (r)**

Correlation analysis is the statistical tool that used to describe the degree to which one variable is linearly related to another" (Levin & David, 1994: 613). It is useful for measuring the intensity of the magnitude of linear relationship between two variables. If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, If the values of the variables are inversely proportional, then the correlation is said to be negative, but the correlation coefficient always remains within the limit of +1 to -1. The correlation coefficients (r) between two variants x and y can be obtained by using following formula.

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

Where,

r = The correlation coefficient between two variables X and Y.

**4. Regression Analysis**

Regression is the Statistical Method for investing relationship between the variables by the establishment of an approximate functional relationship between them. It helps to predict or estimate the value of one variable when the values of other variables are known. Multiple regression analysis has been used in this study. Multiple regression analysis consists of one dependent variable and two or more than two independent variables. In this study dependent variable is MPS and independent variable is EPS and DPS. The regression equation can be shown as:

$Y=a+b_1X_1+b_2X_2$

Where,

Y= MPS

a= y-intercept

$X_1$=EPS

$X_2$= DPS

$b_1$= beta coefficient of EPS

$b_2$= beta coefficient of EPS

# CHAPTER-IV

# RESULTS

Data presentation and analysis is one of the important part of the research work. In this section the study tries to find out the proof from the mathematical calculation for the theoretical statement. Results are based upon secondary data of selected commercial banks.

## 4.1 Data presentation and analysis

This chapter includes all the collected data and their interpretation. In the study, data of the market price of shares of selected companies, cash and stock dividend paid, earning per share P/E ratio, NEPSE index and many other related terms are presented and analyzed. Tables and Figures have been used for making the result clear and understandable. Four commercial banks listed in NEPSE are taken as sample. MPS, DPS, EPS, P/E ratio, NWPS, standard deviation, Correlation Coefficient, regression analysis of selected companies and other related data presented in table and figures and analysis were made accordingly using appropriate tools.

### 4.1.1 Market Price Per Share (MPS)

The MPS of a company's stock changes and fluctuates on the basis of various factors such as industry performance, investors' sentiment, and various macroeconomic factors and it can lead to movement in the price of the shares. The average MPS of selected four commercial banks have changed throughout the five year period where each shares of individual banks have increased and decreased and that have been presented in the table 4.1.

**Table 4.1**

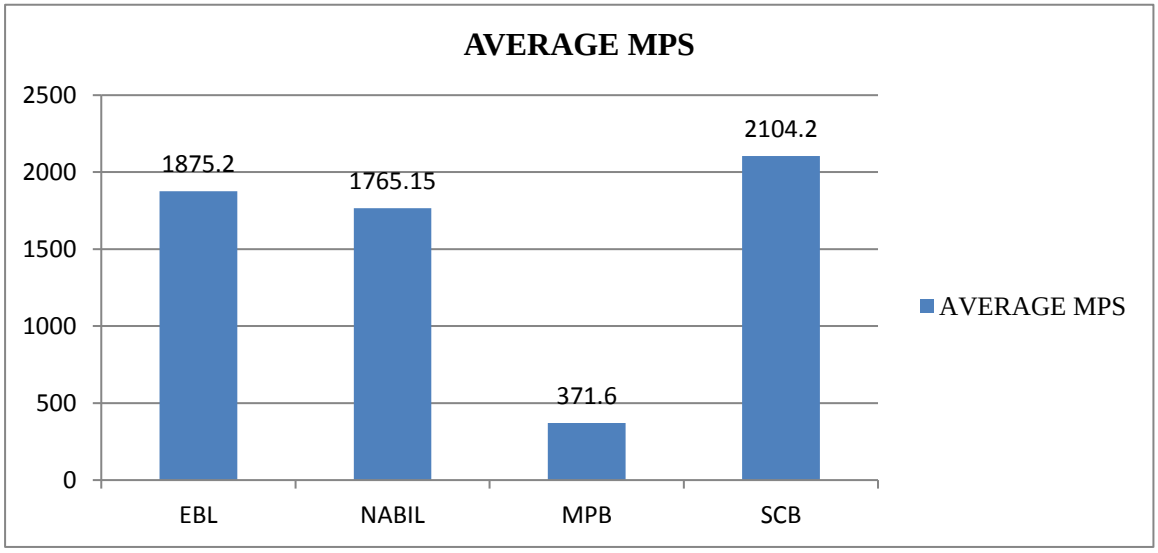
**Market Price per Share of Selected Commercial Banks**

