

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is one of the developing countries in the world. The economy of the country largely depends upon the utilization of its resources and mobilization of capital. The lack of its proper utilization results the country to be backward ever as Nepal is facing now. The mobilization of the capital is an important tool to utilize the resources which affects the overall economy of the nation. The financial institutions contribute the national economy by accumulating the capital funds to meet the financial needs of different productive sectors. They actively participate in the money market and the capital market, as both suppliers and demanders of the funds.

The world's economic sector is changing rapidly. Economic sector plays vital role for developing the nation. The world economic growth reached to 5.4 percent in the year 2006 as against 4.9 percent growth in the year 2005. The growth was attributed to the rise in the petroleum prices in the early-half of 2006 and recession in the US housing market were more than offset by the declines in the petroleum prices since August 2006, improvement in domestic demand in the advanced economies, gradual recovery in the Japanese economy, remarkably high growth rate in China and India, favorable financial market conditions, and adoption of sound economic policies.

The economic growth rate of Nepal in the year 2008/09 was only 3.5 percent which is estimated to be 5.5 percent in the year 2009/10 in line with some improvement in economic activities. Nepal is one of the least developed countries lying between two large countries India & China. It has richly diversified geography and biology with huge potentiality of hydroelectric power. Similarly, its culture, natural beauty, art and archaeology are quite distinct in the world that can increase the economic growth through promoting tourism. Besides having these rich mechanisms, there is a wide gap between Nepal's economic growth and the world's economic growth. Such gap may have been provoked by the ineffective utilization of resources and available capital.

## **Primary Market**

Securities available for the first time are offered through the primary market. The issuer may be a brand new company or one that has been in business for many years. The securities offered might be a new type for the issuer or additional amounts of a security used frequently in the past. The key is that these securities absorb new funds for the offers of the issuer.

The primary securities market includes all transactions that result in the accumulation of financial capital by firms, governments or individuals to be used in consumption or real capital investment. The participants in this process are many and varied, but the important segment, includes the money brokers who acts as a middlemen in the process of exchanging securities for fund. These brokers provide invaluable services. Their principal role is to assist in the pooling of funds by the certain of security forms that will appeal to the ultimate investors.

All securities, whether in the money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the sale of securities. Once the securities begin to trade among individual, business, government or financial institution, savers and investors, they become part of the secondary market. Capital is the lifeblood of the business organizations. Every business enterprise requires short term, intermediate and long term capital for the smooth operation and expansion of the organizational activities. Among these types of fund, the long term funds plays highly significant role for future growth and prosperity of the organizations. Most business organizations gather long term funds from financial market. (James C. Van Horne, Financial Management and Policy, 11<sup>th</sup> Edition. New Delhi : Prentice Hall of India 2000:448.)

## **Financial Market**

Financial Market is the place where the financial instruments are traded. Financial instruments include share, bond, debenture etc. It is a means to transfer funds from savers to those in need of funds. Financial experts have mentioned it as a brain of the entire economic system. The failure of the financial market obstructs the progress of the whole economy.

Financial markets can be defined as the centers or arrangements, which provide facilities for buying and selling of financial claims and services. Specifically, financial market chiefly refers to money market and capital market. It facilitates the transfer of funds from the savers to those who wish to invest in capital goods.

### **Money Market**

It can be defined as short term financial market, which facilitates liquidity and marketability of securities. It is the market for short term marketable instruments having less than one year maturity period.

Money markets are sometimes defined as organized and unorganized money markets. The organized or formal money markets provide an institutional mechanism for the transactions of short term securities and commercial banks, finance companies and other saving/credit unions are the players in the money market. Local merchants, indigenous bankers and relatives come under the informal or the unorganized sector.

The development of efficient market requires the development of institutions, instruments and operating procedure that aids widening and deepening of the market and allocation of short term resources with minimum transactions costs and delays.

### **Capital Markets**

Capital Markets also play a vital role in the national economy. Capital market facilitates the allocation of funds between the savers and borrowers. This allocation will be optimum if the capital market has efficient pricing mechanism. If the capital market is efficient, the current share price of the company fully reflect the available information and there will be no question of the share price being over or under priced. Capital market is concerned with the long term finance. The funds collected in the market are raised and traded by long term financial instruments such as equities and bonds.

## **Secondary Market**

Secondary markets are markets for existing assets, which are currently traded between investors. It is this market that creates the price and allow for liquidity. If secondary markets did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all.

Secondary markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers. Secondary market comprises the stock exchange, the over the counter market.

The function of the secondary markets is to provide liquidity for securities purchased in the primary markets. Once investors have purchased securities in the primary markets, they need a place to sell those securities. Without the liquidity of the secondary market, firms would have difficulty raising funds for productive purposes in the primary markets.

### **1.1.1 Stock Exchange**

It is a market for long term capital where both new capitals can be raised by companies and where existing shares can also be bought and sold. By providing a second hand market for investors to sell their shares, it facilitates the raising of new capital on the new issues market. The stock exchange also provides a market for government loans and securities, and increasingly involved in the buying and selling in securities in the overseas companies. On the market, the main operators are the market makers who trade in a group of share, and the stock brokers who act as agents for their clients, who are the investors who are actually buying and selling shares. Hence, the stock exchange is one of the forms of secondary market where the shares of listed companies are transferred one hand to other mobilizing the funds to finance the productive sectors. It creates and enhances liquidity in the securities.

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### **1.1.2 Security Board, Nepal [SEBO/N]**

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Exchange Act, 2006.

Nepal Security Board promotes and protects the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale and exchange of securities, to supervise, look after and monitor the activities of the stock exchange and the other related firms on securities business, and to render contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

### **1.1.3 Nepal Stock Exchange [NEPSE]**

Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. 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. NEPSE opened its trading floor on 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE.

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets. Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Government, under a program initiated to reform capital markets converted Securities. Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws.

Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager work as manager to the issue and underwriter for public issue of securities whereas securities trader (dealer) works as individual portfolio manager.

NEPSE, the only Stock Exchange in Nepal, introduced fully automated screen based trading since 24th August, 2007. The NEPSE trading system is called 'NEPSE Automated Trading System '(NATS) is a fully automated screen based trading system, which adopts the principle of an order driven market. NEPSE facilitates

trading in Shares (Equity Shares & Preference Shares), Debentures, Government Bonds and Mutual Funds. Trading on equities takes place on all days of week (except Saturdays and holidays declared by exchange in advance). On Friday only odd lot trading is done.

The market timings of the equities are:-

Market Open: - 12:00 Hours

Market Close: - 15:00 Hours

Odd Lot Trading is done on Fridays. For Odd Lot Trading Market Timings are:-

Market Open: - 12:00 Hours

Market Close: - 13:00 Hours

The stock exchange provides floor for trading the shares of listed companies creating the liquidity in shares markets. The liberal financial policy adopted by Nepalese Government after the restoration of democracy tried to reform the financial market of Nepal. That result open practice of buying and selling of securities in the open floor of NEPSE maintaining the suitable market price of the shares. In general, the prices are determined according to the demand and supply of the shares. This study attempts to examine the different determiners of the share price relating the MPS with major financial indicators.

## **1.2 Statement of the Problem**

Investment practices procedures in Nepal the organized stock exchange are still in a crewing stage. The investment in secondary stock market plays crucial role in financial sector of the nation's economic stock market being one of the prominent sources of economic development for nations in trying to attract its potential sources of only few investors who are their biggest assets. But due to some relevant and irrelevant issues in security market a less of hurdles can be seen and observe.

So in order to perform the function well securities markets are integral part of any financial system the act as financial intermediaries for debt and equity instruments, ensuring greater competition among financial sources resulting in greater efficiency. The security market provides mechanism to mobilize community saving for productive investment. It is believed and also supported by the empirical studies that

the stock market performance, defined size, liquidity and integration to the global/regional capital market positively influence the economic growth of that country. So to know the actual situation of the always fluctuating trend of the stock price, here effort has been made to find out what actually is the situation of the stock market in aspect to price formation and movement in NEPSE. The main reasons are follow:

- a. What is the occurring trend of stock price during this study?
- b. What is the movement of index price of Nepalese Commercial Banks listed in NEPSE?
- c. Where the investment decisions by the investors are made randomly or not?
- d. What is the impact of DPS, EPS, MPS, P/E ratio on the share price trend and volum of transactions?
- e. Is there any relation between MPS with the major financial indicators (EPS, BPS, and DPS)?
- f. Also, whether the investors are aware of financial indicators that influence the MPS of the company?

### **1.3 Objectives of the Study**

The basic objectives to find out the stock price in Nepal stock market with the effect of different financial dependent various like DPS, EPS, BPS.

The Specific objectives of this study are listed below :

- a. To show relationship between MPS with the various financial indicators like DPS, EPS, BPS.
- b. To determine how the price of share fluctuate with the effect of different financial dependent and independent variables like DPS, EPS, BPS.
- c. To study and analysis stock price on the secondary market.

### **1.4 Significance of the study**

In the present time investment in stock market has been sum and the investors are attract towards stock market rather than other sector. In Nepalese context the government has initialled liberal economic policies.



Investor of Nepalese capital market is more attract to invest in stock with high return bearing less risk. But most of the investors are not able to analyze and interpreted the real financial position of the company from the available data and information, making it difficult to make alright decision to invest in most profitable securities.

This study attempts to construct the relation of MPS of the Nepalese Commercial Banks to the major financial indicators like EPS, BPS, DPS etc. The relation is hoped to show the current status of Nepalese Commercial Banks with respect to the determiners of the Share Price. These findings may be helpful to the potential investors to make the better investment decisions.

Likewise, this thesis provides the information about the position of Share Price in Share industry. Moreover, the industrial average regarding different financial indicators are helpful to compare with the individual banks. This information is expected to be helpful to the managers of the respective banks. It delivered different information about the Share Market of Nepalese Commercial Banks which may be required to the further researcher. Hence this thesis is expected to be important to the further researchers.

## **1.5 Limitations of the Study**

Due to the limitations of the time, cost and other resources, this study is limited to the following areas:

- a. The secondary data is taken with limited time and periods for the study.
- b. This study is based on stock price movement of some selected company listed in NEPSE
- c. The study cover all the relevant data and information only for seven F.Y. years (2003 to 2009) years.
- d. The data are based which is provided by the office of SEBON and stock exchange but those are not verified by expert

## **1.6 Chapter Scheme**

The entire study has been organized into five main chapters as:

The first chapter deals with background of the study, a brief review of SEBON and NEPSE, statement of problem, objective of the study, scope of the study and limitations of the study.

The second chapter is the brief review of literature related to this study. It includes a discussion on the conceptual framework and review of the major studies. It gives an overview of the related literature done in the past related to this study.

The third chapter deals with the research methodology which has been followed to achieve the purposes of the study. It consists of research design, the period covered, nature and sources of data, tools to be used, research variable etc.

The fourth chapter deals with presentation and analysis of data. It gives a clear picture of how the collected data has been presented on the study and how it has been analyzed.

And at last, the fifth chapter shows the summary of whole study, conclusion drawn and recommendations given. This ends the study paper.

Besides these chapters, Bibliography and Annex are included in this research paper.

## **CHAPTER II**

### **LITERATURE REVIEW**

Review of literature is one of the most significant parts of research. It will be better to review some fundamental aspects of relevant literature before doing analysis. So, it is attempted to present brief glimpses on the common stock as well findings of the related previous studies. The review of literature has been divided into two broad categories which are as follows:

#### **2.1 Common Stocks [Shares]**

The common stocks represent ownership in a company. The holders of common stocks, called the shareholders or stockholders, are the legal owners of the company. The common stocks are the permanent and vital source of capital since they do not have a maturity date. For the capital contributed by the shareholders by purchasing common stocks, they are entitled to dividends. The amount or rate of dividend is fixed by company's Board of Directors. The common stock is, therefore, known as variable income security. Being the owners of the company, the stockholders bear the risk of ownership; they are entitled to dividends after the claims of others have been satisfied. Similarly, when the company is wound up, they can exercise their claims on assets after the claims of the other suppliers of capital have been met. The common stocks are issued by the firms to raise ownership capital and the investors buy them with the expectation that they receive a share of profit periodically. The common stocks legally represent the equity of business firm, and the holders are the owners who share all the profits and losses of the business. They enjoy all earnings after meeting the obligation of interests on debts and dividends on preferred stocks. Thus, they enjoy all net benefits of the business by assuming the risk of losing their capital.

##### **2.1.1 Stock Certificates**

“The ownership of a firm's stock has typically been represented by a single certificate, with the number of shares held by the particular investor noted on it. Such a stock certificate is usually registered, with the name, address, and holding of the investor included on the corporation's books. Dividend payments, voting materials,

annual and quarterly reports and other things are then sent directly to investor, taking into account the size of his or her holdings.

Shares of stock held by an investor may be transferred to a new owner with the assistance of either the issuing corporation or, more commonly, its designated transfer agent. This agent will cancel the old stock certificate and issue a new one in its place, made out of the new owner. Frequently, a register will make sure that this canceling and issuing of certificate has been done properly. Usually, banks and trust companies act as transfer agents and registrars. Many stock holders have chosen to avoid these rather cumbersome procedures. Instead, depository trust companies are used which substitute computerized records for embossed certificates.” (OP. Cit: W.E. Sharpe, G.J. Alexander & V.B. Bailey. 2000: 458)

### **2.1.2 Securities**

“When someone borrows money from a pawnbroker, he or she must leave some item of value as security. Failure to repay the loan (plus interest) interest means that the pawnbroker can sell the pawned item to recover the amount of the loan (plus interest) and perhaps make a profit. The terms of agreements are recorded via pawn tickets.

When a college student borrows money to buy a car, the lender usually holds formal title to the car until the loan is repaid.

In the event of default, the lender can repossess the car and sell it to recover his/her costs. In this case, the official certificate of title, issued by the state, serves as the security for the loan. A person who borrows money for a vacation may simply sign a piece of paper promising repayment with interest. The loan is unsecured, in the sense that there is no collateral, meaning that no specific assets have been promised to take the borrower to court to try to recover the amount of the loan. Only a piece of paper called a promissory note stands as evidence of such loan.

When a firm borrows money, it may not offer collateral. For example, some loans may be secured (backed) with specific pieces of property (building or equipment). Such a loan are recorded by means of mortgage bonds, which indicate the term of repayment and the particular assets pledged to the lender in the event of default.

However, it is much more common for corporation to simply pledge all of its assets, perhaps with some provision for the manner in which the division will take a place in the event of default. Such a promise is known as debenture bond.

Finally, a firm may promise a right to share in its profits in return for investor's funds. Nothing is pledged, and no irrevocable promises are made. The firm simply pays whatever its directors deem reasonable from time to time. However, the investor is given the right to participation in the determination of who will be the members of the board of directors. The right protects the investors against serious malfunctions. The investor's property right is represented by a share of common stock, which can be sold to someone else, who will then be able to exercise the right. The holder of common stock is said to be as owner of the corporation and can, in theory, exercise over its operation through the board of directors.

Generally, only a piece of paper represents the investor's right to certain prospects or property and the conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights, is called a security. It may be transferred to another investor, and with it will go all rights and conditions. Thus everything from pawn ticket to share of GM common stock is a security. (Ibid, p.2-3)

### **2.1.3 Security Market**

The security market is known as the market where all types of securities are traded. The security market is a broad term embracing a number of markets in which securities are bought and sold. Securities markets includes how an individual investor goes about the business of placing any order to buy or sell, how the order is executed, the process of setting the payment and transfer costs, and one hope the payment of federal personal income taxes on the profits from the transactions. (D.E. Fisher, R.J. Jordan, Security Analysis Portfolio Management. 5<sup>th</sup> Edition, New Delhi : Prentice Hall of India 1992 : 16). These securities include common shares, preference shares and debentures.

The security market may be divided into two categories:

**Primary Markets:** In the primary market the original issuance of the financial instruments of the company is traded. The company should sell its approved share through the authorized issue and sales agent. The company has to register its shares in the SEBO to get the valid authority to the issuance of shares. Primary markets provides as important allocate function by channeling the funds to those who can make the best use of them – presumably, the most productive.

**Secondary Markets:** In the secondary market the share once issued in the primary market are traded. So, the secondary market liquidates the shares and provides the opportunity between the investor and the seller of the securities. The company must list the securities in the security market for the transaction purpose.

“If the owner of 100 shares sells his/her stocks, the trade is said to have occurred in the secondary market. Thus, the market for outstanding shares or the used share is the secondary market. The company receives no new money when sales occur in this market.” (Eugene F. Brigham, Louis C. Gapenski and Michael C. Ehrardt 1999. Financial Management theory and practice. 9<sup>th</sup> Edition Harcourt College 3 Publishers P.327)

In the secondary market existing securities are traded and thus enabling disposal of these securities whenever the owner wishes. An active secondary market is, therefore, a necessary condition for an effective primary market, as no investor wants to feel ‘locked in’ to an investment.

#### **2.1.4 Relation Between Primary & Secondary Market**

The primary market and the secondary market have a symbolic relationship. While the primary market creates long term securities, the secondary market provides liquidity through marketability of those institutions.