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | Average MPS | Standard Deviation |
|---|---|---|---|---|---|---|---|
| **EBL** | 864.25 | 1427 | 2159 | 2036.5 | 2889.25 | 1875.2 | 767.750 |
| **NABIL** | 1048.75 | 1617.5 | 1973.75 | 2009.75 | 2166 | 1765.15 | 446.943 |
| **MPB** | 109 | 206.5 | 415.75 | 551.75 | 575 | 371.6 | 207.359 |
| **SCB** | 1532.25 | 1879.25 | 2087 | 1979 | 3043.25 | 2104.2 | 564.693 |

(Source: Quarterly Reports of selected Commercial Banks from FY 2013/14 to 2017/18)

The table 4.1 shows the average MPS of four commercial banks from the period of FY 2013/14 to FY 2017/18. There has been seen fluctuation in the MPS of each commercial bank. The average MPS of Standard Chartered Bank has found to be highest of NPR 2104.2 per share followed by MPS of EBL, NABIL and SCB, having 1875.2, 1765.15 and 371.6 respectively. The standard deviation of EBL is higher than other selected commercial banks with value of 767.750 shows high risk and standard deviation of MPB is lower compared to other having 207.359 shows low risk and bank NABIL and SCB have 446.93 and 564.693 respectively.

**Figure 4.1**




(Source: Quarterly reports of selected commercial banks)

The figure 4.1 clearly shows the average MPS of selected commercial banks. The

average MPS of Standard Chartered Bank has found to be highest of NPR 2104.2 per share followed by MPS of EBL, NABIL and MBL, having 1875.2, 1765.15 and 371.6 respectively.

### 4.1.2 Earnings Per Share (EPS)

The earnings per share is the portion of a company's profit that is allocated to each outstanding share of common stock. It is one of the indicators of company's profitability. A higher earnings indicate the better achievement in terms of profitability and of financial institutions by mobilizing their funds and vice-versa .The EPS of four selected commercial banks during the five year period are presented in table 4.2

**Table 4.2**

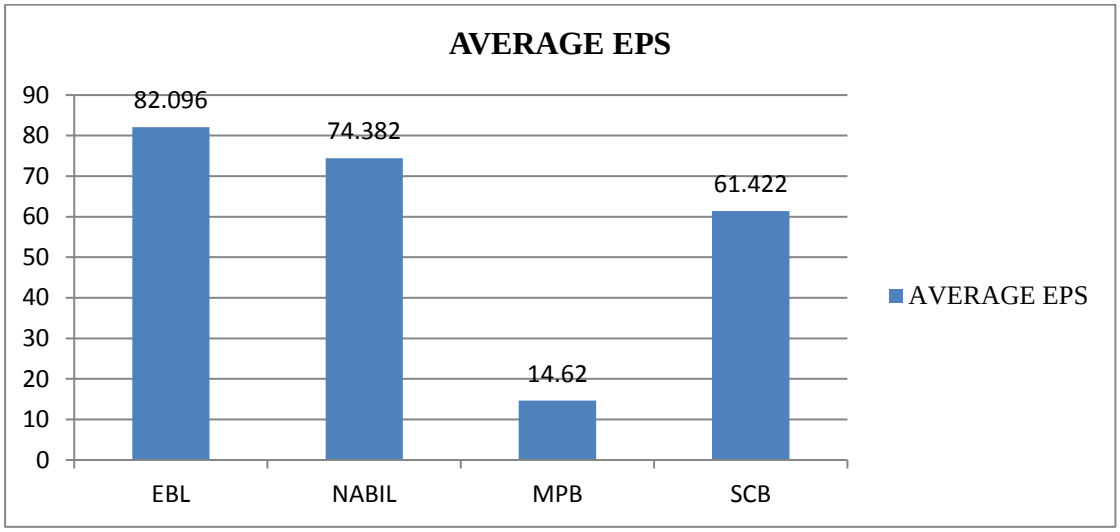
**Earnings Per Share of Selected Commercial Banks**

| | **2013/14** | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **Average EPS** | **Standard Deviation** |
|---|---|---|---|---|---|---|---|
| **EBL** | 88.55 | 91.88 | 86.04 | 78.04 | 65.97 | 82.096 | 10.361 |
| **NABIL** | 83.23 | 91.05 | 76.12 | 57.24 | 59.27 | 74.382 | 14.801 |
| **MPB** | 1.54 | 5.98 | 18.34 | 22.20 | 25.04 | 14.62 | 10.315 |
| **SCB** | 72.60 | 65.70 | 65.47 | 57.38 | 45.96 | 61.422 | 10.186 |

(Source: Annual report of selected commercial banks from FY 2013/14 to 2017/18)

The table 4.2 shows the average EPS of four commercial banks from the period of FY 2013/14 to FY 2017/18. There has been seen fluctuation in the EPS of each commercial bank. The average EPS of Everest Bank Limited has found to be highest of NPR 82.096 per share followed by EPS of NABIL, MPB and SCB having 74.382, 14.62 and 61.422 respectively. The standard deviation of NABIL bank has higher value of 14.801 shows high risk and lowest value is 10.186 of SCB shows low risk as compared to other banks. Similarly EBL and MPB having standard deviation of 10.361 and 10.315 respectively.

**Figure: 4.2**




(Source: Annual report of selected commercial banks)

The figure 4.2 clearly shows the average EPS of selected commercial banks. . The average EPS of Everest Bank Limited has found to be highest of NPR 82.096 per share followed by EPS of NABIL, MPB and SCB having 74.382, 14.62 and 61.422 respectively.

### 4.1.3 Dividend Per Share (DPS)

Dividend per share is the sum of declared dividends for every ordinary shares issued. It is the total dividends paid out to shareholders over an entire year divided by the number of outstanding shares issued. Both cash and stock dividend declared by each company have taken into account for the purpose of this study. The DPS of four selected commercial banks during five year period are presented in table 4.3.

**Table 4.3**

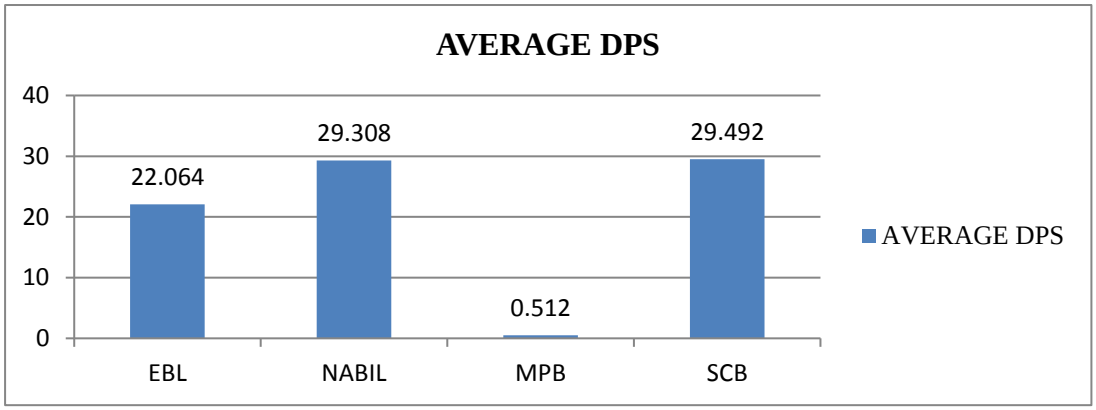
**Dividend Per Share of Selected Commercial Banks**

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | Average DPS | Standard Deviation |
|---|---|---|---|---|---|---|---|
| **EBL** | 1.58 | 50 | 50 | 5 | 3.74 | 22.064 | 25.531 |
| **NABIL** | 40 | 40 | 45 | 6.84 | 15 | 29.308 | 17.207 |
| **MPB** | 0 | 0 | 0.63 | 0.84 | 1.09 | 0.512 | 0.494 |
| **SCB** | 45 | 40 | 41.50 | 19.21 | 1.75 | 29.492 | 18.50 |

(Source: Annual report of selected commercial banks from FY 2013/14 to 2017/18)

The table 4.3 shows the average DPS of four commercial banks from the period of FY 2013/14 to FY 2017/18. There has been seen fluctuation in the DPS of each commercial bank. The average DPS of Standard Chartered Bank has found to be highest of NPR 29.492 per share followed by DPS of EBL, NABIL and MPB having 22.064, 29.308 and 0.512 respectively. The standard deviation of EBL bank has higher value of 25.531 shows high risk and lowest value is 0.494 of MPB shows low risk as compared to other banks. Similarly, NABIL and SCB having standard deviation of 17.207 and 18.50 respectively.

**Figure:4.3**




(Source: Annual reports of selected commercial banks)

The figure 4.3 shows the average DPS of four commercial banks from the period of FY 2013/14 to FY 2017/18. . The average DPS of Standard Chartered Bank has found to be highest of NPR 29.492 per share followed by DPS of EBL, NABIL and MPB having 22.064, 29.308 and 0.512 respectively.