Fresh capital issues are influenced by the level and trend in stock prices at the time of issue. Actually, new activity in the primary market adds depth to the secondary market by enlarging the supply of instruments for trading and investment in the secondary market. Stock prices in turners are influenced by the large size and

bunching of new issues. Besides, primary and secondary market is indispensable ingredients of the capital market and is the basis to meet the financial requirements of corporate bodies.

## **2.2 Stock Market & Stock Exchanges**

“Secondary markets are those in which outstanding previously issued securities are traded. By far the most active secondary market, and the most important one to financial managers, is the stock market. It is here that price of firm’s stock are established, and since the primary goal of financial management is to maximize the firm’s stock price, knowledge of the market in which this price is established is essential for anyone involved in managing a business.

There are two basic types of stock market – the organized stock exchanges, which include the New York Stock Exchange [NYSE], The American Stock Exchange [AMEX], and several regional exchanges, and the less formal over-the –counter markets. Since the organized exchanges have actual physical market location and are easier to describe and understand, we shall consider them first.

The organized security exchanges are tangible physical entities. Each of the larger one occupies its own building, has specially designated members, and has an elected governing body-its board of governors. Members are said to have “seats” on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange. (J.F. Weston & E.F. Brigham (1987 : 78). Essential of Managerial Finance)

## **2.3 Stock Price**

Stock price is the amount of money that one has to pay to purchase/receive a stock of a company. If A buys 10 shares of the Bank of Kathmandu from B, s/he pays Rs. 2000 for these 10 shares, and then the price of share is Rs. 200 [i.e. Rs. 2000/10]. Thus, stock price is the amount of money paid by a buyer to buy one stock or the amount received by the seller by selling a stock. The stock price is determined in stock market, by market forces i. e. demand (buyer’s force) and supply (seller’s force).The demand and supply are based on the environmental forces and individuals’ future

expectations/assumptions. The stock (market) price is different from its par value and book value.

### **2.3.1 Par Value**

“When a corporation is first chartered, it is authorized to issue up to a stated number of shares of common stock, each of which will often carry a specified par value. Legally a corporation may be precluded from making payments to common stockholders if doing so would reduce the balance sheet value of stockholders equity below the amount represented by the par value of outstanding stock. For this reason, the par value is typically low relative to the price for which the stock is initially sold. Some corporations issue no-par stock. [In that case, a stated value must be recorded in place of the par value]” (Op. Cit. W.F. Sharpe G.J. Alexander & V.B. Bailey 2000 :461) The initial offering price of the share may vary from the par value if stocks are issued on premium or discount.

### **2.3.2 Earning per share [EPS]**

Accounting earnings that represent the difference between revenues and expenses, including the expenses associated with non-equity source of funds (such as interest to debt, dividend to preference shares) is also known as total earnings available for common stock. If this portion of income is divided by number of outstanding shares, we get earning per share. (Op. Cit. Sharpe, Alexander and Bailey. (2001 : 622)

### **2.3.3 Dividend per share [DPS]**

The percentage of earnings the firm pays in cash to its shareholders is known as dividend. The dividends, of course, reduce the amount of earnings retained in the firm and affect the total amount of internal financing.

Nothing is more important than dividends to stock holders. They buy shares of the firm with the hope of sharing profits earned by firms. The sole motive of stockholders is to receive return on their investment; nothing pleases them more than knowing the firm’s earnings and more profits mean more dividends coming in Krishnaman opines that of two stocks with identical earnings record and prospect, but the one paying a large dividend than the other, the former will undoubtedly command higher price



merely because stockholders prefer present to future values. Stockholders often act upon the principle that a bird in the hand is worth two in the bush and for this reason that are willing to pay a premium for the stock with the higher dividend rate.

*Cash dividend:* Payments made in cash to stockholders are termed cash dividends. For which, a firm needs to have enough cash in its bank account. When cash dividend is declared, the cash account and reserves amount of the firm will be reduced, thus both the total assets and the net worth of the firm are reduced in case of distribution of cash dividends.

*Bonus share (stock dividend):* An issue of bonus share represents a distribution of shares in addition to cash dividend (known as stock dividend in USA) to the existing stockholders. This practice has the effect of increasing the number of outstanding shares of the company, which are distributed proportionate ownership of the company.

#### **2.3.4 Net worth Per Share [NWPS]/ Book Value Per Share [BPS]**

A corporation will generate income, much of which is paid out to creditors (as interest) and to shareholders (as dividends). Any remainder is added to the amount shown as cumulative retained earnings on the corporation's books. The sum of cumulative retained earnings and other entries (such as common stock and capital contributed in excess of the par value) under shareholder's equity is the book value of the equity. The book value per share is obtained by dividing the book value of the equity by the numbers of share outstanding. (Op. Cit : Sharpe, Alexander Bailey. (2001:506)

The book value of the equity reflects the historical costs of – brick and meter- the physical assets of the company. A well run company with strong management and an organization that functions effectively should have a market value greater than the historical book value of its physical assets. (Weston & Copland 1992 : 695)

Cumulative retained earnings + Capital contributed in excess of par + common stock  
=Book value of equity.

The accounting value of share of common stock equal to the common equity of the firm (common stock plus retained earnings) divided by the number of shares outstanding. (Weston & Copeland (1992 : 111)

Book value is generally considered to be relatively unimportant in determination of the value of the company, since it represents only the historical investments made in the company- investment that may have little relation to current value of price. (Weston & Copeland (1992 : 111)

### **2.3.5 Market price per Share [MPS]**

A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter. Generally, par values of most of stocks are set at fairly low figures with compare to their market value, and the market value per share is the current price at which the stock is traded. Market value per share of common stock is the function of the current and expected future dividend of the company and the perceived risk of the stock on the part of investors. (Op.Cit : J.C. Van Horne & J.M. Wachowics (2000:546) Fundamental of Financial Management)

“Common stock holders are sometimes referred as the residual owner since in essence s/he receives what is left the residual after all other claims on the firm’s income and assets have been satisfied. All the companies issue common stock. Common stock holders are true owners of business firm. They invest money with expectation of getting high return.

The return from common stock is usually from the capital gain earned .If they increase in value after public buy them. That’s why price for common shares can be more volatile. They move up and down due to the factors like economy and company performance.” (L.J.Gitman (1991 :573). Principles of Managerial Finance. Singapore : Harper Collins Publications)

The market price of share gives the value of shares, and the value of the organization. The market price of shares is that price in which shares are traded or the amount which, is paid by the buyer to the seller to purchase the stock of company. The market piece of shares varies from one company to other. Since, the common stock holders

are the owner of the organization and have least priority to claim in liquidation, the share price is highly volatile and very sensible to environmental factors. An organization has two types of environment, i.e. internal & external. The environment within the organization is called internal environment and is somehow in control of the organization. So the organization tries to maintain the favorable environment to maximize the share price in stock market. On the other hand, external environmental factors are not within the control of the organization, but such forces highly affect the market price of share. So, the firm tries to adjust themselves according to the changing environmental forces, and such adjustments are indented to maximize the share price of the value of the firm.

Since the market price of shares is very much sensitive to the environmental forces, the shares price increases if there is favorable environment and vice versa. This increase in share price is based on the market mechanism or market forces, i.e. demand and supply. If the earning and divided of an organization increases, then the investors have positive perception towards the organization and they like to buy the shares of the organization, as a result demand increases; on the other hand, the supplier like to hold the shares and supply decreases, and there is gap between demand and supply, so, the market price of the shares increase. The investors determine the share price they would like to pay for the shares of an organization and the sellers determine the price they would like to receive by selling shares based on their assumptions towards organization and future expectation. Such assumptions and expectations vary from individual to individual. Since different person analyses the same situation differently with their level of knowledge.

The index of stock gives the surrogate of market price of share. NEPSE index is the surrogate of all the listed companies in NEPSE. So, it consists one of the indicators of stock price in NEPSE. There are various indexes to analyze the stock behavior in the world's capital market. "Stock market indexes are "pure numbers" used for making comparison between index number in the same series of the index number. An index is usually a ratio tabulated from average of different securities. Typically, a time series of index number is constructed from the same base date and base value (usually set 100 or 10 or 1) to make time directly comparable. Some past year is selected as the base year from which index's base value is calculated in order to impart time

perspective to index. (J.K. Francis (1991 : 183). Investments : Analysis and Management New York, McGraw Hill) The base of the NEPSE is 12<sup>th</sup>February 1994. Kathmandu Post Daily : March 11, 2004.

## 2.4 Review of Books

In this section of Review of literature, the well-established principles for the valuation of common stock in global contexts are reviewed from various books. The share price is somehow set with the valuation of stock. The internationally set principles are viewed and the abstracts of such principles are presented here.

### 2.4.1 Capitalization of Income Method of Valuation

The capitalization of income method of valuation states that the “true” or “intrinsic” value of any assets is based on the cash flow that the investors expect to receive in the future from owning the assets. Because these cash flows are expected in future, they are adjusted by a discount rate to reflect not only the time value of money but also the friskiness of the cash flows.

Angelically, the intrinsic value of an asset is equal to the sum of present values of the assets expected cash flows:

Where,  $C_t$  denotes the expected cash flow associated with the asset at time  $t$ , and  $k$  is the appropriate discount rate for cash flows of this degree of risk. In this equation the discount rate is assumed to be the same for all the periods. (Op. Cit : W.F. Sharpe, G.J. Alexander & V.B. Bailey (2000 : 523-52)

$$V = \frac{c_1}{(1+k)^1} + \frac{c_2}{(1+k)^2} + \frac{c_3}{(1+k)^3} + \dots \dots$$

$$= \sum_{t=1}^{\infty} \frac{c_t}{(1+k)^t} \dots \dots \dots (2.1)$$

### 2.4.2 Net Present Value

At the current time (t=0), if the cost of purchasing an assets is P, then its net present value (NPV) is equal to the difference of its intrinsic value (V) and cost.

I.e.  $NPV = V - P$

$$= \left[ \sum_{t=1}^{\infty} \frac{Ct}{(1+k)^t} \right] - p \dots\dots\dots(2.2)$$

Simply, NPV is the excess of present values of al the cash flows over the present values of cash outflows (investments). (Ibid. P. 524) Positive NPV is favorable and vice versa.

### 2.4.3 Internal Rate of Return

IRR approach for the investment decision making is similar to NPV approach. IRR ( $K^*$ ) is the discount rate, which makes the NPV of the investment equal to zero.

$$I.e. 0 = \sum_{t=1}^{\infty} \frac{Ct}{(1+k)^t} - p \dots\dots\dots(2.3)$$

For rational decision making, the investment is viewed favorably of  $k^* > k$ , and unfavorably if  $k^* < k$

### 2.4.4 Stock Valuation

Securities analysts study companies' earnings and their managements, the economic outlook, the firm's competition, market conditions, and many other factors. Then their research findings are used in the accepted models to estimate value of an equity share. If the security's price is less than its estimated value, then it appears to be a good buy or at least worthy for further investigation. (Ibid. P. 453) Such valuation models are presented here:

#### 2.4.4.1 Single Price Valuation Model

“An investor who buys a share of the Honda Co.’s stock for \$ 50 and then sold it for \$55 a year later, after collecting a cash dividend of \$ 2.50, earned a rate of earning of 15 percent.

$$r = \frac{(p1 - p0) + d1}{p0} = \frac{(\$55 - \$50) + \$2.50}{\$50} = \frac{\$7.50}{\$50} = 15\%$$

If the stock market is efficient, then 15% is an equilibrium rate of return for Honda’s stock..... The single period valuation model is given by,

$$p0 = \frac{p1 + d1}{1 + r} \dots\dots\dots(2.4)$$

Figuring out the risk adjusted discount rate to use in the valuation model is an important part of the valuation process.

A fundamental principle of valuation says that in perfectly efficient markets, all securities in an equivalent risk class should be priced to yield the same rate of return. This principle implies that Honda’s equilibrium rate of return of 15 percent should be used as the risk adjusted discount rate to find the present value of Honda’s stock.”  
(Op. Cit : J.C. Francis (1991 : 524) Investment : Analysis and Management)

Where,

p1 = market price of a security at period 1

d1 = dividend per share for period of 0 to 1 year

p0 = present value of stock

r = single period rate of return

#### 2.4.4.2 Dividend Discount Model [DDM]

J. B. Williams and M. J. Gordon have developed a model relating the value of an equity share to its cash dividends. They hypothesized that the value V of a share of stock equals the present value of the infinite (t = ) Stream of dividend to be received

by that stock's owner (Ibid P. 455), this model is known as dividend discount model [DDM].

$$V = \frac{D1}{(1+k)^1} + \frac{D2}{(1+k)^2} + \dots + \frac{D_{\infty}}{(1+k)^{\infty}} = \sum_{t=1}^{\infty} \frac{D1}{(1+k)^t} \dots \dots \dots (2.5)$$

Where, K is the capitalization rate, which is appropriate for the firm's risk class.

**2.4.4.2.1 The Zero Growth Model**

If the dividend amount per share paid over the past year D0 will also be paid over the next year D1 and year after D2, and the year after that D3 and so on; that is:

$$D0 = D1 = D2 = D3 = \dots \dots \dots Dn$$

This is equivalent to assuming that the dividend growth rates are zero because if g = 0, then  $D_t = D_{t-1}$ : The present value of stock with zero –growth is (from equation 2.5)

$$V0 = D0 \left[ \sum_{t=1}^{\infty} \frac{1}{(1+k)^t} \right] \dots \dots \dots (2.6)$$

Using the property of indefinite series from mathematics, if  $K > 0$ , then,

$$\sum_{t=1}^{\infty} \frac{1}{(1+k)^t} = \frac{1}{k} \dots \dots \dots ( 2.7 )$$

$$\text{So, } V = \frac{D}{K} \dots \dots \dots (2.8)$$

**2.4.2.2 The Constant – Growth Model**

“The next type of DDM to be considered is one that assumes that dividends will grow from period to period at the same rate forever and is therefore known as the constant growth model. Specifically, the dividends per share that were paid over the previous year D<sub>0</sub>, are expected to grow at given rate ‘g’ so that the dividends expected over the next year D<sub>1</sub> are expected to be equal to D<sub>0</sub> (1+g) . The dividends the year after that are again to grow by the same rate g, meaning that  $D2 = D0 (1+g)^2$  and in general:

$$Dt = D_{t-1}(1+g) \dots \dots \dots (2.9)$$

$$Dt = D_0(1+g)^t \dots \dots \dots (2.10)$$

Now, in the equation (2.5) substituting  $D_t$  by  $D_0 (1+g)^t$ , we get,

$$V = \sum_{t=1}^{\infty} \frac{D_0(1+g)^t}{(1+k)^t} \dots \dots \dots (2.11)$$

For zero growth models, the equation (2.12) can be simplified by noting that  $D_0$  is a fixed dollar amount, so it can be written outside the summation sign:

$$V = D_0 \left[ \sum_{t=1}^{\infty} \frac{(1+g)^t}{(1+k)^t} \right] \dots \dots \dots (2.12)$$

If  $K > g$ , the equation (2.11) follows a property of infinite series from mathematics.

Then,

$$\sum_{t=1}^{\infty} \frac{(1+k)^g}{(1+k)^t} = \frac{1+g}{k-g} \dots \dots \dots (2.13)$$

Substituting the equation (2.13) into equation (2.12) results in the valuation formula for the constant growth model:

$$V = \frac{1+g}{D_0(k-g)} \dots \dots \dots (2.14)$$

Or, 
$$\sum_{t=1}^{\infty} \frac{(1+g)^t}{(1+k)^t} = \frac{(1+g)^1}{(1+k)^1} \dots \dots \dots (2.15)$$

$$V = \frac{D_1}{k-g} \dots \dots \dots (2.16)$$

Because,  $D_1 = D_0 (1+g)$ .



The equation (2.14) can be reformulated to determine the required rate of return (K) as,

$$K = \frac{D1}{P} + g \dots \dots \dots (2.17)$$

Where, 'V' is substituted by 'P', the current price of the security.

**2.4.4.2.3 The Multiple – Growth Model**

“A more general DDM for the valuing the common stock is the multiple-growth, with this model, the focus is on time in the future (T), after which dividends are expected to grow at a constant rate ‘g’. Although the investor is still concerned with forecasting dividends, these dividends do not need to have any specific pattern of constant growth. The dividends up to T (D1, D2, D3, .....D<sub>t</sub>) will be forecast individually by the investor. Thereafter, dividends are assumed to grow by a constant rate ‘g’ that the investor must also forecast, meaning that:

$$D_{t+1} = D_t (1+g)$$

$$D_{t+2} = D_{t+1} (1+g) = D_t (1+g)^2$$

$$D_{t+3} = D_{t+2} (1+g) = D_t (1+g)^3 \quad \text{and so on.}$$

**2.4.4.3 Valuation Based On Infinite Holding Period**

The capitalization of income method valuation involves discounting all dividends that are expected throughout the future. But when an investor plans to sell the stock in a year, then the cash flows that the investor expect to receive from purchasing a share of stock of the are equal to the dividends expected to be paid one year from now and the expected selling price of the stocks. The intrinsic value of the stock to the investor is given by discounting these two cash flows at the required rate of return as follows:

$$V = \frac{D1}{(1+k)} + \frac{P1}{(1+k)} \dots \dots \dots (2.18)$$

Where D1 and P1 are the expected dividend and selling price at t = 1, respectively.