### 4.1.4 Price Earnings Ratio (P/E ratio)

Price earnings ratio examines the current price of the stock of a company relative to its earnings. It also reflects investors' expectations about the growth in the firm's earnings, which affects the stock price. The P/E Ratio of four sample commercial bank during five year period is shown in the table 4.4.

**Table 4.4**

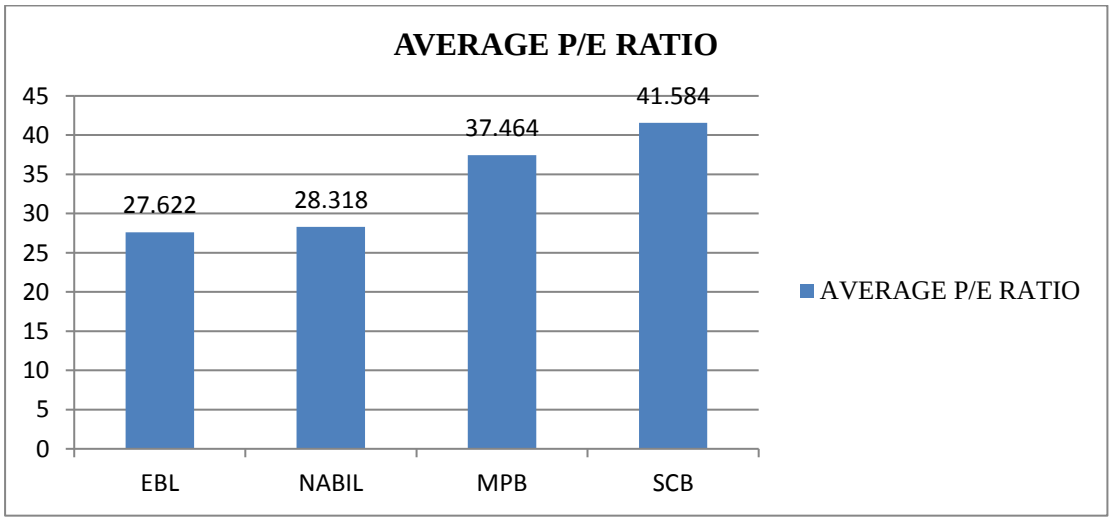
**Price Earnings Ratio of Selected Commercial Banks**

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | Avg. P/E ratio | Standard Deviation |
|---|---|---|---|---|---|---|---|
| **EBL** | 11.67 | 17.32 | 30.58 | 27.17 | 51.37 | 27.622 | 15.276 |
| **NABIL** | 16.21 | 19.08 | 33.38 | 33.37 | 39.55 | 28.318 | 10.114 |
| **MPB** | 69.41 | 33.96 | 31.40 | 25.40 | 27.15 | 37.464 | 18.176 |
| **SCB** | 24.78 | 27.70 | 42.75 | 33.86 | 78.83 | 41.584 | 21.928 |

(Source: Annual reports of selected commercial banks from FY 2013/14 to 2017/18)

The table 4.4 shows the average P/E ratio of four commercial banks from the period of FY 2013/14 to FY 2017/18. The average P/E ratio of Standard Chartered Bank has found to be highest of NPR 41.584 per share followed by P/E ratio of EBL, NABIL and MPB having 27.622, 28.318 and 37.464 respectively. The standard deviation of SCB is higher than other selected commercial banks with value of 21.928 shows high risk and standard deviation of NABIL is lower compared to other having 10.114 shows low risk and bank EBL and MPB have 15.276 and 18.176 respectively.

**Figure: 4.4**




(Source: Annual reports of selected commercial banks)

The figure 4.4 shows the average P/E ratio of four commercial banks from the period of FY 2013/14 to FY 2017/18. The average P/E ratio of Standard Chartered Bank has

found to be highest of NPR 41.584 per share followed by P/E ratio of EBL, NABIL and MPB having 27.622, 28.318 and 37.464 respectively.