“To use equation (2.18) the price of the stock at  $t = 1$ , should be expected. The simplest approach assumes that the selling price will be based on the dividends that are expected to be paid after selling date. Thus the expected selling price at  $t = 1$  is:

$$P1 = \frac{D2}{(1+k)^1} + \frac{D3}{(1+k)^2} + \frac{D4}{(1+k)^3} + \dots \sum_{t=2}^{\infty} \frac{D1}{(1+k)^{t-1}} \dots \dots \dots (2.19)$$

Form (2.18) & (2.19) we get,

$$V = \left[ \frac{D1}{(1+k)} + \frac{D2}{(1+k)^1} + \frac{D3}{(1+k)^2} + \frac{D4}{(1+k)^3} + \dots \dots \dots \right] \left[ \frac{1}{1+k} \right]$$

Or,

$$V = \frac{D1}{(1+k)} + \frac{D2}{(1+k)^1} + \frac{D3}{(1+k)^2} + \frac{D4}{(1+k)^3} + \dots \dots \dots = \sum_{t=1}^{\infty} \frac{D1}{(1+k)^t} \dots \dots \dots (2.19a)$$

This results to the equation (2.5). Thus, valuing a share of common stock by discounting its dividends up to some point in the future and its expected selling price at the time is equivalent to valuing stock by discounting all future dividends.”

#### 2.4.4.4 Models Based on Price Earnings Ratio

In order to show the interaction of earnings, dividends, retained earnings, and the growth rate of the firm, the model can be reformulated to treat these variables explicitly. Dividends are related to earnings by defining dividends to be equal to the payout ratios of  $(1-f)$  times earnings as in the equations (2.20) and 2.20a)

$$Dt = (1 - f)Et = \text{Corporaion's total cash dividends} \dots \dots \dots (2.20)$$

$$dt = (1 - f)et = \text{Cash dividend per share} \dots \dots \dots (2.20a)$$

Total corporate retained earnings of dollars are assumed to be reinvested within all equity firms to earn a rate of return of  $r$ . Since the firm we are discussing here has borrowed money, it can only grow from retained earnings period, as shown in equation (2.21), assuming no external capital is invested in the firm.

$$E1 = e0(1 + g)^1 = E0(1 + fr)^1 \dots\dots\dots(2.21)$$

$$e1 = e0(1 + g)^1 = e0(1 + fr)^1 \dots\dots\dots(2.21a)$$

$$d1 = (1 + f)(1 + fr)^1(e0) \dots\dots\dots(2.22)$$

$$d1 + (1 - f)(1 + g)^1 e0) \dots\dots\dots(2.22a)$$

$$d1 = (1 - f)(e1) \dots\dots\dots(2.22b)$$

As long as the retention ratio is positive number,  $f > 0$ , dividend per share will change each period as indicated in equation (2.22) if no new shares are issued. When some fraction of earnings is retained and earns a return of  $r$  within the firm, the present value of a share of stock is determined by substituting equation (2.22) into (2.19a) to obtain (2.23). In equation (2.23) the beginning cash dividend per share is stated in terms of the beginning earnings per share by substituting  $e_0(1-f)$  in place of  $d_0$ .

$$V0 = \sum_{t=1}^{\infty} \frac{e0(1-f)(1+fr)^t}{(1+k)^t} \dots\dots\dots(2.23)$$

$$\text{or, } = \sum_{t=1}^{\infty} \frac{d0(1+fr)^t}{(1+k)^t} = \sum_{t=1}^{\infty} \frac{d0(1+g)^t}{(1+k)^t} = \frac{d1}{k-g} \dots\dots\dots(2.24)$$

Equation (2.23) may be written equivalently as (2.25) since  $g = fr$ . By substituting  $e_1(1-f)$  for equation (2.24) below, we get (2.26).

$$V0 = \sum_{t=1}^{\infty} \frac{e0(1-f)(1+g)^t}{(1+f)^t} \dots\dots\dots(2.25)$$

$$\text{or, } V0 = \frac{e1(1-f)}{k-g} \dots\dots\dots(2.26)$$

One advantage of the dividend valuation model is that it may be written equivalently in different forms. Equations (2.19a), (2.23), (2.24), (2.26) all are useful representation of the same model. Equation (2.23) explicitly shows the relationship of earnings  $e$ , dividend policy  $f$ , internal profitability  $r$ , the firm's cost of capital  $k$  and the firm's growth rate  $g$  in the determination of value of stock. The model may be used to determine the value per share by defining all the variables on a per share basis as shown or the model may be used to value

the entire form by using the total quantities represented by the variables in capital letters in equations (2.20) and (2.21).

#### **2.4.4.5 Signaling**

“A relative simple view of dividend changes is that an announced increase in dividends is a signal that management has increased its assessment of the firm’s future earnings. The announced increase in dividends is therefore good news and will, in turn, cause investors to raise their expectations regarding the firm’s future earnings. Conversely an announced decrease in dividends is signal that management has decreased its assessment of the firm’s future earnings. The announced decrease in dividends is therefore bad news and will, in turn, cause investors to lower their expectations regarding the firm’s future earnings. An implication is that an announced increase in dividends will cause the firm’s stock price to rise, and an announced decrease will cause it to fall.” (Op. Cit : W.F. Sharpe G.J. Alexander & V.B. Bailey (2000 : 567) Investments.

There is nothing inconsistent with dividends being used as a signal and with the dividend irrelevancy argument of Miller and Modigliani. In particular, stockholders will neither be better off nor worse off if the level of dividends, relative to earnings, is high or low. Changes in dividends may, however, be important because they convey information to the public about the future earnings prospects for the firm. (Ibid P. 567-568)

#### **2.4.4.6 January Effect**

“There is no obvious reason to expect stock returns to be higher in certain months than in others. However, in a study that looked at average monthly returns on NYSE listed common stocks, significant seasonality was found. In particular, the average return in January were higher than the average return in any other months February to December. It appears that the average return in January has been approximately 3% higher than the average monthly returns in February through December.” ,( Ibid P. 497)

#### **2.4.4.7 Day-of-the-week-effect**

“Studies looked at the average daily return on NYSE listed securities found that the return on Monday was quite different than returns on other days. In particular, the average return on Monday was found to be much lower than the average returns on any other day of the week. Furthermore, the average return on Monday was negative, whereas, the other days of the week had positive average returns.” (Ibid P. 297)

#### **2.4.4.8 Size Effect**

The past evidence suggests that the size effect also exists in Japan. The securities of Tokyo stock exchange classified into two sections, the second is less than 10% of the size of the first, measured by the market value of the examined over the period on it. Two indices were prepared and examined over the period from 1952 to 1980; they include the same stocks but are compiled differently. The equally weighted (EW) index weights the stocks by market value while the (VW) index weights the stock by market value. Hence, the EW index is influenced much more by the performance of small stocks than the VW index is. The EW index returned 5.1% more, suggesting the preference of a size effect. (Ibid P. 501)

#### **2.4.4.9 Earnings Announcement & Price Changes**

“A number of studies have shown large price changes for stocks of companies that reports earnings that differ substantially from consumers’ expectations. One study looked at three groups of 50 stocks. The first group consisted of the 50 stocks listed on the NYSE that expected the greatest price rise during 1970. The second group consisted of 50 stocks chosen randomly from all those on the NYSE during 1970. The third group consisted of the 50 stocks listed on the NYSE that experiences the greatest price decline during 1970..... It is found that the median changes in actual earnings per share for the top , random, and bottom, groups were 21.4%, -10.5%, and -83% respectively.” (Ibid. P : 578)

## 2.5 Reviews of the Previous Studies

This section includes the previous studies regarding stock markets price and organized stock exchanges both in the national as well as international contexts:

According to [www.stocksabout.com](http://www.stocksabout.com) “Stocks trade in an open market, where buyers and sellers agree on a price. There is no fixed price like you’ll find at convenience store, instead, prices follow the simple laws of supply and demand. Therefore, when a stock’s price rises, it means that buyers are continually willing to pay more for the stock (and sellers are demanding more before they’ll part with their shares.)

As more and more buyers flock to a stock, the supply at a lower price diminishes (partly because all the cheap shares are sold out and partly because sellers realize they can raise the price.) Three main factors drive buyers demand. They are:

- Company profitability

- Dividend income

- Speculation

- Most investors value company profitability.

A business that makes money is worth purchasing for a variety of reasons. It won’t go bankrupt, it will grow, and it might be purchased by any other company. Therefore, the company becomes more valuable.

You might notice that the stock market pays attention to earnings release. These releases are the company’s proof that it is a valuable enterprise. When a company can demonstrate consistent earnings growth, it attracts more and more investors.

*Dividend income* is also valuable to investors. By paying a dividend, the company is sharing profits with the shareholders. Many investors like the idea of getting paid and not doing any work.

*Dividend stocks* can attract more and more investors just like growth stocks. If a stock has a history of always paying a heavy dividend, one can expect that history to continue. It’s even better if the dividend has a history of increasing. Stock that offer constituent dividend growth will continually attract investors. Also, stocks that offer a

relatively high dividend yield (dividend payment divided by share price) attract buyers.

Finally, *Speculation* can cause a stock's price to change dramatically. While earnings growth and attractive dividends are reasonable approaches to investigating; speculating is harder to understand.

The basic idea is that you buy a stock because you think somebody else will pay more for it in future. The reason for the price increase doesn't really matter (after all, any profit in the stock market is a good profit.) All that matters are the belief that there will be an increase.

Speculators typically don't base their buying behavior on historical performance (such as earnings growth or constituent dividend growth.) Rather, they are hoping to predict the future of a stock. The markets saw plenty of speculation in the internet boom. Buyers hoped that internet stocks would make a bundle of money, but they weren't quite sure how, some gained, some lost.

### **What Causes Prices to fall?**

Now that you know what causes buyer demand, you can start to understand what drives prices down. When a stock becomes unattractive (due to poor earnings outlook, missed dividends payment, or speculation), shareholders want to get rid of their shares. Sellers will settle for less (because they just want to make a sale) and buyer demands are limited.

Next time somebody asks why the markets is up, you can respond with the old Wall Street joke: "More buyers than sellers" .....but you will have a better idea why they are buying." ([www.stocksabour.com](http://www.stocksabour.com))

In an journal published on [www.utk.edu](http://www.utk.edu) by Debosah L. Murphy, Ronald E. Shrieves and Samuel L. Tibbs entitled "Determinants of Stock Price Reaction to Allegation of Corporate Misconduct: Earning Risk and Size Effects" studied using the most extensive sample to date. They examined the source and magnitude of market imposed penalties experienced by firms alleged to have committed illegal acts. Stratification of the sample by crime category reveals significant verification in the

announcement - related wealth effects. Also examined were the linkages between the observed wealth effects and changes in reported and expected earnings, risks, firm sizes and reputation. They found the allegations of misconduct were accompanied by statically significant control firm adjusted decline in reported earnings, increased in return variability and a decline in concordance among analysts' earnings estimates. The magnitude of the market-imposed penalties accompanying allegations is systematically related to the type of misconduct, firm size, and increase in uncertainty. However, the statistical relationship between earnings changes around the allegations and the wealth effects of criminal allegations was ambiguous. Their results offer the strongest evidence regarding a link between market-imposed penalties associated with allegations of misconduct and subsequent changes in the level of uncertainty of earnings. (L.M. Debroah, E.S. Ronald and Samuel : Determinants of Stock Price Reaction to Allegations of corporate Misconduct [www.ukt.edu](http://www.ukt.edu))

In the journal of Financial Economics, summer 1996, entitled “ Commonality in the Determinants of Expected Stock Returns “ by Robert A. Haugen and Vardin L. Baker, they presented with evidence that the determinants of the cross section of expected stock return were stable in their identify and influence from period to period and from country . The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper form others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis. A.H. Robert and L.B. Nardin : "Commonality in the Determinants of Expected Stock Returns)

In 1997 *International Monetary Fund [IMF]*, Policy Development and Review Development Division published a working paper entitled “Determinants of Stock Prices: The Case of Zimbabwe”. The working paper examined the general



relationship between stock price and macroeconomic variables in Zimbabwe, using the revised DDM, error-correction model, and multi factor return generating model. Despite the large fluctuation in stock prices since 1991, the analysts indicated that the Zimbabwe Stock Exchange functioned quite constitutently during the period. Whereas, sharp increases in the share prices in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization, the monetary aggregates & market interest rates explained by the rapid increase of 1990's in stock prices. (IMF working paper. "Determinants of stock prices; the case of Zimbabwe" (IMF working paper: "Determinants of stock prices; the case of Zimbabwe)

### **CEO Charisma Affects Stock Prices**

The head honcho's clever workings influence all aspects of a company, and according to a recent University of Florida study, their powers of persuasion don't end with the firm.

The study found securities analysts predict a firm's future performance based not only on its track record but also on how favorably they view the company, which is influenced largely by how charismatic they consider its chief executive officer.

That influence indirectly affects the price of a company's stock because investors use the predictions to decide whether to buy or sell stock, said Angelo Fanelli, who conducted the study for his doctoral dissertation at the UF Warrington College of Business.

"The essence (of this study) is in this particular relationship between the CEO and securities analysts, a charismatic leader will make a security analyst excited, and then he will rate a company more favorably in his recommendation to stockholders," said Fanelli.

However, the effects of CEO charisma do not mean an analyst is more accurate in predicting the future performance of a company.

The results showed CEO charisma significantly affected the perceptions of analysts, leading them to recommend to investors the stock of a firm with a charismatic CEO in a more favorable way. The study also found, as a group, securities analysts are more

likely to have more similar high recommendations for a firm that received a high score for CEO charisma.

[Source: [www.napa.ufl.edu/2003news](http://www.napa.ufl.edu/2003news)]

What factors influence the price of stocks, and therefore the value of equity mutual funds? There are several fundamental factors: expectations, external events, fiscal and tax policies, government spending, monetary policy, inflation, and business cycles. Technical factors include: the condition of securities markets, price movements, trading volume and supply and demand.

Fundamental factors include everything outside the security markets themselves which might influence price. Because market security prices are negotiated between buyer and seller, future expectations help determine price.

[Source: [www.fiscalagents.com/newsletter/4afctprc.shtml](http://www.fiscalagents.com/newsletter/4afctprc.shtml)]

### **What Is The Impact Of Research On Stock Prices?**

Although the total return on the investment in research is hard to quantify, the information provided via third-party research has tangible value. Objective research provides information to the market to reduce uncertainty. Even though the nature of the stock market prevents us from isolating any one of the many variables that affects a stock price, no one can disagree that in the long run, greater available information means greater market efficiency.

[Source: By Rick Way man / [www.investopedia.com/articles/analyst/03/070903.asp](http://www.investopedia.com/articles/analyst/03/070903.asp)]

### **Why the Market Rises and fall? /What moves the stock market?**

That complex question has many answers. Some market movers are obvious, while others creep up on us unseen. In this and subsequent articles, I'll look at some of the economic, political, and societal issues that may cause the market to change direction or speed up or slow down its momentum.

A quick list of the obvious includes:

- Inflation
- Interest rates
- Earnings
- Oil/Energy Prices
- War/terrorism
- Crime/fraud
- Serious domestic political unrest

As you can see, many of these have serious long-term implications, while others may only cause temporary disruptions.

However, the one factor not listed above that drives the market absolutely crazy is **uncertainty**. The market cannot stand surprises and when there is the chance that something may change, it rattles the market.

[Source: [www.stocksabout.com](http://www.stocksabout.com)]

### **What Factors Influence a Share Price?**

When you look at the performance of the stock market at the end of a trading day it can be hard to work out why shares have either risen or fallen in value.

Broadly speaking, share prices are influenced by news or information: new data on employment, manufacturing, directors' dealings, political events or even the weather, all kinds of news can influence the way shares move.

You will sometimes, however, see little move in share prices when, for example, interest rates shift. This is because investors try to anticipate what is going to happen in the next few months and try to move their portfolios in or out of these stocks before the rest of the market catches on. Sometimes, of course, these expectations can be wrong and if this happens, markets can move very sharply.

If you want to trade successfully in the stock market you will need to know what news other investors look at and how they will look at it. This will help you pick the best

moment to buy and sell your shares. Read more about monitoring news on a company.

The economy

Company news

Analysts reports

Press recommendations

Sentiment

Technical influences

### **- The Economy**

The health of the global economy has a fundamental influence on share prices because it is ultimately responsible for driving company profits. Broadly speaking, if the economy is growing, company profits improve and shares will become more highly valued. If the economy is weakening, company profits will fall and share prices will go down.

Investors look at a vast amount of data to try and work out what is going to happen to the economy and shift their portfolios before the events occur. This is why you will often see markets move well ahead of an actual event occurring. You may, for example, get little reaction from the stock market when interest rates rise. This is because investors have already anticipated the shift months in advance and adjusted their portfolios beforehand.

You can usually assume that the stock market will anticipate moves in the economy by around six to nine months. So if you want to stay ahead of the game you will need to follow economic data as closely as the professionals.

The kind of information you need to pay close attention to is: employment data, the reports put out by the Monetary Policy Committee (to get an idea where interest rates are headed), trade with other countries, retail sales and manufacturing. Sentiment surveys produced by trade bodies such as the Confederation of British Industry are also important indicators of where the economy is heading.

It is not only news about the UK economy that will impact on share prices. The signals coming out of other major economies, particularly the UK's major trading partners, such as the US and Europe will affect UK shares as what happens in these economies will have an impact on our own.

When looking at economic data, you need to think not only how the wider economy will be affected but whether certain areas will be more affected than others. A rise in interest rates is, for example, often bad news for house builders as people feel less confident about taking on debt. Retailers are often badly affected too as people spend less. Pharmaceutical companies are, however, usually unaffected as people's demand for drugs is not influenced by the state of the economy.

Companies whose profits are closely tied to the health of the economy are known as 'cyclical' stocks. Those businesses that aren't too affected by the economy are called 'defensive' stocks. If economic conditions deteriorate you will often see investors shift from cyclical stocks to defensives

### **Company News**

The way investors interpret news coming out of companies is also a major influence on share prices. If, for example, a company puts out a warning that business conditions are tough, shares will often drop in value. If, however, a director buys shares in the firm, it may be a signal that the company's prospects are improving.

Companies put out a great deal of news and most of the major announcements are covered by the financial press. But some announcements not regarded as so important and sometimes, particularly among smaller firms that are monitored less by investors and financial journalists, indicators of the company's health can be missed.

You can stay one step ahead of the game by looking carefully at all the information sent out by companies you own, their competitors and other companies you are interested in. This information is usually available on companies' websites.

Try to think laterally about the information you are getting. If, for example, a competitor to a company you have shares in produces a revolutionary new product, it will probably hit profits at the company you own. Also think about the impact it will

have on suppliers to that business. An increase in sales of mobile phones with cameras in them will not only be good for the phone company but the firms that supply the technology in the phones.

Takeovers or even rumors of takeovers also have a big influence on prices. This is because investors expect the bidder to pay a premium to shareholders.

### **- Analysts' Reports**

Reports produced by independent analysts also influence share prices. If an analyst changes their recommendation from 'sell' to 'buy', for example, the shares will often rise in value. Analysts' reports are produced primarily by investment banks for professional investors, although some stockbrokers will make their research available to private investors. You may find summaries of some reports published on financial news websites or in newspapers and magazines. Some investment banks also publish their reports on their websites for free. You should remember that the recommendation an analyst puts on a company will affect its share price very quickly and can become irrelevant within hours. This is because the analyst will usually say a stock is a 'buy' within a particular price range. If the price moves above their targets the improvements the analyst expects may be 'priced in' and so the shares not worth buying.

But analysts' reports are always worth reading, even if the recommendation is out of date. The reports usually contain a great deal of useful information on the company and how its business is developing. They also often look at how the company rates against its competitors.

### **- Press Recommendations**

The financial pages of most national newspapers and investment magazines usually contain share tips. Like analysts' reports these tips can have a major influence on share prices. If a journalist recommends a share, the price will usually rise and if they write a negative story the price will fall. These moves usually happen very quickly so if you are going to follow the recommendation it often makes sense to do so as soon as possible.

## **- Sentiment**

Investor sentiment is almost impossible to predict and can be infuriating if, for example, you have bought shares in a company that you think is a good 'buy' but the price remains flat. Investor sentiment is influenced by a wide variety of factors. Share prices can, for example, be flat during the summer simply because so many major investors are on holiday or attending major sporting events such as Royal Ascot and Wimbledon, hence the adages 'sell in May and go away'.

Investor sentiment can lead to irrational buying or selling of shares and result in bull and bear markets. A bull market is when share prices rise while a bear market is when they fall. In the technology boom of the late 1990s, for example, investors paid extremely high prices for shares and ignored traditional valuation measures, such as P/E ratios. This carried on until 2000 when investors belatedly realized these shares had risen too far and resulted in a three year bear market in shares.

## **- Technical influences**

Share prices can rise and fall for a variety of technical reasons that may have nothing to do with the actual outlook for an individual company or the outlook for the market.

It is, for example, a common occurrence for share prices to drop back after a strong rally. This happens because investors take profits on some of the shares that have risen in value, protecting their gains just in case the shares start to slip back. Investors often refer to this as market consolidation.

Another technical reason for share prices to rise or fall is the quarterly adjustment in the FTSE 100™ index. Shares that are expected to enter the FTSE 100™ may experience a sharper rise than one would expect in the weeks beforehand while shares that leave the index can fall more sharply. This happens because funds that

### **2.5.1 Nepalese Context**

There are very few independent studies in Finance in Nepalese perspective. On the core concept of capital market and determinants of the stock price in stock market, very negligible studies have been made. Such research studies are made on

shareholder's democracy and dividend policy etc. Even though, these studies have been made many years ago, these can provide intellectual ground, since there are no researches made on the specific topic.

In 1993, *Prof. Dr. Rahde Shyam Pradhan* studied the market behavior in Nepal and concluded that:

Large stocks have large PE ratios; large ratios of the market value to book of equity and smaller dividends. PE ratios and dividend ratio are more variable for smaller stocks where as market value to book value of equity is more variable for the large stocks.

Large stocks also have lower liquidity, higher leverage, lower profitability, and lower assets turnover interest coverage stocks.

Smaller dividends, lower profitability, lower assets turnover, and lower interest coverage for large stock may be attributed to the fact that most of the large stocks are at their initial stage of operation.

Stocks with large market value to book value of equity, large PE ratios and lower dividends. PE ratios are more variable for stocks with large market value to book value ratios and dividends ratios are more variable for stocks with smaller market value to book value.

Stocks with large market value to book ratios have lower liquidity, higher leverage, lower earnings, lower turnover and lower interest coverage. However, liquidity and leverage are more variable for stocks with large market value to book value ratios while earnings, assets turnover and interests coverage are more variable for stocks with smaller market value to book value ratios.

Stock with large ratios large PE has large market value to book value of equity and smaller dividends ratios. However, their ratios of market value to book value of equity, and dividends are more variable for smaller stocks than for large stocks.

Stocks with large PE ratios have lower liquidity, higher leverage, lower profitability, lower assets turnover, and lower interest coverage. However, liquidity, leverage,



earning turnover, and interest coverage are all more variable for stocks with smaller PE ratios as compared to large ones.

Stocks paying higher dividends have higher liquidity, lower leverage, higher earnings and higher turnover and higher interest coverage. However, liquidity and leverage ratios are more variable for the stocks paying lower dividends while earnings, assets turnover and interest coverage is more variable for the stocks higher dividends.

The other study by *Prof. Dr. Rahde Shyam Pradhan and Mr. Nabaraj Adhikari-1993* entitled “Impact of Dividends on Share price in Nepal” leads to three important conclusions. First, dividends have positive impact on share price, i.e. paying dividends can increase share price. Second, dividends have comparatively more favorable impact on the share price of the non-finance sector than to the share price of finance sector. Third, past earnings have more impact than retained earnings and dividends on share private of finance sector.

A mini research entitled “*Financial Performances and Common Stock pricing*” concluded by *Mr. Khagendra Prasad Ojha* in 2002 was also reviewed for this study. The major findings of the research were: Nepalese stock market is in infancy stage. Dominant of banking sector is prevalent in the market due to other industries including finance and insurance companies. Manufacturing companies are not encouraging. He also conducted that people have a misconception that the issuance of the bonus shares and right shares , which actually decreases price and this makes them to invest even at a too high price with expectation of getting the same to increase their overall wealth. Further, he concluded that stock price in Nepal is determined more by other factors rather than the financial performance of the concerned company.

#### **2.5.1.1 Review of Unpublished Thesis**

There are numerous thesis reports for the partial fulfillment of Master of Business Administration, Master of Business Studies and Master in Arts in Tribunal University. Among those thesis reports some are related to the capital market and vary few are related to the stock price in Nepal Stock Exchange. Some of those thesis reports are viewed here:

In 1996, a study on “*Dividend Decision and Its Impact on Stock Valuation*” [by Mr. Prakriti Bhattarai 1996] Derive that:

- Though the stockholders have not good enough return, market price of shares are increasing due to the high expectation in future.
- If there are rational investors and stable dividend influences considerable impact on valuation of shares.
- There is positive relationship between cash dividend and valuation of shares. There are five companies out of ten, having positive coefficient of correlation between cash dividend and valuation of shares.
- The market price is considerably higher than the actual net worth. In some cases, market price of share is two or three times higher than the net worth. This certainly includes that investors do not have adequate knowledge on how to evaluate the value of shares before investing in them.

In 1999, Mr. Surya Chandra Shrestha made a study entitled “A Study on Stock Price Behavior in Nepal.” The major findings were:

- The price changes of the past and present can be very helpful to forecast future price and present can be very helpful of future price changes.
- When log days increase, the mean value of serial correlation of coefficient is lower, that indicates the past price changes may have low power to predict the future price in the long run.
- The price changes in the present and the future stock market may not be independent of the price changes in the past and present respectively.
- There elitists no profitable trading rules to make greater profit than they would make the buy-and-hold strategy on past price changes.
- Nepal Stock Exchanges is not efficient in pricing shares.

Another study [P.K. Poudyal, 2002] on “*A study on Share Price Behavior of Joint Venture Banks in Nepal*” is undertaken by using financial and statistical tools and revealed that:

- The growth rate analysis as a standalone may not be adequate for the analysis of share prices behavior and may not represent the bank's performance in the secondary market.
- The ordinary least square equation of the book value per share on market value per share reveals that the independent variable does not fully explain the dependant variables on the basis of above mentioned two points; Nepal Stock Exchange operated in a weak form of efficient market hypothesis, including that the market prices move randomly. The market value per share does not accommodate all the available historical information.
- Having good track record of the financial position, the market potential investors buy the shares of joint venture commercial banks. Therefore, the shares of joint venture bans emerge as a blue-chip in the Nepalese Stock Market.
- The beta coefficient, which measures the risky ness of individual security in relative term, suggests that none of the shares of eight sampled banks are risky. Therefore, even a risk averter can go for making an investment in shares of these banks. The shares of publicly quoted joint venture commercial banks are less risky as compared to the other average stocks traded in the stock exchange.

**Dilip Raj Baral** (2003) has conducted research on “*Stock Price Movement in Nepalese Securities Market*”, submitted to Shanker Dev Campus. The main objectives of his research are:

- a. To study and analyze the stock price and volume and the investors views regarding the decision on stock investment.
- b. To suggest the findings of the study to the interested parties related to stock investment.
- c. To study & examine the signalling factors impact on stock price with the help of NEPSE index.

The major findings of Baral are as follows:

- a. The stock price trend Nepalese stock market is decreasing from many years of as smoothly but from one year price of stock is decreasing as rapidly.
- b. The price trend of three years NEPSE index in different months (36 months) with the help of monthly trend showed that there is no relationship of price trend between three successive years.
- c. The sector-wise monthly trend analysis for one year (Poush 2058 to Mangsir 2059) showed that there is unsystematic activities in Nepalese stock price market.

Baral concluded that even though Nepalese stock market is in the growth stage; it has crossed the initial stage but not reached in the matured stage. Majority of investors of Nepalese stock market price invests their money from the view point of income and other factors like NEPSE index price trend.

Another research entitled “*A Study of Stock Market Behavior in Nepal*” by **Ms. Sangita Gautam** (2004) concluded that political instability and other laws related issues are the prominent factors for the underdevelopment of security market in Nepal. She further concluded that the stockbrokers and stock market are not being much active to create investment environment in stock market. Most of the investors are influenced through media only. Information deficiency in the capital market may be one of the reasons for determination of share price by excessive speculation. The available information is of low quality and people have very little knowledge of the trading procedure and price formation mechanism in NEPSE. Lack of effective laws and effective implication of the existing laws are the contributing factors for the less development of the capitol market. She also argued that some of the major problems experienced by stock market are the poor regulatory controls and supervision by SEBO/N and NEPSE.

In 2004, **Mr. Apar Neupane** made a research entitled “Determinants of Stock Price in NEPSE” and tried to explore the factors that have significant influence on the stock price in NEPSE. He concluded his study by quoting:

- Nepalese investors have not adequate education about the capital market. They do not have good knowledge and information to analyze the scenario and to forecast share price. Perhaps due to this reason stock price in NEPSE rather shows irrational behavior.
- In NEPSE, DPS, BPS & EPS individually do not have constituent relationship [with the market price of the share among the listed companies. The pricing behavior varies from one company to another. But EPS, BPS & DPS, jointly have significant effect in market price of the share. So, there may be other major factors affecting the share price significantly. NEPSE is in its primary stage, adopting open outcry system for stock trading and stockbrokers lack professionalism to create investing opportunities in NEPSE.
- Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing & processing, trading and hotel sectors have weak performance. So, financial intermediaries are strong but their ultimate investment is suffering.

- Companies' performances (earning, dividend, book value, risk etc) information disclosed , timely AGM , political stability, national economy, demand & supply situation, strikes, demonstrations, ceasefire and peace talks (and their outbreak) are the major factors affecting the share price in NEPSE, according to the respondent of survey. Interest rate, retention ratio, cost of equity, tax rate, gold price , value of US \$ , global economy, market liquidity, season, day of the week, size of the firm, change in the management do not significantly affect the price of the share in NEPSE.
- There is deficiency of proper laws and policies regarding the capital market. Shareholders are feeling unsecured to invest in security markets due to poor regulatory mechanism to protect shareholders interests. The implementation of existing laws is weak.
- Listed companies do not provide sufficient information (financial as well as non financial) to their shareholders and they are not able to act according to the shareholders' interests. The performance of most of the listed companies is not transparent.
- Since NEPSE is in increasing trend, in spite of unfavorable environment for investment, Nepalese citizens have a huge amount of scattered fund remained unproductive, which can be used in the industrial development through capital market to accelerate the economic growth of the nation.
- With the existing Maoist problem, industrial development and capital market development is impossible. So, the peaceful solution of the Maoist problem is preliminary condition for capital market and economic development in Nepal.

**Kiran Dhamala** (2004) has conducted research on "*Determinants of Share Price in Nepalese Financial Market*", submitted to Shanker Dev Campus. The main objectives of his studies are as follows:

- a. To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.

- b. To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.

The major findings of the research pointed out by Dhamala are as follows:

- a. HBL's MPS is negatively correlated with major financial indicators. But it has positive relationship with DPS and DPR respectively. NBL's MPS has positive relationship with EPS and ROE, whereas it has negative relation with other financial variables. NBBL's MPS is positively correlated with EPS, NWPS and DPS.
- b. NIBL's MPS is reversely correlated with major financial variables. SCNBL's MPS is negatively correlated with major financial indicators. But it has higher positive relationship with ROE.
- c. AFCL's MPS has positive correlation with main financial variables except ROE, with which it has negative relationship. But no such relationship is statistically significant.

Dhamala concluded that there is not a single financial indicator that has dominant role to determine MPS. The degree of interrelationship of MPS with different financial indicators varies from one company to another. There is no uniformity in the relationship of MPS with various financial indicators of the sampled companies.

**Aparna Giri** (2005) has made a research on "*A study on Share Price Behaviour of Listed Commercial Banks*", submitted to Shanker Dev Campus. The main objectives of her research are:

- a. To analyze the share price behaviour of the commercial banks listed at Nepal Stock Exchange.
- b. To examine the risk involved in the common stock investment of the sample commercial banks.

The major findings of Giri are as follows:

- a. Large number of serial correlation of the daily log price changes of ten commercial banks' stocks for the sample period is significantly departed from zero.

- b. To make more profit, acute fundamental and other analyses are required which accurately predicts the appearance of the new information in the market, which has impact on the prices than the naïve buy and hold strategy.
- c. Regarding the total risk, NBBL is the riskiest among all stocks, whereas NIC is recorded as least risky. Similarly, the stocks of BOK and EBL fall into the second and third position in terms risk.

Giri concluded that the serial correlation coefficients of the daily price changes lead to weakly efficient market hypothesis does not offer a satisfactory explanation to these speculative price series. The independence in the series of the price changes observed implies that the price changes in the future market will not be independent from the price changes of the previous days.

**Prabin Shrestha** (2006) has conducted research on “*Share Price Behaviour of Commercial Banks listed in NEPSE*”, submitted to Shanker Dev Campus. The main objectives of his research are as follows:

- a. To analyze the stock price movement of the NEPSE market.
- b. To test the random walk or weak efficient market hypothesis.
- c. To test whether the successive price changes are independent or dependent with the price of historical change.

The major findings of Shrestha are as follows:

- a. The total numbers of actual and expected runs are statistically significant for most of the equity shares. Today’s price change is dependent on the information of yesterday’s price.
- b. Half of the sample companies’ share have greater than average value of K (18.87%) difference between actual and expected number of runs, which indicates significant difference between the actual and expected number of runs.
- c. To make greater profit than “naïve buy and hold strategy”, acute fundamental or other analysis are required which accurately predict the appearance of the new information in the market that affects the price of shares.



Shrestha concluded that the dependence in the series of price changes implies that the price changes in the future will be dependent with the historical price. Thus, the information of historical price is helpful to predict future prices of the shares. Another conclusion drawn from the opinion based survey with share brokers and individual investors is that the share price movements are caused by flow of several kinds of information in the market.

Similarly, **Mr. Nischal Regmi** (2006) submitted dissertation on “*Role of Financial Indicators in Determining Share Price in Nepalese Financial Market*” to Shanker Dev Campus. The main objectives of his research are:

- a. To examine and evaluate the relationship of MPS with various financial indicators like NWPS, EPS, DPS, ROE, etc.
- b. To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- c. To find out whether stocks of the sampled companies are equilibrium priced or not.