### 4.1.5 Net Worth per Share (NWPS)

The NWPS represents the real value of the company. It is simply the ratio of net worth (share capital plus retained earnings/general reserve) divided by the number of shares outstanding. The NWPS of four selected commercial banks during five year period of time is shown in table 4.5

**Table 4.5**

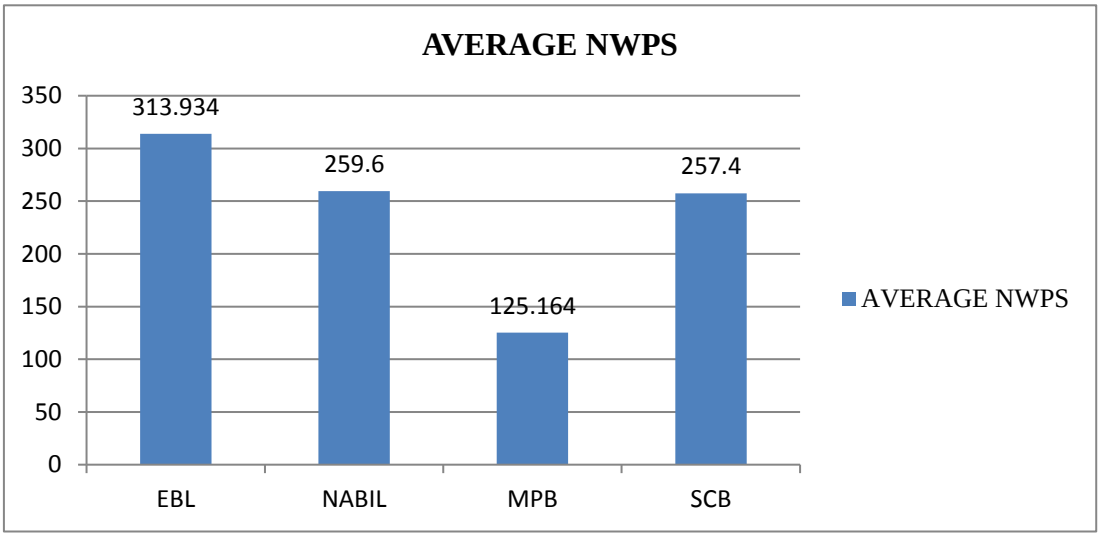
**Net Worth Per Share of Selected Commercial Banks**

| | **2013/14** | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **Average NWPS** | **Standard Deviation** |
|---|---|---|---|---|---|---|---|
| **EBL** | 326.17 | 291.13 | 296.30 | 335.60 | 320.07 | 313.934 | 19.285 |
| **NABIL** | 269 | 275 | 251 | 259 | 244 | 259.6 | 12.681 |
| **MPB** | 106.83 | 112.81 | 130.54 | 137.46 | 138.18 | 125.164 | 14.476 |
| **SCB** | 256 | 249 | 249 | 265 | 268 | 257.4 | 8.848 |

(Source: Annual reports of selected commercial banks from FY 2013/14 to 2017/18)

The table 4.5 shows the average NWPS of four commercial banks from the period of FY 2013/14 to FY 2017/18. The average NWPS of EBL has found to be highest of NPR 313.934 per share followed by NWPS of NABIL, MPB and SCB having 296.6, 125.164 and 257.4 respectively. . The standard deviation of EBL is higher than other selected commercial banks with value of 19.285 shows high risk and standard deviation of SCB is lower compared to other having 8.848 shows low risk and bank NABIL and MPB have 12.681 and 14.476 respectively.

**Figure: 4.5**




(Source: Annual reports of selected commercial banks)

The figure 4.5 clearly shows the average NWPS of four commercial banks from the period of FY 2013/14 to FY 2017/18. The average NWPS of EBL has found to be highest of NPR 313.934 per share as compared to NWPS of NABIL, MPB and SCB having 259.6, 125.164 and 257.4 respectively.

### 4.2 Correlation Matrix of Selected Banks (r)

**Table 4.6**

**Correlation Matrix**

| | MPS | EPS | DPS | P/E Ratio | NWPS |
|---|---|---|---|---|---|
| **MPS** | 1.000 | 0.905 | 0.961 | -0.197 | 0.916 |
| **EPS** | 0.905 | 1.000 | 0.871 | -0.594 | 0.981 |
| **DPS** | 0.961 | 0.871 | 1.000 | -0.217 | 0.832 |
| **P/E Ratio** | -0.197 | -0.594 | -0.217 | 1.000 | -0.512 |
| **NWPS** | 0.916 | 0.981 | 0.832 | -0.512 | 1.000 |

(Source: SPSS version 23)

The table 4.6, shows the relationship of MPS is strongly correlated with DPS i.e. 0.961 followed by NWPS i.e. 0.916 then by EPS i.e. 0.905 and P/E ratio i.e. -0.197. The relationship of MPS with EPS, DPS, NWPS are significant at 1% level of significance.

While examining the universal relationship between independent variables, it is observed that EPS has positive and significant relationship with DPS and NWPS. Similarly, DPS has significant positive relationship with NWPS and negative relationship with P/E ratio.

### 4.3 Major finding

Regression is statistical method for investing relationship between variables. This study attempts to estimate various econometric models to confirm the relationship between market price and fundamental variables and to test the robustness of the results. Results of the regression estimates of four explanatory variables EPS, DPS, NWPS and P/E ratio are presented in different tables with linear model and analyze in the following sub headings. The analysis of the results of total sample is presented sector wise in different models and the separate analysis of the whole sector has been compared model wise. The models to be estimated as under:

$MPS=a+b_1EPS+u_i$…… (i)

$MPS=a+b_1DPS+u_i$…… (ii)

$MPS=a+b_1PE+u_i$…… (iii)

$MPS=a+b_1NWPS+u_i$……(iv)

Where 'a' is considered as constant term, 'b' is considered as the coefficient of independent variables and $u_i$ is disturbance or error term. In above model market price per share (MPS) is dependent variable in each model. Earnings per share (EPS), dividend per share (DPS), net worth per share (NWPS) and price earnings ratio (P/E Ratio) have been considered as independent variables in each model.

#### 4.3.1 Simple Regression Analysis of Dependent Variable (Y) on Independent Variables (X)

The regression equation for simple regression is:

$Y = a + bX$……..i

$\sum Y = na + b\sum X$.....ii

$\sum XY = a\sum X + b\sum X^2$……iii

Where,

Regression Equation of MPS on EPS

$\sum X = 232.32$, $\sum Y = 6116.15$, $\sum XY = 419918.7709$, $\sum X^2 = 16258.8416$

Regression Equation of MPS on DPS

$\sum X = 81.38, \sum Y = 6116.15, \sum XY = 155354.7996, \sum X^2 = 2215.819$

Regression Equation of MPS on P/E Ratio

$\sum X = 134.99, \sum Y = 6116.15, \sum XY = 203216.6218, \sum X^2 = 4697.6643$

Regression Equation of MPS on NWPS

$\sum X = 956.10, \sum Y = 6116.15, \sum XY = 1635053.999, \sum X^2 = 247867.5033$

After solving the above equations the result is as follows:

**Table 4.7**

**Result of Simple Regression Analysis of Selected Banks**

| Dependent Variable (MPS or Y) | Y intercept (a) | Slope (b) | Independent Variable (X) |
|---|---|---|---|
| Y | 170.48 | 23.39 | EPS (X) |
| Y | 405.928 | 55.203 | DPS (X) |
| Y | 2286.25 | -22.4376 | P/E Ratio (X) |
| Y | -611.308 | 8.9544 | NWPS (X) |

(Source: SPSS version 23)

The table 4.7 shows the simple regression analysis between Dependent Variable (MPS) and various independent variables EPS, DPS, P/E Ratio and NWPS. When the value of independent variable EPS, DPS, P/E Ratio and NWPS is zero the value of dependent variable MPS is 170.48, 405.928, 2286.25 and -611.308 respectively.

Similarly, it also shows that MPS has positive relation with EPS, DPS, NWPS and negative relation with P/E Ratio.

### 4.3.2 Major Findings of Secondary Data

1. In the last FY 2016/17 total listed companies in Nepal Stock Exchange Ltd. were 232, which were decreased to 208 in FY 2017/18 due to the merger and acquisitions.
2. The Nepalese Capital Market during FY 2016/17 as the result the indicators of secondary market like NEPSE index, annual turnover, number of transaction, turnover to market capitalization and average price per share have been decreased in FY 2016/17 than in FY 2015/16, it shows that the NEPSE was in diminishing trend during FY 2016/17 and in FY 2017/18 it is on increasing way.