The major findings of Regmi are as follows:

- a. NABIL’s MPS is positively correlated with all financial indicators . NIBL’s MPS has negative correlation with all financial indicators.
- b. For all other banks, the correlation coefficients of MPS with other financial indicators are both positive and negative. Relationship with all financial indicators of MPS for NFCL is positively correlated and the relationship is statistically significant at 5% level of confidence with EPS and at 10% level of confidence with NWPS and DPS.
- c. For other Finance Companies, the correlation coefficient of MPS with other financial indicators, are both positively and negatively correlated and the relationship is statistically significant for KFL and UFCML and for others it is insignificant.

Regmi concluded that the market price of share in Nepal is not indicative of a Company’s financial performance in the stock market. The share market is imperfect and is not efficient and is liable to manipulation.

**Prakriti Bhattarai** (2006) submitted dissertation on “*Stock Price Behavior of Financial Institutions and Commercial Banks*” to Shanker Dev Campus. The main objectives of his research are:

- a. To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS and DPR.
- b. To analyze the degree of risk involved in the common stocks investment of the sampled companies.
- c. To identify whether stocks of the sampled companies equilibrium priced or not.

The major findings of Bhattarai are as follows:

- a. The DPS of SCBL has higher than NBL, NIBL and EBL. The MPS of SCBL is higher than NBL, NIBL and EBL. SCBL is the most appreciable bank among the selected ones.
- b. The correlation coefficient of EPS and DPS seems to be significant except the case of EBL and AFCL, i.e. correlation coefficient recorded as EBL & AFCL is in negative.
- c. In case of NIBL & NFCL there exists negative correlation coefficient of EPS & NWPS which is insignificant which shows that there is higher degree of managerial problem in issuing and managing shares of NIBL & NFCL.

Bhattarai concluded that the degree of interrelationship of MPS, EPS with different financial indicator varies from one company to another. There is uniformity in the relationship between MPS and EPS of various financial indicators of the sampled companies. If considered on the basis of the average data for the past 5 years, EPS & MPS of 7 financial institutions and commercial banks have higher positive correlation with major financial indicators such as NWPS, DPS and DPR.

**Mr. Rishikesh Parajuli** (2008), Makwanpur Multiple Campus, Submitted dissertation on "A Study of Stock price Behaviour of Listed Finance Companies." The main objective are as follows :

- a. Study and analyse trend and volume stock trended on the secondary market.
- b. Find out the relationship between BVPS and MVPS of finance companies.

- c. Analyze the risks and return in common stock investment of the listed of limited finance company.
- d. Formulate the set of recommendation based on the finding of the study.  
Major finding of his study Based on the analysis of data and their interpretation the major findings of the study are summarized as follows :
  - There are altogether 141 companies listed in Nepal stock Exchange and the listing rate is increasing trend.
  - Among the various group of industries, commercial banks and manufacturing and processing group are at dominant position in terms of volume and traded among in the month of April/ May of F.Y. 2005/06, the maximum numbers of share to be (6468.18) (1833.55 thousand) which traded at (Rs.12016) million in NEPSE.
  - Most of the Finance Company are offering cash dividends years and therefore investors are investing their funds in purchasing share of the finance companies.
  - The risk and return analysis is another major tools used in this study. It has been observed that this analysis would have given better result if adequate data were available.
  - The correlation coefficient and the regression analysis test were conducted for the selected finance companies. It revealed that, there was no relation between the book value purchase (BVPS) and market price purchase (MPPS) or independent variable (DVPS) did not fully explain the dependent variable (MPPS)

Parajuli suggests that Nepse index plays major role for creating investment opportunity, so for removing stock market difficulties such as transaction facilities should be managed in effective way by formulating investors protection act.

Mr. Anil Pandey, Makwanpur Multiple Campus (2008) submitted dissertation on "A Comparative analysis of Dividend and its affecting financial indicators of selected joint venture Bank with respect to Standard Chartered Bank Nepal Ltd. and Himalayan Bank Ltd. " The main objectives are as follows :

- a. To findout dividend practices of joint venture bank.

- b. To study and analyse the relationship of dividend with various important financial indicators such as earning per share, market price per share and book value per share.
- c. To study and highlight about on the exercise of dividend and the nature of selected joint venture banks.
- d. To provide useful information suggestions, guidelines that can be implemented and finally, provide possible guideline to overcome various issue and gaps based on the finding analysis, major findings Pandey's study.
  - Average dividend per share of SCBL which is higher than HBL.
  - SCBL adopted increasing payout of dividend in the last three fiscal year where as HBL also, adopted the increasing payout of dividend in the last three years.
  - Dividend per share is positively correlated with earning per share, net profit, market value of per share, Net worth in case of SCBL and also increase of HBL.
  - There is not stable dividend paid by both banks over the five years. They are paying, fluctuated dividend due to this we can say that there is not perfect long run vision in the context of dividend decision.
  - Market price is considerably higher than book value of both banks. Almost in each year, market price per share is more than three times higher than of book value. This huge gape between book value and market price can be clearly seen in each fiscal year in both banks from this we can clearly conclude that investors do not have sufficient knowledge about how to evaluate values of share before investing on it.

Following factors should be considered logically under the dividend strategy and policy of an organization.

- Economic and moral consideration.
- Factors affecting the relative welfare of the firm.
- Factors affecting the welfare of the share holders.

**Mr. Kanchan Manandhar**, Makwanpur Multiple Campus (2009) submitted dissertation on "Investors Preferences on Financial Instrument in Nepal." The main objectives are as follows :

- a. To examine the status of investors preference towards the financial investment.
- b. To analyzes influencing factors those attract investors to investment in particular security or securities.
- c. To assets investors awareness regarding the investment decision in selecting securities.
- d. To explore the short coming of security related organization as perceived by the investors.

Manandhar concluded that investors preferences on financial investment in NEPAL, Investors actively concerned over are amendment and strict implementation of current rules and regulation in order to accelerate the current status of Nepalese security market. still the next important and urgent action to be taken to develop security market is to make clear cut arrangement for regulations concerning the involvement of employee's provident funds, citizens investment trust, construction extra active and I'T' sectors and natural funds in securing market.

Manandhar suggest that are less aware to wards the general function of security market tin the country. This result is so dismal as so few respondent is so dismal as so few respondent are concern over the general information as to the secondary market and its functioning.

- Most of the respondents who purchase security market have the complain that there are no timely delivery to dividend, bonus share and right share like wise there are also a significant number of respondents, those complain that no timely delivery of as to the price, financial statement and other vital information.
- The grievances of investors who purchase share from primary market against issuer company also seem to be significant. Their complain is mainly as to the company, tendency to influence unduly to the investors through different types of information having their reach. And some of the respondent also. Dissatisfied with the process of allocating share to the investors, Broker, company as to the market scenario and obstructs investors from being informed with the same. Complain against the security exchange center is

that the center doesn't inform to market as to the price sensitive information and financial statement of previous year.

- Investors seems to be less aware to security market and its functioning, this call for the initiation of the awareness programme to make prospective investors fully aware programme and informed as to the securities.

## **2.6 Research Gap**

After reviewing the previous studies that are relevant to the share price, the following research gaps have been found:

- a. Most of the studies on share price behaviour conducted in the context of Nepal were based on secondary sources of information only.
- b. No study has been conducted on price behaviour related to stock market efficiency by using professional investors, market analyzer and potential investor.

Hence, in order to find out more subjective facts on share price behaviour which cannot be tested through the use of the secondary source of information only, the present study has been conducted by encompassing both secondary data and primary data, obtained from the responses of professional investors, market analyzer and potential investor. Moreover, the present study is conducted to fulfil the above gaps.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Methodology**

Research methodology refers to the various sequential steps that are to be adopted by a researcher during the course of studying a problem with certain objectives. It tends to solve the search problem in a systematic way. Hence, the overall research method adopted by the researcher is mentioned. These study covers quantitative methodologies in a greater extend and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools. The purpose, hypothesis or research question and format are covered in this research.

#### **3.2 Research Design**

Research design refers to the definite procedure and techniques which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data.

A plan of study or blue print for study that presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal is called a research design or strategy. (*Joshi; 2001: 12*)

The main objective of this study is to examine the interrelation of MPS with NWPS, EPS, DPS and other financial indicators. To achieve this objective, both the analytical and descriptive research designs have been adopted. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been used to determine factors determining stock prices of commercial banks in the NEPSE.

#### **3.3 Population and Samples**

As per the data of 16<sup>th</sup> February, 2008, there are 141 public companies that are listed in Nepal Stock Exchange Ltd. (NEPSE) consisting 49 from finance companies, 29

from manufacturing, 22 from commercial banking sector, 15 from insurance company, 8 from trading, 8 from Development Banks, 4 from hotel, and 6 from other sectors.

Since the study concentrates only on the determinants of stock price of Commercial Banks of Nepal, the major Commercial Banks listed in NEPSE are taken for the study. Some of the Commercial Banks, here included in the study, are established within the period of study years; hence all the data are not available for analysis from 2004/05 to 2008/09 for these banks. For such only the available data are analyzed. Though Nepal Bank Limited was once listed in NEPSE, but due to continuous loss it is de-listed now, and hence excluded in this study.

This study covers these commercial banks:

**Table No. 3.1**  
**Name of Commercial Banks Chosen for Study**

<b>S.N.</b>	<b>Name of the Commercial Banks</b>	<b>S.N.</b>	<b>Name of the Commercial Banks</b>
1.	Bank of Kathmandu Limited	9.	NCC Bank Limited
2.	Everest Bank Limited	10.	Nepal Bangladesh Bank Limited
3.	Himalayan Bank Limited	11.	Nepal Ind. & Commercial Bank Ltd.
4.	Kumari Bank Limited	12.	Nepal Investment Bank Ltd.
5.	Laxmi Bank Limited	13.	Nepal SBI Bank Limited
6.	Lumbini Bank Limited	14.	Siddhartha Bank Ltd.
7.	Macha Puchchhre Bank Ltd	15.	Standard Chartered Bank Nepal
8.	Nabil Bank Limited		

### **3.4 Sources of Data**

For the effective and efficient findings, both Primary and Secondary data has been collected as source of data. For the purpose of Primary Data, a questionnaire was presented to the 50 respondents. The respondents were from the NEPSE courtyard who have either invested in Share or willing to invest in Share soon. Due to the time



limitation of brokers and their unwillingness to respond, they were not included in the research. The secondary data are collected from different sources of related companies and organizations as follows:

- The year-ended equity share data sheet showing MPS, NWPS, EPS, DPS, Balance Sheet, Profit and Loss a/c etc.
- Information relevant to the study available in various web-sites.
- Relevant books, journals, magazines, reports, bulletins etc.
- Previous thesis and studies.

### **3.5 Data Collection Techniques**

A questionnaire was prepared and sample survey was made to identify the viability of question. Then the final questionnaire containing 12 sets of questions was prepared and primary data was collected by presenting the questionnaire to 50 respondents - all either professional investor or potential investor or market analyzer of the NEPSE floor. All the respondents thoroughly filled the questionnaire, which has been analysed in the following chapters in qualitative and qualitative way.

For the collection of secondary data, the official website of Nepal Stock Exchange, [www.nepalstock.com](http://www.nepalstock.com) was visited from where the financial reports of the concerned companies and other relevant information were taken. Likewise, the website of Nepal Rastra Bank, [www.nrb.org.np](http://www.nrb.org.np) was visited and the required data were downloaded. The financial statements of the concerned organisations are taken from the Library of Security Board of Nepal [SEBO/N], NEPSE and the Share Departments of respective Banks.

### **3.6 Data Processing**

Data gathered in this way have been verified and simplified for the purpose of analysis first. Then it has been arranged and presented in a systematic way. Moreover, it has been checked, edited and tabulated in such ways that provide convenience for computation and interpretation.

The relevant data have been inserted in meaningful tables. Only the data that are relevant to the study have been presented in the tabular form in the understandable way and unnecessary data have been excluded. Wherever the data suits, different types of charts and diagrams have been made to clarify the tabulated data in systematic way. An attempt has been made to find out the conclusion from the available data, with the help of various financial as well as statistical tools.

### **3.7 Data Analysis Tools**

Several tools and techniques are used to analyze the Primary and Secondary data collected from various sources for obtaining the logical conclusion. The following financial as well as statistical tools have been used to analyze the data:

#### **3.7.1 Statistical Tools**

Statistical tools measure the data and give the result in numeric form which helps to analyse the data in logical way. The following statistical tools have been used in this study.

##### **3.7.1.1 Average/Mean**

Average, in general, is calculated by adding all the numbers of all observations and dividing by the total number of observations. It is in fact, a value which is represented to stand for whole group of which it is a part, as typical of all the values in the group.

##### **3.7.1.2 Standard Deviation**

The standard deviation ( ) is the other measure of investment risk. It is absolute measure of dispersion. The smaller the standard deviation the lower will be the degree of risk of the stock. In other words, a small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa. The formula for calculating the standard deviation is:

$$\text{Standard deviation ( )} = \sqrt{\frac{1}{n} \sum (x - \bar{x})^2}$$

### 3.7.1.3 Coefficient of Variation

The coefficient variation (CV) is the other useful measure of risk. It is the standard deviation divided by the expected return, which measures risk per unit of return. It provides a more meaningful basis for comparison when the expected returns on two alternatives are not the same. If investors believe that the rate of return should increase as the risk increase, then the coefficient of variation provides a quick summary of the relative trade-off between expected return and risk. It is hence used to compare the variability between two or more series.

$$\text{Coefficient of Variation (CV)} = \frac{\sigma}{x} \times 100$$

### 3.7.1.4 Karl Pearson's Coefficient of Correlation

“Karl Pearson’s Coefficient of Correlation is a statistical tool for measuring the intensity or magnitude of linear relationship between the two variables series. Karl Pearson's measure, known as Personian Correlation Coefficient between two variables (Series) X and Y, usually denoted by 'r(X,Y)' or 'rxy' or simply 'r' can be obtained as;

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\{n \sum X^2 - (\sum X)^2\} \times \{n \sum Y^2 - (\sum Y)^2\}}}$$

Where,

- n : Number of observations in series X and Y
- X : Sum of observations in series X
- Y : Sum of observations in series Y
- X<sup>2</sup> : Sum of squared observations in series X
- Y<sup>2</sup> : Sum of squared observations in series Y
- XY : Sum of product of observations in series X and Y

The value of correlation coefficient ‘r’ lies between -1 to 1, i.e.  $-1 \leq r \leq 1$ . If  $r = 1$ , there is perfect positive relationship. If  $r = -1$ , there is perfect negative relationship. If  $r = 0$ , there is no correlation at all.” (Gupta; 1999: 519-521)

“The closer the value of ‘r’ is 1 or -1, the closer the relationship between the variables and the closer ‘r’ is to 0, the less close relationship.” (*Shrestha and Manandhar; 1999: 234*)

### 3.7.1.5 Coefficient of Determination

“The coefficient of determination between the two variable series is a measure of linear relationship between them and indicates the amount of one variable which is associated with or accounted for another variable. It gives the percentage variation in the dependent variable that is accounted for by the independent variable. Moreover, it gives the ratio of the explained variance to the total variance and it is given by square of the correlation coefficient, i.e. ‘r<sup>2</sup>’.” (*Gupta; 1999: 585*)

Thus,

$$r^2 = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

### 3.7.1.6 Regression Analysis

#### *Simple Regression Analysis*

Regression is the estimation of unknown values or prediction of one variable from known values of other variables. It is a mathematical measure of the average relationship between two or more variables in terms of the original units of the data. The known value which is used for prediction (or estimation) is called independent (or regressor or predictor or explanatory) variables and the unknown value that we are going to predict is called dependent (or regressed, predicted or explained) variable. (*Pant & Chaudhary; 2055: 237*)

#### *Line of regression of X on Y*

The line of regression of X on Y is the line which gives the best estimates of X for any given amount of Y. The regression equation is expressed as:

$$Y = a + bx$$

We shall get the normal equation for estimating ‘a’ and ‘b’ as:

$$Y = na + b \quad x \dots\dots\dots(i)$$

$$Y = a + bX \dots\dots\dots(ii)$$

Where, Y = the value of dependent variable,

a = Y-intercept

b = Slope of the trend line/coefficient of regression

X = Value of independent variable

### 3.7.1.8 Coefficient of Regression

The coefficient ‘b’, which is the slope of line of regression of Y on X is called the coefficient of regression of Y on X. It represents the increment in the value of the dependent variable Y for a unit change in the value of the independent variable X. In other words, it represents the rate of change. The convenient way to calculate the value of ‘b’ is as:

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

Similarly, the value of Y-intercept can be computed as:

$$a = \frac{(\sum X^2)(\sum Y) - \sum X \sum Y}{N\sum X^2 - (\sum X)^2}$$

### *Multiple Regression Analysis*

Multiple regression analysis consists of two or more independent variables. It derives an equation which provides estimates of the dependent variable from values of the two or more independent variables. It obtains a measure of the proportion of variance in the dependent variable which is explained by the independent variable and a measure of error involved in using the regression equation as a basis for estimation using this regression equation as a basis for estimation of the dependent variable.