3. The condition set by Nepal Rastra Bank to increase the capital of banks and financial institutions have increased the number of issuing of bonus shares and right shares by such banks and financial institutions.
4. As per notice and request of SEBON regarding Demat of shares, there are 560,889 Demat account opened and 1,145,363,662 shares are in demat form as of October 2019.
5. The study observed a positive and significant relation between size of capital and the market price per share which indicates that bank having higher capital has a higher market price per share. Therefore bank has to be very careful about their market capitalization. In order to increase capital, bank can issue a further right share or can distribute a bonus share (stock dividend) to the shareholders.
6. The bank with highest average market price per share is observed to be Standard Chartered Bank with mean of Rs. 2104.2 and the bank with lowest average market price per share is Machhapuchre Bank with mean of Rs.371.6.
7. The analysis of descriptive statistics revealed that market price per share of selected commercial banks fluctuate throughout the year from FY 2013/14 to FY 2017/18. It also shows that the high price movement is observed in case of Standard Chartered bank than other commercial banks throughout the years. Similarly, earnings price per share, dividend per share, P/E ratio, net worth per share of selected banks also fluctuate throughout the years.
8. The equation Y indicates dependent variable i.e. MPS and where as X1 and X2 are EPS and DPS. a, b1 and b2 are constant. When EPS and DPS change positively or negatively it will affect the MPS because MPS is dependent Variable.
9. The relationship of MPS is positively correlated with by DPS i.e. 0.961 followed by EPS i.e. 0.905 then by NWPS i.e. 0.916 and P/E ratio i.e. -0.197. The relationship of MPS with EPS, DPS, NWPS are significant at 1% level of significance. It is observed that EPS has positive and significant relationship with DPS and NWPS. Similarly, DPS has significant positive relationship with NWPS and negative relationship with P/E ratio.
10. As per the result of regression analysis, positive and highly significant impact of dividend on market price per share has been observed in case of Nepalese commercial banks which indicates that banks with higher level of dividend

payment incur higher market price per share which results in higher returns to the shareholders.

11. The result of simple regression analysis between Dependent Variable (MPS) and various independent variables EPS, DPS, P/E Ratio and NWPS shows that when the value of independent variable EPS, DPS, P/E Ratio and NWPS is zero the value of dependent variable MPS is 170.48, 405.928, 2286.25 and -611.3076 respectively. Similarly, it also shows that MPS has positive relation with EPS, DPS, NWPS and negative relation with P/E Ratio.

# CHAPTER-V
# CONCLUSIONS

This chapter embodies three parts of the study; discussion, conclusions, implications. The first part depicts about the discussion of whole research study, the second depicts about conclusions and final part presents about the implications in light of its findings.

## 5.1 Discussion

Security market is one of the constituents of capital market. It has wide embracing for the buyer and seller of all securities and all related agencies. It has a significant role to the development of capital market as well as overall economy. Basically, it affects the economy through creation of liquidity, marketability, etc. liquid equity markets makes less expensive to trade equities, reduce disincentive to investing the lag duration projects because investors can easily sell. It also facilitates higher to choose and invest in higher return projects and best productivity growth. More liquidity makes easier to sell. Like liquidity, market efficiency is another most profound idea to affect the investment decision process in security market. This means that efficiently proved markets in which this price of security do not depart for any length of time from justified economic values. The security values are also determined by investor's expectation about earning risk and so on. In efficient market values is going to be changed by reacting with new information. Thus, securities are efficiently priced on a continuous basis.

The stock market of Nepal is in developing stage. It needs help from all concerned bodies to function properly. The government should formulate effective rules and regulations and implement it properly to develop the stock market. The listed companies should always be ready to help the market by obeying the rules and regulations, timely disclosing and submitting annual financial statement, avoiding rumors and not manipulating the price of stock.

The study shows the dependent variable MPS has positive relation with independent variables EPS, DPS, NWPS but having negative relation with P/E ratio. Beside this Nowadays, Nepalese share market has entered to the new horizon. Its size and market capitalization are growing day by day. New by laws are being established to control stock market price. But it is clearly realized that share prices are fluctuating abnormally. If earning, dividend, net worth and price earnings ratio are taken as the main determinants of price fluctuating, then why the share prices are increased

without the increment in such factors. Thus, the earlier studies on share price behavior needed to be updated and validated because of the many changes taking place in stock market.

This study has raised the major issue to analyze whether the earnings per share, dividend per share, net worth per share and price earnings ratio with respect to market price of share are related or not. To deal with the above issue this study has set the main objective is to evaluate factors affecting market price in the context of Nepal. Other objectives are 1) To find out relationship between macro-economic factors and the movement of Stock Price of Commercial Bank in Nepal 2) To determine the effect of earnings, dividend, net worth, and price earnings ratio to the stock price 3) To examine the relationship of MPS with various financial indicators like EPS, DPS, NWPS, and P/E ratio and 4) To examine overall efficiency of Stock Market in Nepal.. The relationship of EPS, DPS, NWPS and P/E Ratio with MPS has been checked by correlation and regression analysis has been done to predict the dependent variable MPS by the help of independent variables EPS, DPS, NWPS and P/E Ratio and to know the strength of relationship between variables.

Share market are the causes that have significant contribution for abnormal price fluctuation in Nepalese stock market. And SEBON and Brokerage firms are major responsible agencies for making market inefficient.

**5.2 Conclusions**

1. The stock market is one of the forms of secondary market. It is a medium through which corporate sector mobilizes funds to financial productive projects by issuing shares in the market. Most of the general investors in Nepal do not have sufficient information regarding the primary market but still they are interested to invest money in the primary market. As per this study, almost every sector is getting good response from general public. Specifically financial sector is more preferable than non-financial sector. Even among the financial sector most are interested in commercial banks.
2. The Nepalese Capital Market during FY 2016/17 as the result the indicators of secondary market like NEPSE index, annual turnover, number of transaction, turnover to market capitalization and average price per share have been increased in FY 2017/18 than in FY 2016/17.

3. From the findings it can be concluded that market price per share of selected commercial banks fluctuate throughout the year from FY 2013/14 to FY 2017/18. The relationship of MPS is positively correlated with EPS, DPS and NWPS and negatively correlated with P/E ratio. The relationship of MPS with EPS, DPS, NWPS are significant at 1% level of significance. It is observed that EPS has positive and significant relationship with DPS and NWPS. Similarly, DPS has significant positive relationship with NWPS and negative relationship with P/E ratio.
4. The simple regression analysis between Dependent Variable (MPS) and various independent variables EPS, DPS, P/E Ratio and NWPS shows that MPS has positive relation with EPS, DPS, NWPS and negative relation with P/E Ratio.
5. From the above data and findings it can be seen that the secondary market of Nepal is highly concentrated on banks and financial institutions. The secondary market is highly dominated by banking and financial institutions. This may cause problem to construct efficient portfolio in the market and could be the main barrier for institutional investors. For this companies from real sector should be encouraged to list and to get traded in capital market.

### 5.3 Implications

Based on findings of the study, and taking into considerations of the relevant issues, the following appropriate recommendations have been gathered to ease the study useful to the recipients and the other parties. This study should be fruitful to the stakeholder, researchers and student who are interested to this topic.

1. The report shows that macroeconomic environment is good in Nepal but infrastructure situation, technological readiness, and inefficient labor market are the main issues that should be addressed to make Nepalese investment environment more competitive.
2. The study observed that Nepalese capital market is largely dependent on banks and financial sector, which is not good signal for overall development of capital market and market as a whole in this regard the regulatory body and the government should take a step forward and encourage public issue from other sectors like manufacturing and processing by providing additional facilities such as tax-concessions.

3. The study observed a positive and significant relation between size and the market price per share which indicates that bank having higher capital has a higher market price per share. Therefore bank has to be very careful about their market capitalization. In order to maximize their capital, bank can issue a further right share or can distribute a bonus share (stock dividend) to the shareholders.
4. The study supports the fact that dividend decision is concerned with earning position of the bank and further the study revealed that dividend announcement is relevant in determining value of the share in the market. Hence, investors are recommended to review profitability of the bank before buying share of the banks because earning position of the banks will reflect the dividend announcement potentiality and dividend announcement will increase the market price per share.
5. The government should formulate effective rules and regulations and implement it properly to develop the stock market. The listed companies should always be ready to help the market by obeying the rules and regulations, timely disclosing and submitting annual financial statement, avoiding rumors and not manipulating the price of stock.
6. In order to contribute to the economic growth, the capital market should be improved by upgrading companies accounting and auditing standards, disclosing of information, upgrading corporate governance and enhancing the monitoring and policy capacity of SEBON.
7. The study considered some selected independent variables; one can consider other factors such as interest rate, political factor, economic policy, bank credit etc. for more reliable conclusion.
8. The trading of NEPSE should be Fully Automated Trading so buying and selling procedure of shares should be systematic, fast and less time consuming. The NEPSE should update its technology as NEPSE system generally gets down. Besides, this they must avoid and stop insider's information so that the stock price should be fair without may manipulation.
9. Due to less technological knowledge, most investors have to depend upon the third party, and some may defy their trust so, investors should be updated about the current market condition, and brokers need to be clearly providing the information to the investors. As demat has various benefits and SEBON had also issued notice to demat their shares so, every investors should demat their shares for easy and convenient way to hold and trade securities.

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