The multiple regression equation is explained by :

$$X_1 = a + b_1 X_2 + b_2 X_3 \dots\dots\dots(i)$$

Where, a = point of intercept on Y-axis = the value of X<sub>1</sub> when X<sub>2</sub>=X<sub>3</sub>=0

b<sub>1</sub> = Slope of X<sub>1</sub> with variable X<sub>2</sub> holding variable X<sub>3</sub> constant = corresponding change in X<sub>1</sub> for each unit change in X<sub>2</sub> while X<sub>3</sub> is held constant

$b_2 =$  Slope of  $X_1$  with variable  $X_3$  holding variable  $X_2$  constant =  
 Corresponding change in  $X_1$  for each unit change in  $X_3$  while  $X_2$   
 is held constant.

$X_1 =$  Dependent variable

$X_2$  and  $X_3 =$  Independent variable

The values of constants  $a$ ,  $b_1$  and  $b_2$  are determined by solving simultaneously following three normal equations obtained by the method of least squares.

$$X_1 = na + b_1 X_2 + b_2 X_3 \dots\dots\dots(ii)$$

$$X_1X_2 = a \sum X_2 + b_1 \sum X_2^2 + b_2 \sum X_2X_3 \dots\dots\dots(iii)$$

$$X_1X_3 = a \sum X_3 + b_1 \sum X_2X_3 + b_2 \sum X_3^2 \dots\dots\dots(iv)$$

We get the multiple regression equation (i) by putting the values we get from solving equation ii, iii and iv.

**3.7.1.9 Standard Error of Estimate**

The regression equations enable us to estimate the value of the dependent variable of the dependent variable for any given value of the independent variable. With the help of regression equations, perfect estimations are impossible.

In such a case, standard error of estimate is used to measure the reliability of the estimating equation. The standard error of estimate is similar to the standard deviation. Both of these are measure of dispersion. The standard deviation measures the dispersion of a set of observations about the mean. The standard error of estimate, on the other hand, measures the variability, of scatter, of the observed values around the regression line. There are two standard error of estimate namely standard error of estimates namely standard error of estimate of Y on X and standard error of estimate of X on Y. (*Pant & Chaudhary; 2055: 260*)

The formula for calculating the standard error of estimate of Y on X is defined by;

$$S_{y.x} = \sqrt{\frac{\sum(Y - Y_c)^2}{n - 2}}$$

$$S_{y.x} = \sqrt{\frac{\sum Y^2 - a\sum Y - b\sum XY}{n - 2}}$$

### 3.7.1.9 T- Test

T-test, commonly known as Student's T-Distribution, is used when sample size is equal to or less than 30, the parent population from which the sample is drawn is normal, the population standard deviation is unknown. In order to test the significance of an observed sample correlation coefficient, the following procedure has been applied:

The following formula is used to test an observed sample correlation coefficient:

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{(n-2)}$$

Where, r = simple correlation coefficient

N = number of observation

## 3.8 Methods of Data Presentation

The collected data are presented in simple and clear way summarizing in table, charts and diagrams wherever applicable. Then, it has been analysed in systematic way using various statistical, mathematical and financial tools and techniques.

## CHAPTER IV

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Introduction

This chapter is the backbone of the research. In this chapter, both the primary and secondary data are presented in systematic manner. The sources of data were company brochure, annual reports, NEPSE website, SEBON website, journal and library, and banks and stock brokers (questionnaire). Those collected data are presented in systematic formats and analyzed using different appropriate tools and techniques. In this chapter, in addition to that the relationship of the variables is presented in graphs and figures. The analysis of data consists of organizing, tabulating and performing statistical analysis. In this chapter, the secondary as well as primary data, collected from different sources are presented in understandable form and analyzed separately using both qualitative and quantitative measures whichever is appropriate.

**Table 4.1**  
**Listed Companies at the end of the Fiscal Year 2007/08**

S.N.	Sectors	Number of Listed Companies	Company Percent
1	Commercial Bank	15	11.11
2	Development Bank	16	11.85
3	Finance Company	53	39.26
4	Insurance Company	16	11.85
5	Hotel	4	2.96
6	Mfg. & Process. Co.	21	15.56
7	Trading Company	5	3.70
8	Other Company	5	3.70
	Total	<b>135</b>	<b>100.00</b>

*Source: SEBON Annual Report 2008/09*



## Classification of Listed Companies

Out of 135 listed companies, NEPSE classified 66 companies (48.89 percent) consisting of 12 commercial banks, 4 development banks, 37 finance companies, 11 insurance companies, 1 manufacturing and processing company and 1 other company under group "A" and the rest under group "B", as per the provision of "Securities Listing Bye-laws, 1996". As per the provision of "Securities Listing Bye-laws, 1996" those listed companies which have profit track record for the last three consecutive years, book value higher than paid up value, submitted its financial statement to NEPSE within six months after the expiry of fiscal year, paid up capital at least Rs. 20 million and has at least 1000 shareholders can be categorized group "A". The commercial banks which fall on category "A" are given below:

**Table 4.2**  
**Listed Commercial Banks under Group "A"**

### 4.1.1 Analysis of Individual Company

S. No.	Name of the commercial banks	S. No.	Name of the commercial banks
1	NABIL Bank Ltd.	2	Nepal Investment Bank Ltd.
3	Standard Chartered Bank (Nepal) Ltd.	4	Himalayan Bank Ltd.
5	Nepal SBI Bank Ltd.	6	Everest Bank Ltd.
7	Bank of Kathmandu Ltd.	8	NIC Bank Ltd.
9	Machhapuchhre Bank Ltd.	10	Laxmi Bank Ltd.
11	Kumari Bank Ltd.	12	Siddhartha Bank Ltd.

From among the listed companies, the researcher has chosen 7 listed private commercial banks that falls in group 'A'. The summary of the financial data of the sample listed companies of the study are presented with seven years data (from fiscal year 2002/03 to 2008/09 i.e. including Market Price of Share [MPs], Earning Per Share [EPS], Dividend Per Share [DPS] and Book Value Per Share [BPS] and Market Capitalization in the table 4.1

**Table 4.3**  
**Data Presentation & Analysis**

	Years						
	59/60	60/61	61/62	62/63	63/64	64/65	65/66
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
<b>1 STANDARD CHARTERED BANK</b>							
MPS	2.144,00	1.550,00	1.640,00	1.745,00	2.345,00	3.775,00	5.900,00
DPS	100,00	100,00	110,00	110,00	120,00	130,00	80,00
BPS	327.5	363.86	403.15	399.25	422,38	468,22	512,12
EPS	126.88	141.13	149.3	143.55	143,14	175,84	167,37
MARKET CAPITALIZATION	7279.93	5263.01	5568.6	6537.42	8.785,31	14.142,67	24.382,03
<b>2 NABIL BANK</b>							
MPS	1.500,00	700,00	740,00	1.000,00	1.505,00	2.240,00	5.050,00
DPS	60,00	30,00	50,00	65,00	70,00	85,00	100,00
BPS	216,00	233,00	267,00	301,00	337,00	381,00	418,00
EPS	59.26	55.25	84.66	92.61	105,49	129,21	137,08
MARKET CAPITALIZATION	5891.94	3608.81	3608.81	4909.95	7.399,40	11.013,06	24.828,55
<b>3 BANK OF KATHMANDU</b>							
MPS	850,00	254,00	198,00	295,00	430,00	850,00	1.375,00
DPS	-	10,00	5,00	10,00	15,00	18,00	20,00
BPS	207.72	171.83	192.45	218.38	213,60	230,67	162,81
EPS	27.97	2,00	17.72	27.5	30,10	43,67	43,50
MARKET CAPITALIZATION	1.989,00	594.36	917.89	1367.56	1.993,40	3.940,44	8.293,19
<b>4 HIMALAYAN BANK</b>							
MPS	1.500,00	1.000,00	836,00	840,00	920,00	1.100,00	1.740,00
DPS	57.5	35,00	1,32	-	11,58	30,00	15,00
BPS	299.42	293.34	247,81	246,93	239,59	228,72	264,74
EPS	93.57	60.26	49.45	49.05	47,91	59,24	60,66
MARKET CAPITALIZATION	4.500,00	3.000,00	3586.44	4.410,00	5.920,20	8.494,20	14.108,09

<b>5 EVEREST BANK</b>							
MPS	650,00	405,00	445,00	680,00	870,00	1.379,00	2.430,00
DPS	-	-	20,00	20,00	-	25,00	10,00
BPS	173,00	241.63	150.09	171.52	219,87	217,67	292,75
EPS	31.56	32.91	29.9	45.58	54,20	62,80	48,40
MARKET CAPITALIZATION	1.080,00	619.2	1171.29	2.142,00			
<b>6. INVESTMENT BANK</b>							
MPS	1.150,00	760,00	795,00	940,00	800,00	1.260,00	1.729,00
DPS	-	30,00	20,00	15,00	12,50	20,00	5,00
BPS	275.96	307.95	216.24	246.89	200,80	239,67	234,37
EPS	33.18	33.59	39.56	51.7	39,50	59,35	62,57
MARKET CAPITALIZATION	1945.66	1285.78	1881.33	2775.75	4.701,91	7.441,38	13.855,39
<b>7. NEPAL SBI BANK</b>							
MPS	1.500,00	401,00	255,00	307,00	335,00	612,00	1.176,00
DPS	20,00	-	8,00	-	-	5,00	12,59
BPS	165.73	131.88	134.03	146.8	159,54	151,78	178,04
EPS	8.69	9.61	11.47	14.26	13,29	18,27	39,35
MARKET CAPITALIZATION	2156.76	577.44	1100.72	1325.18	1.446,75	3.918,24	7.618,11

[Source: AGM reports of the listed companies, NEPSE & SEBON]

Note:

MPS = Market price per share

DPS = Dividend per share (i.e. including bonus)

BPS = Book value per share

EPS = Earning per share

#### 4.2 Relationship between EPS, DPS & BPS to MPS

To analyze the relationship of EPS, DPS and BPS to MPS, it is assumed that the market price of share is influenced with the changes in EPS, DPS and BPS. So, MPS is the dependant variable; whereas BPS, EPS & DPS are independent variables. Here in this section, relationship of EPS, DPS & BPS with MPS is determined separately to

each of the sampled listed companies. The correlation analysis is performed to determine the relationship of EPS, DPS, & BPS with MPS. To determine the effect of DPS, EPS & BPS on MPS, simple correlation as well as their coefficient of determination are calculated. For the test of hypothesis of simple and multiple coefficient; calculated t-value are compared with the tabulated t-value at 95% level of significance. To determine the magnitude of the effects of the independent variables to the dependant variable, simple and multiple regression analysis are made and the magnitude is identified after determining the regression equations. In addition to that, multiple correlation coefficient, multiple coefficient of determination (MPS being dependant variable and DPS, BPS and EPS being independent variables), Standard errors of estimate are analyzed during the correlation and regression analysis.

#### 4.2.1 Correlation & Regression Analysis of SCB

Table 4.4 (a & b) summarizes the financial performances of SCB over last 7 years and table 4.4 (b) shows the relationship (Correlation) of EPS, DPS & BPS to MPS along with the significance of such relationship.

**Table 4.4(a)**  
**Summary of the Financial Performance of SCB**

<b>Year</b>	<b>MPS (a)</b>	<b>DPS (b)</b>	<b>BPS (c)</b>	<b>EPS (d)</b>
2002/03	2,144.00	100.00	327.50	126.88
2003/04	1,550.00	100.00	363.86	141.13
2004/05	1,640.00	110.00	403.15	149.30
2005/06	1,745.00	110.00	399.25	143.55
2006/07	2345.00	120.00	422.38	143.14
2007/08	3775.00	130.00	468.22	175.84
2008/09	5900.00	80.00	512.12	167.37
Total	<b>19099.00</b>	<b>750.00</b>	<b>2896.48</b>	<b>1047.21</b>
Mean	<b>2728.43</b>	<b>107.14</b>	<b>413.78</b>	<b>149.60</b>
SD	<b>1590.77</b>	<b>16.03</b>	<b>61.87</b>	<b>16.69</b>
CV	<b>58.30</b>	<b>14.96</b>	<b>14.95</b>	<b>11.16</b>

**Table 4.4 (b)**  
**Relationship of BPS, EPS and DPS with MPS**

<b>Variables</b>	<b>R</b>	<b>R<sup>2</sup></b>	<b>t-cal</b>	<b>t-table</b>	<b>Remarks</b>
r <sub>ab</sub>	-0.3949	0.1560	-0.3022	2.571	Not Significance
r <sub>ac</sub>	0.8479	0.7189	1.9479	2.571	Not Significance
r <sub>ad</sub>	0.7271	0.5287	0.9964	2.571	Not Significance

Where,

T-table value is at 95% level of significance (n-2=7-2=5 degree of freedom)

r<sub>ab</sub> = correlation coefficient of 'a' & 'b'

r<sup>2</sup> = coefficient of (simple) determination

SD = standard deviation

CV = coefficient of variation

Mean = arithmetic mean

a = Market price per share (MPS)

b = Dividend per share (DPS)

c = Book value per share (BPS)

d = Earning per share (EPS)

Null hypothesis (H<sub>0</sub>) : r=0

Alternative hypothesis (H<sub>1</sub>) : r ≠ 0

since, calculated value of t is less than tabulated value of t (ie, t(cal)<t(tab), Null hypothesis (H<sub>0</sub>) is accepted. There is no significance difference between the MPS, EPS, DPS, BPS, In other words MPS, EPS, DPS, BPS are uncorrelated.

For SCB, it is found from the table and figure 4.4 that the BPS is in increasing trend till the year 2002/03 and EPS is increasing trend till the year 2004/05 and after that slightly decreased in 2005/06. BPS and EPS are very less volatile with 14.95% coefficient of variation (CV) of BPS and 11.16% CV of EPS. In comparison to these, MPS is little bit more volatile with 58.30% of CV whereas DPS is volatile with 14.96% CV in the last seven years period. Looking at the simple correlation analysis, MPS of SCB is negatively correlated with DPS meaning that increasing the DPS, MPS decreases and vice versa. On the other hand, MPS is positively correlated with BPS and EPS. However, there is high degree of correlation. The coefficient of simple

determination shows that 15.60% of changes in the MPS is explained by DPS, whereas 71.89% and 52.87% of the changes in the MPS is explained by BPS and EPS respectively. Even though, the MPS is affected by DPS, BPS and EPS, the degree of correlation are not significant at 95% level of confidence for all these three independent variables even the MPS is relatively more negatively correlated with DPS than others.

Similarly, while comparing SCB with Industrial benchmark (i.e. the average performance of selected seven banks) it is revealed that for MPS, mean MPS of SCB is greater (2728.43) than industrial mean of MPS (1283.69), Standard deviation of MPS is greater (1590.77) than industrial standard deviation (800.93) and Coefficient of Variation is lesser (58.30) than industrial CV (61.68). This result shows that MPS has very good performance. For DPS, its mean is higher (107.14) than industrial average (33.91), coefficient of variation is lesser (14.96) than industrial average (120.20) and standard deviation is also lesser (16.03) than industrial SD (40.38), thus, is good however it is more risky than industrial average DPS. For BPS SCB mean is greater (413.78) than industrial average mean (255.59), standard deviation is lesser (61.87) than industrial average SD (92.43) and less Coefficient of variation (14.95) is lesser than industrial CV (35.89). It proves that SCB's BPS is satisfactory. Finally, for EPS, SCB mean EPS is greater (149.60) than industrial average (63.13), standard deviation is lesser (16.69) than industrial average (47.15) and CV is also lesser (11.16) than industrial average (76.71). Thus, EPS has very good performance. Thus, in overall, SCB has very good performance in the last seven years.

#### MPS on DPS

$$\text{MPS} = 6924.3611 - 39.1620 \text{ DPS}$$

The regression constant 6924.3611 implies that when DPS is zero, MPS is 6924.3611. The constant for DPS -39.1620 implies that when DPS increases by RS.1, MPS decreases by RS. 39.1620 and vice versa. The simple correlation coefficient is -0.3949 with 1601.0639 standard error of estimate.

### MPS on BPS

$$\text{MPS} = -6291.3771 + 21.7984 \text{ BPS}$$

The regression constant -6291.3771 implies that when BPS is zero, MPS is -6291.3771. The constant for BPS 21.7984 implies that when DPS increases by RS.1, MPS increases by RS. 21.7984 and vice versa. The simple correlation coefficient is 0.8479 with 924.0372 standard error of estimate.

### MPS on EPS

$$\text{MPS} = -7643.7924 + 69.3324 \text{ EPS}$$

The regression constant -7643.7924 implies that when DPS is zero, MPS is -7643.7924. The constant for EPS 69.3324 implies that when EPS increases by RS.1, MPS increases by RS. 69.3324 and vice versa. The simple correlation coefficient is 0.7271 with 1196.0131 standard error of estimate.

The multiple regression analysis of SCB gives the multiple regression equation (MPS being dependant variable and DPS, BPS & EPS being independent variables) as [Annex II]

### MPS on DPS, BPS & EPS

$$\text{MPS} = 3608.7650 - 1.0619 \text{ DPS} + 3.9859 \text{ BPS} - 22.8016 \text{ EPS}$$

Where,

3608.7650 = Dependant variable – intercept (MPS – intercept), Multiple regression constant

-1.0619 = Partial regression coefficient of dependant variable (MPS) on DPS when BPS & EPS are held constant

3.9859 = Partial regression coefficient of dependant variable (MPS) on BPS when DPS & EPS are held constant

-22.801 = Partial regression coefficient of dependant variable (MPS) on EPS when DPS & BPS are held constant

The equation implies that the multiple regression constant (a) is 3608.7650 which suggest that when DPS, BPS and EPS are zero, MPS would be 3608.7650. The constant for DPS is -1.0619 implies that when DPS increases by RS. 100, MPS decreases by RS. 106.19, the constant for BPS is 3.9859, implies that when BPS increases by RS. 1, MPS will increases by RS. 3.9859 and the constant for EPS is -22.801, implies that when EPS increases by RS. 1, MPS decreases by RS. 22.50 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.9038 and coefficient of multiple determinations 0.8168 with 233.5668 standard error of estimate. The multiple correlation coefficients are significant at 95% level of significance. [See Annex: II]

#### 4.2.2 Correlation and regression analysis of NBL

Table 4.5(a & b) summarizes the financial performances of NBL over last 7 years and table 4.5(b) shows the relationship (correlation) of EPS, DPS & BPS to MPS along with the significance of such relationship.

**Table 4.5 (a)**  
**Summary of the Financial Performance of NBL**

<b>Year</b>	<b>MPS (a)</b>	<b>DPS (b)</b>	<b>BPS (c)</b>	<b>EPS (d)</b>
2002/03	1,500.00	60.00	216.00	59.26
2003/04	700.00	30.00	233.00	55.25
2004/05	740.00	50.00	267.00	84.66
2005/06	1,000.00	65.00	301.00	92.61
2006/07	1505.00	70.00	337.00	105.49
2007/08	2240.00	85.00	381.00	129.21
2008/09	5050.00	100.00	418.00	137.08
<b>Total</b>	<b>12375.00</b>	<b>460.00</b>	<b>2153.00</b>	<b>663.56</b>
<b>Mean</b>	<b>1819.29</b>	<b>65.71</b>	<b>307.37</b>	<b>94.79</b>
<b>SD</b>	<b>1522.28</b>	<b>22.81</b>	<b>75.37</b>	<b>31.68</b>
<b>CV</b>	<b>83.67</b>	<b>34.71</b>	<b>24.52</b>	<b>33.42</b>



**Table 4.5 (b)**  
**Relationship of BPS, EPS and DPS with MPS**

<b>Variables</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>t-cal</b>	<b>t-table</b>	<b>Remarks</b>
r <sub>ab</sub>	0.8490	0.7208	1.9638	2.571	Not Significance
r <sub>ac</sub>	0.7848	0.6160	1.3199	2.571	Not Significance
r <sub>ad</sub>	0.7467	0.5575	1.0897	2.571	Not Significance

- a = Market price per share (MPS)
- b = Dividend per share (DPS)
- c = Book value per share (BPS)
- d = Earning per share (EPS)

Null hypothesis (H<sub>0</sub>) : r=0

Alternative hypothesis (H<sub>1</sub>) : r ≠ 0

since, calculated value of t is less then tabulated value of t (ie, t(cal)<t(tab), Null hypothesis (H<sub>0</sub>) is accepted. There is no significance difference between the MPS, EPS, DPS, BPS, In other words MPS, EPS, DPS, BPS are uncorrelated.

It is revealed from above tables and figure 4.5 that the NBL has not consistent performance over the seven years period. MPS is more volatile with 83.67% of CV. In comparison to MPS, DPS and EPS are less volatile with 34.71% CV of DPS and 33.42% CV of EPS. On the other hand, BPS has relatively consistence performance with lower CV of 24.52%. The simple correlation analysis revealed that the MPS is positively correlated with the independent variables DPS and EPS which indicates that on increasing DPS, and EPS, MPS also increases and vice versa except in year 2000/01. DPS is more correlated to MPS than the BPS and EPS. The coefficient of determination shows that the 55.75% of changes in the MPS is explained by EPS, 61.60% of changes in the MPS is explained by BPS and this ratio to DPS is 72.08%.The simple correlation of coefficients of DPS, BPS and EPS with MPS are not significant at 95% level of significance.

Similarly, the comparison of NBL with industrial benchmark yields the following results:

For MPS of NBL, mean MPS is higher, SD is higher, and CV is also higher than that of industrial average, it indicates clearly that MPS of NBL is satisfactory. For DPS, mean DPS is near about double, SD and CV are lesser than industrial; average meaning that it is also satisfactory. For BPS, NBL has higher mean of BPS, and lesser SD and CV, so BPS can be taken as a good performer. And finally for EPS of NBL, mean EPS is greater, and SD and CV are lesser than that of industrial average, meaning that is also good. Thus, it is revealed from above analysis that NBL has good performance in last seven years.

From the simple regression analysis, the regression equations are found (MPS being dependant variable) as: [Annex II]

#### MPS on DPS

$$\text{MPS} = -1904.4777 + 56.6660 \text{ DPS}$$

The regression constant -1904.4777 implies that when DPS is zero, MPS is -1904.4777. The constant for DPS 56.6660 implies that when DPS increases by RS.1, MPS increases by RS. 56.6660 and vice versa. The simple correlation coefficient is 0.8490 with 881.0365 standard error of estimate.

#### MPS on BPS

$$\text{MPS} = -3055.6490 + 15.8498 \text{ BPS}$$

The regression constant -3055.6490 implies that when BPS is zero, MPS is -3055.6490. The constant for BPS 15.8498 implies that when BPS increases by RS.1, MPS increases by RS. 15.8498 and vice versa. The simple correlation coefficient is 0.7848 with 1035.5149 standard error of estimate.

#### MPS on EPS

$$\text{MPS} = -1582.5263 + 35.8863 \text{ EPS}$$

The regression constant -1582.5263 implies that when EPS is zero, MPS is -1582.5263. The constant for EPS 35.8863 implies that when EPS increases by RS.1,

MPS increases by RS. 35.8863 and vice versa. The simple correlation coefficient is 0.7467 with 1109.0858 standard error of estimate.

The multiple regression analysis of NBL gives the multiple regression equation (MPS being dependant variable and DPS, BPS & EPS being independent variables) as [Annex II]

MPS on DPS, BPS & EPS

$$\text{MPS} = 969.8061 + 24.4219 \text{ DPS} - 3.9001 \text{ BPS} - 3.4628 \text{ EPS}$$

Where,

969.8061 = Dependant variable – intercept (MPS – intercept), Multiple regression constant

24.4219 = Partial regression coefficient of dependant variable (MPS) on DPS when BPS & EPS are held constant

-3.9001 = Partial regression coefficient of dependant variable (MPS) on BPS when DPS & EPS are held constant

-3.4628 = Partial regression coefficient of dependant variable (MPS) on EPS when DPS & BPS are held constant

The equation implies that the multiple regression constant (a) is 969.8061 which suggest that when DPS, BPS and EPS are zero, MPS would be 969.8061. The constant for DPS is 24.4219 implies that when DPS increases by RS. 1, MPS decreases by RS. 24.4219, the constant for BPS is -3.9001, implies that when BPS increases by RS. 1, MPS will decreases by RS. 3.9001 and the constant for EPS is - 3.4628, implies that when EPS increases by RS. 1, MPS decreases by RS. 3.4628 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.7230 and coefficient of multiple determinations 0.5228 with 396.0393 standard error of estimate. The multiple correlation coefficients are not significant at 95% level of significance.

[See Annex: II]

### 4.2.3 Correlation and regression analysis of BOK

Table 4.6 (a & b) summarizes the financial performances of BOK over last seven years and table 4.6 (b) shows the relationship (correlation) of EPS, DPS & BPS to MPS along with the significance of such relationship.

**Table 4.6 (a)**  
**Summary of the Financial Performance of BOK**

<b>Year</b>	<b>MPS (a)</b>	<b>DPS (b)</b>	<b>BPS (c)</b>	<b>EPS (d)</b>
2002/03	850.00	-	207.72	27.97
2003/04	254.00	10.00	171.83	2.00
2004/05	198.00	5.00	192.45	17.72
2005/06	295.00	10.00	218.38	27.50
2006/07	430.00	15.00	213.60	30.10
2007/08	850.00	18.00	230.67	43.67
2008/09	1375.00	20.00	162.81	43.50
<b>Total</b>	<b>4252.00</b>	<b>78.00</b>	<b>1397.46</b>	<b>192.46</b>
<b>Mean</b>	<b>607.43</b>	<b>11.14</b>	<b>199.64</b>	<b>27.49</b>
<b>SD</b>	<b>433.68</b>	<b>7.13</b>	<b>25.02</b>	<b>14.55</b>
<b>CV</b>	<b>71.40</b>	<b>64.00</b>	<b>12.53</b>	<b>52.93</b>

**Table 4.6 (b)**  
**Relationship of BPS, EPS and DPS with MPS**

<b>Variables</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>t-cal</b>	<b>t-table</b>	<b>Remarks</b>
r <sub>ab</sub>	0.4501	0.2026	0.3645	2.571	Not Significance
r <sub>ac</sub>	-0.2203	0.0485	-0.1495	2.571	Not Significance
r <sub>ad</sub>	0.7626	0.5816	1.1771	2.571	Not Significance

- a = Market price per share (MPS)
- b = Dividend per share (DPS)
- c = Book value per share (BPS)
- d = Earning per share (EPS)

Null hypothesis ( $H_0$ ) :  $r=0$

Alternative hypothesis ( $H_1$ ) :  $r \neq 0$

since, calculated value of  $t$  is less than tabulated value of  $t$  (ie,  $t(\text{cal}) < t(\text{tab})$ ), Null hypothesis ( $H_0$ ) is accepted. There is no significant difference between the MPS, EPS, DPS, BPS, In other words MPS, EPS, DPS, BPS are uncorrelated.

It is revealed from above tables that the BOK has not consistent performance over the seven years period. DPS is highly volatile with 64.00% of CV. In comparison to DPS, EPS and MPS are less volatile with 52.93% CV of EPS and 71.40% CV of MPS. On the other hand, BPS had relatively consistent performance with lower CV of 12.53%. The simple correlation analysis revealed that the MPS is positively correlated with DPS and EPS, whereas BPS is negatively correlated (inverse relationship) with MPS. MPS is more correlated to EPS than the DPS. The coefficient of determination shows that the 58.16% of changes in the MPS is explained by EPS, 4.85% of changes in the MPS is explained by BPS and this ratio to DPS is 20.26%. The simple correlation coefficients of DPS, BPS and EPS with MPS are not significant at 95% level of significance even EPS is more positively correlated with MPS than others.

Similarly, the comparative analysis of BOK with industrial benchmark reveals the following results:

For MPS of BOK, it is less risky but mean is less than industrial average and more volatile. For DPS of BOK, mean is less than industrial average, risk level as well as CV is also less. Similarly, looking at BPS, all the factors mean, SD and CV are less than that of industrial average. Finally, the EPS shows the same result as BPS. Thus, in overall, BOK does not have good performance in the last seven years.

From the simple regression analysis, the regression equations are found (MPS being dependant variable) as: [Annex II]

#### MPS on DPS

$$\text{MPS} = 302.2095 + 27.2915 \text{ DPS}$$

The regression constant 302.2095 implies that when DPS is zero, MPS is 302.2095. The constant for DPS 27.2915 implies that when DPS increases by RS.1, MPS

increases by RS. 27.2915 and vice versa. The simple correlation coefficient is 0.4501 with 424.2050 standard error of estimate.

#### MPS on BPS

$$\text{MPS} = 1369.7476 - 3.8185 \text{ BPS}$$

The regression constant 1369.7476 implies that when BPS is zero, MPS is 1369.7476. The constant for BPS -3.8185 implies that when BPS increases by RS.1, MPS decreases by RS. 3.8185 and vice versa. The simple correlation coefficient is -0.2203 with 463.4046 standard error of estimate.

#### MPS on EPS

$$\text{MPS} = -17.4691 + 22.7283 \text{ EPS}$$

The regression constant -17.4691 implies that when EPS is zero, MPS is -17.4691. The constant for EPS 22.7283 implies that when EPS increases by RS.1, MPS increases by RS. 22.7283 and vice versa. The simple correlation coefficient is 0.7626 with 307.3283 standard error of estimate.

The multiple regression analysis of BOK gives the multiple regression equation (MPS being dependant variable and DPS, BPS & EPS being independent variables) as [Annex II]

#### MPS on DPS, BPS & EPS

$$\text{MPS} = -347.8140 + 7.4901 \text{ DPS} + 2.2437 \text{ BPS} + 14.6597 \text{ EPS}$$

Where,

-347.8140 = Dependant variable – intercept (MPS – intercept), Multiple regression constant

7.4901 = Partial regression coefficient of dependant variable (MPS) on DPS when BPS & EPS are held constant

2.2437 = Partial regression coefficient of dependant variable (MPS) on BPS when DPS & EPS are held constant

14.6597 = Partial regression coefficient of dependant variable (MPS) on EPS when DPS & BPS are held constant

The equation implies that the multiple regression constant (a) is -347.8140 which suggest that when DPS, BPS and EPS are zero, MPS would be -347.8140. The constant for DPS is 7.4901 implies that when DPS increases by RS. 1, MPS decreases by RS. 7.4901, the constant for BPS is 2.2437, implies that when BPS increases by RS. 1, MPS will increases by RS. 2.2437 and the constant for EPS is 14.6597, implies that when EPS increases by RS. 1, MPS increases by RS. 14.6597 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.7615 and coefficient of multiple determinations 0.5799 with 357.3611 standard error of estimate. The multiple correlation coefficients are not significant at 95% level of significance.

#### 4.2.4 Correlation and regression analysis of HBL

Table 4.7 (a & b) summarizes the financial performances of BOK over last seven years and table 4.7 (b) shows the relationship (correlation) of EPS, DPS & BPS to MPS along with the significance of such relationship.

**Table 4.7 (a)**  
**Summary of the Financial Performance of HBL**

<b>Year</b>	<b>MPS (a)</b>	<b>DPS (b)</b>	<b>BPS (c)</b>	<b>EPS (d)</b>
2002/03	1,500.00	57.50	299.42	93.57
2003/04	1,000.00	35.00	293.34	60.26
2004/05	836.00	1.32	247.81	49.45
2005/06	840.00	-	246.93	49.05
2006/07	920.00	11.58	239.59	47.91
2007/08	1100.00	30.00	228.72	59.24
2008/09	1470.00	15.00	264.74	60.66
<b>Total</b>	<b>7936.00</b>	<b>150.40</b>	<b>1820.55</b>	<b>420.14</b>
<b>Mean</b>	<b>1133.71</b>	<b>21.49</b>	<b>260.08</b>	<b>60.02</b>
<b>SD</b>	<b>351.51</b>	<b>20.66</b>	<b>27.09</b>	<b>15.84</b>
<b>CV</b>	<b>31.01</b>	<b>96.14</b>	<b>10.42</b>	<b>26.39</b>

**Table 4.7 (b)**  
**Relationship of BPS, EPS and DPS with MPS**

<b>Variables</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>t-cal</b>	<b>t-table</b>	<b>Remarks</b>
r <sub>ab</sub>	0.5358	0.2871	0.4340	2.571	Not Significance
r <sub>ac</sub>	0.4316	0.1863	0.2929	2.571	Not Significance
r <sub>ad</sub>	0.6422	0.4125	0.9913	2.571	Not Significance

- a = Market price per share (MPS)
- b = Dividend per share (DPS)
- c = Book value per share (BPS)
- d = Earning per share (EPS)

Null hypothesis (H<sub>0</sub>) : r=0

Alternative hypothesis (H<sub>1</sub>) : r ≠ 0

since, calculated value of t is less than tabulated value of t (ie, t(cal)<t(tab), Null hypothesis (H<sub>0</sub>) is accepted. There is no significance difference between the MPS, EPS, DPS, BPS, In other words MPS, EPS, DPS, BPS are uncorrelated.

It is revealed from above tables and figure 4.5 that the HBL has not consistent performance over the seven years period. DPS is highly volatile with 96.14% of CV. In comparison to DPS, EPS and MPS are less volatile with 26.39% CV of EPS and 31.01% CV of MPS. On the other hand, BPS had relatively consistent performance with lowest CV of 10.42%. The simple correlation analysis revealed that the MPS is positively correlated with the independent variables DPS, BPS & EPS which indicates that on increasing DPS, BPS and EPS, MPS also increases and vice versa. MPS is a little more correlated to EPS than the DPS whereas BPS has less correlation with MPS. EPS and DPS more correlated compare to BPS, due to the net income and dividend payout policy. The coefficient of determination shows that the 41.25% of changes in the MPS is explained by EPS, 18.63% of changes in the MPS is explained by BPS and this ratio to DPS is 28.71%. The simple correlation coefficients of DPS, BPS and EPS with MPS are not significant at 95% level of significance.

Similarly, comparative analysis of HBL with industrial benchmark reveals the following information:



For HBL, MPS has good performance, DPS is good but mean DPS is a less than industrial average. Likewise, BPS is satisfactory and its level of consistence is very low and last but not least, EPS is satisfactory as well. Therefore, HBL in overall have satisfactory performance.

#### MPS on DPS

$$\text{MPS} = 952.5024 + 8.4341 \text{ DPS}$$

The regression constant 952.5024 implies that when DPS is zero, MPS is 952.5024. The constant for DPS 8.4341 implies that when DPS increases by RS.1, MPS increases by RS. 8.4341 and vice versa. The simple correlation coefficient is 0.5358 with 334.4229 standard error of estimate.

#### MPS on BPS

$$\text{MPS} = -434.5502 + 6.0286 \text{ BPS}$$

The regression constant -434.5502 implies that when BPS is zero, MPS is -434.5502. The constant for BPS 6.0286 implies that when BPS increases by RS.1, MPS increases by RS. 6.0286 and vice versa. The simple correlation coefficient is 0.4316 with 343.1912 standard error of estimate.

#### MPS on EPS

$$\text{MPS} = 271.4054 + 14.3670 \text{ EPS}$$

The regression constant 271.4054 implies that when DPS is zero, MPS is 271.4054. The constant for EPS 14.3670 implies that when EPS increases by RS.1, MPS increases by RS. 14.3670 and vice versa. The simple correlation coefficient is 0.6422 with 293.4649 standard error of estimate.

The multiple regression analysis of HBL gives the multiple regression equation (MPS being dependant variable and DPS, BPS & EPS being independent variables)

### MPS on DPS, BPS & EPS

$$\text{MPS} = -174.9768 + 3.0571 \text{ DPS} + 0.8660 \text{ BPS} + 11.8107 \text{ EPS}$$

Where,

-174.9768 = Dependant variable – intercept (MPS – intercept), Multiple regression constant

3.0571 = Partial regression coefficient of dependant variable (MPS) on DPS when BPS & EPS are held constant

0.8660 = Partial regression coefficient of dependant variable (MPS) on BPS when DPS & EPS are held constant

11.8107 = Partial regression coefficient of dependant variable (MPS) on EPS when DPS & BPS are held constant

The equation implies that the multiple regression constant (a) is 174.9768 which suggest that when DPS, BPS and EPS are zero, MPS would be -174.9768. The constant for DPS is 3.0571 implies that when DPS increases by RS. 1, MPS increases by RS. 3.0571, the constant for BPS is 0.8660, implies that when BPS increases by RS. 1, MPS will increases by RS. 0.8660 and the constant for EPS is 11.8107, implies that when EPS increases by RS. 1, MPS increases by RS. 11.8107 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.7664 and coefficient of multiple determinations 0.5873 with 370.3039 standard error of estimate. The multiple correlation coefficients are not significant at 95% level of significance. [See Annex: II]

#### **4.2.5 Correlation and regression analysis of EBL**

Table 4.8(a & b) summarizes the financial performances of EBL over last seven years and table 4.8 (b) shows the relationship (correlation) of EPS, DPS & BPS to MPS along with the significance of such relationship.

**Table 4.8 (a)****Summary of the Financial Performance of EBL**

<b>Year</b>	<b>MPS (a)</b>	<b>DPS (b)</b>	<b>BPS (c)</b>	<b>EPS (d)</b>
2002/03	650.00	0.00	173.00	31.56
2003/04	405.00	20.00	241.63	32.91
2004/05	445.00	20.00	150.09	29.90
2005/06	680.00	-	171.52	45.58
2006/07	870.00	-	219.87	54.20
2007/08	1379.00	25.00	217.67	62.80
2008/09	2430.00	10.00	292.75	78.40
<b>Total</b>	<b>6859.00</b>	<b>75.00</b>	<b>1466.53</b>	<b>335.37</b>
<b>Mean</b>	<b>979.86</b>	<b>10.71</b>	<b>209.50</b>	<b>47.91</b>
<b>SD</b>	<b>717.58</b>	<b>10.97</b>	<b>49.06</b>	<b>18.32</b>
<b>CV</b>	<b>73.23</b>	<b>102.43</b>	<b>23.42</b>	<b>38.24</b>

**Table 4.8 (b)****Relationship of BPS, EPS and DPS with MPS**

<b>Variables</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>t-cal</b>	<b>t-table</b>	<b>Remarks</b>
r <sub>ab</sub>	0.0484	0.0023	0.0392	2.571	Not Significance
r <sub>ac</sub>	0.7555	0.5708	0.5128	2.571	Not Significance
r <sub>ad</sub>	0.9358	0.8753	1.4444	2.571	Not Significance

a = Market price per share (MPS)

b = Dividend per share (DPS)

c = Book value per share (BPS)

d = Earning per share (EPS)

Null hypothesis (H<sub>0</sub>) : r=0

Alternative hypothesis (H<sub>1</sub>) : r ≠ 0

since, calculated value of t is less than tabulated value of t (ie, t(cal)<t(tab), Null hypothesis (H<sub>0</sub>) is accepted. There is no significance difference between the MPS, EPS, DPS, BPS, In other words MPS, EPS, DPS, BPS are uncorrelated.

It is revealed from above tables and figure 4.5 that the EBL has not consistent performance over the seven years period. DPS is highly volatile with 102.43% of CV. In comparison to DPS, MPS, EPS & BPS are less volatile with 73.23% CV of MPS, 23.42% CV of BPS as well as 38.24% CV of EPS. The simple correlation analysis revealed that the MPS is positively correlated with all independent variables DPS, BPS & EPS which indicates that on increasing DPS, BPS and EPS, MPS also increases and vice versa. MPS is a little more correlated to EPS than the DPS and BPS. On the other hand DPS is least correlated with MPS. The coefficient of determination shows that the 87.53% of changes in the MPS is explained by EPS, 57.08% of changes in the MPS is explained by BPS and this ratio to DPS is 0.23%. The simple correlation of coefficients of DPS, BPS and EPS with MPS are not significant at 95% level of significance.

The comparative analysis of EBL performance with industrial benchmark yields the following results:

For MPS of EBL, it's mean is lesser than that of average otherwise good, for DPS, it is more similar to MPS however DPS's risk level is very low than industrial average, for BPS, it has the same case as of MPS and finally, for EPS, it is more similar to DPS. Thus, in overall, the good performance of EBL is lacked by lower mean of independent variables in the last seven years period.

From the simple regression analysis, the regression equations are found (MPS being dependant variable)

#### MPS on DPS

$$\text{MPS} = 864.2290 + 10.7920 \text{ DPS}$$

The regression constant 864.2290 implies that when DPS is zero, MPS is 864.2290. The constant for DPS 10.7920 implies that when DPS increases by RS.1, MPS increases by RS. 10.7920 and vice versa. The simple correlation coefficient is 0.0484 with 775.3100 standard error of estimate.

### MPS on BPS

$$\text{MPS} = -1335.1977 + 11.0502 \text{ BPS}$$

The regression constant -1335.1977 implies that when BPS is zero, MPS is -1335.1977. The constant for BPS 11.0502 implies that when BPS increases by RS.1, MPS increases by RS. 11.0502 and vice versa. The simple correlation coefficient is 0.7555 with 515.0077 standard error of estimate.

### MPS on EPS

$$\text{MPS} = -776.8668 + 36.6672 \text{ EPS}$$

The regression constant -776.8668 implies that when EPS is zero, MPS is -776.8668. The constant for EPS 36.6672 implies that when EPS increases by RS.1, MPS increases by RS. 36.6672 and vice versa. The simple correlation coefficient is 0.9358 with 276.8393 standard error of estimate.

The multiple regression analysis of EBL gives the multiple regression equation (MPS being dependant variable and DPS, BPS & EPS being independent variables) as [Annex II]

### MPS on DPS, BPS & EPS

$$\text{MPS} = 23.8661 + 13.2201 \text{ DPS} - 4.7524 \text{ BPS} + 42.6580 \text{ EPS}$$

Where,

23.8661 = Dependant variable – intercept (MPS – intercept), Multiple regression constant

13.2201 = Partial regression coefficient of dependant variable (MPS) on DPS when BPS & EPS are held constant

-4.7524 = Partial regression coefficient of dependant variable (MPS) on BPS when DPS & EPS are held constant

42.6580 = Partial regression coefficient of dependant variable (MPS) on EPS when DPS & BPS are held constant

The equation implies that the multiple regression constant (a) is 23.8661 which suggest that when DPS, BPS and EPS are zero, MPS would be 23.8661. The constant for DPS is 13.2201 implies that when DPS increases by RS. 1, MPS increases by RS. 23.2201, the constant for BPS is -4.7524, implies that when BPS increases by RS. 1, MPS will decreases by RS. 4.7524 and the constant for EPS is 42.6580, implies that when EPS increases by RS. 1, MPS increases by RS. 42.6580 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.7025 and coefficient of multiple determinations 0.4935 with 258.6511 standard error of estimate. The multiple correlation coefficients are not significant at 95% level of significance. [See Annex: II]

#### 4.2.6 Correlation and regression analysis of NIB

Table 4.9(a & b) summarizes the financial performances of NIB over last seven years and table 4.9 (b) shows the relationship (correlation) of EPS, DPS & BPS to MPS along with the significance of such relationship.

**Table 4.9 (a)**  
**Summary of the Financial Performance of NIB**

<b>Year</b>	<b>MPS (a)</b>	<b>DPS (b)</b>	<b>BPS (c)</b>	<b>EPS (d)</b>
2002/03	1,150.00	0.00	275.96	33.18
2003/04	760.00	30.00	307.95	33.59
2004/05	795.00	20.00	216.24	39.56
2005/06	940.00	15.00	246.89	51.70
2006/07	800.00	12.50	200.80	39.50
2007/08	1260.00	20.00	239.67	59.35
2008/09	1729.00	5.00	234.37	62.57
<b>Total</b>	<b>7434.00</b>	<b>102.50</b>	<b>1721.88</b>	<b>319.45</b>
<b>Mean</b>	<b>1062.00</b>	<b>14.64</b>	<b>245.98</b>	<b>45.64</b>
<b>SD</b>	<b>350.68</b>	<b>10.04</b>	<b>36.15</b>	<b>12.15</b>
<b>CV</b>	<b>33.02</b>	<b>68.58</b>	<b>14.70</b>	<b>26.62</b>

**Table 4.9 (b)**  
**Relationship of BPS, EPS and DPS with MPS**

<b>Variables</b>	<b>R</b>	<b>r<sup>2</sup></b>	<b>t-cal</b>	<b>t-table</b>	<b>Remarks</b>
r <sub>ab</sub>	-0.5454	0.2975	-0.4417	2.571	Not Significance
r <sub>ac</sub>	-0.0710	0.0050	-0.0482	2.571	Not Significance
r <sub>ad</sub>	0.7449	0.5548	1.1497	2.571	Not Significance

a = Market price per share (MPS)

b = Dividend per share (DPS)

c = Book value per share (BPS)

d = Earning per share (EPS)

Null hypothesis (H<sub>0</sub>) : r=0

Alternative hypothesis (H<sub>1</sub>) : r ≠ 0

since, calculated value of t is less than tabulated value of t (ie, t(cal)<t(tab), Null hypothesis (H<sub>0</sub>) is accepted. There is no significance difference between the MPS, EPS, DPS, BPS, In other words MPS, EPS, DPS, BPS are uncorrelated.

It is revealed from above tables and figure 4.6 that the NIB has not consistent performance over the seven years period. DPS is more volatile with 68.58% of CV. In comparison to DPS, MPS, EPS & BPS are volatile in increasing rate with 33.02% CV of MPS, 26.62% CV of EPS and relatively low degree of volatility i.e. 14.70% CV of BPS. The simple correlation analysis revealed that the MPS is negatively correlated with DPS and BPS except EPS which indicates that on increasing DPS, BPS and EPS, MPS also increases and vice versa. MPS has high degree of correlation with EPS. On the other hand there is negative correlation of DPS and BPS with MPS. The coefficient of determination shows that the 29.75% of changes in the MPS is explained by DPS, 0.50% of changes in the MPS is explained by BPS and this ratio to EPS is 55.48%. The simple correlation of coefficients of DPS, BPS and EPS with MPS are not significant at 95% level of significance.

The comparison of NIB with industrial Benchmark gives the following clues:

For MPS of NIB, mean, level of risk and volatility is less than the industrial average meaning that MPS does seem good. For DPS, mean and SD as well as CV is lesser than industrial average. BPS is also lesser in all case. Finally, for EPS, mean, SD and

CV are less than industrial average. The level of risk seems very lower. Thus, in overall, the NIB does not reach the industrial benchmark because of lower mean of independent variables.

From the simple regression analysis, the regression equations are found (MPS being dependant variable) as: [Annex II]

#### MPS on DPS

$$\text{MPS} = 1357.3451 - 20.1699 \text{ DPS}$$

The regression constant 1357.3451 implies that when DPS is zero, MPS is 1357.3451. The constant for DPS -20.1699 implies that when DPS increases by RS.1, MPS decreases by RS. 20.1699 and vice versa. The simple correlation coefficient is -0.5454 with 313.5549 standard error of estimate.

#### MPS on BPS

$$\text{MPS} = 1231.5236 - 0.6892 \text{ BPS}$$

The regression constant 1231.5236 implies that when BPS is zero, MPS is 1231.5236. The constant for BPS -0.6892 implies that when BPS increases by RS.100, MPS decreases by RS. 68.92 and vice versa. The simple correlation coefficient is -0.0710 with 383.1799 standard error of estimate.

#### MPS on EPS

$$\text{MPS} = 81.6576 + 21.4819 \text{ EPS}$$

The regression constant 81.6576 implies that when EPS is zero, MPS is 81.6576. The constant for EPS 21.4819 implies that when EPS increases by RS.1, MPS increases by RS. 21.4819 and vice versa. The simple correlation coefficient is 0.7449 with 256.4350 standard error of estimate.

The multiple regression analysis of NIB gives the multiple regression equation (MPS being dependant variable and DPS, BPS & EPS being independent variables) as [Annex II]



### MPS on DPS, BPS & EPS

$$\text{MPS} = -689.2320 - 3.2339 \text{ DPS} + 3.8919 \text{ BPS} + 17.1813 \text{ EPS}$$

Where,

-689.2320 = Dependant variable – intercept (MPS – intercept), Multiple regression constant

-3.2339 = Partial regression coefficient of dependant variable (MPS) on DPS when BPS & EPS are held constant

3.8919 = Partial regression coefficient of dependant variable (MPS) on BPS when DPS & EPS are held constant

17.1813 = Partial regression coefficient of dependant variable (MPS) on EPS when DPS & BPS are held constant

The equation implies that the multiple regression constant (a) is -689.2320 which suggest that when DPS, BPS and EPS are zero, MPS would be -689.2320. The constant for DPS is -3.2339 implies that when DPS increases by RS. 1, MPS decreases by RS. -3.2339, the constant for BPS is 3.8919, implies that when BPS increases by RS. 1, MPS will increases by RS. 3.8919 and the constant for EPS is 17.1813, implies that when EPS increases by RS. 1, MPS increases by RS. 17.1813 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.7368 and coefficient of multiple determinations 0.5429 with 268.4530 standard error of estimate. The multiple correlation coefficients are not significant at 95% level of significance. [See Annex: II]

#### **4.2.7 Correlation and regression analysis of SBI**

Table 4.10 (a & b) summarizes the financial performances of SBI over last seven years and table 4.10 (b) shows the relationship (correlation) of EPS, DPS & BPS to MPS along with the significance of such relationship.

**Table 4.10 (a)**  
**Summary of the Financial Performance of SBI**

<b>Year</b>	<b>MPS (a)</b>	<b>DPS (b)</b>	<b>BPS (c)</b>	<b>EPS (d)</b>
2002/03	1,500.00	20.00	165.73	8.69
2003/04	401.00	-	131.88	9.61
2004/05	255.00	8.00	134.03	11.47
2005/06	307.00	-	146.80	14.26
2006/07	335.00	-	159.54	13.29
2007/08	612.00	5.00	151.78	18.27
2008/09	1176.00	12.59	178.04	39.35
<b>Total</b>	<b>4586.00</b>	<b>45.59</b>	<b>1067.80</b>	<b>114.94</b>
<b>Mean</b>	<b>655.14</b>	<b>6.51</b>	<b>152.54</b>	<b>16.42</b>
<b>SD</b>	<b>489.10</b>	<b>7.64</b>	<b>16.71</b>	<b>10.60</b>
<b>CV</b>	<b>74.66</b>	<b>117.36</b>	<b>10.95</b>	<b>64.56</b>

**Table 4.10 (b)**  
**Relationship of BPS, EPS and DPS with MPS**

<b>Variables</b>	<b>R</b>	<b>r<sup>2</sup></b>	<b>t-cal</b>	<b>t-table</b>	<b>Remarks</b>
r <sub>ab</sub>	0.8937	0.7988	0.7238	2.571	Not Significance
r <sub>ac</sub>	0.7347	0.5398	0.4987	2.571	Not Significance
r <sub>ad</sub>	0.3471	0.1205	0.5358	2.571	Not Significance

a = Market price per share (MPS)

b = Dividend per share (DPS)

c = Book value per share (BPS)

d = Earning per share (EPS)

Null hypothesis (H<sub>0</sub>) : r=0

Alternative hypothesis (H<sub>1</sub>) : r ≠ 0

since, calculated value of t is less than tabulated value of t (ie, t(cal)<t(tab), Null hypothesis (H<sub>0</sub>) is accepted. There is no significance difference between the MPS, EPS, DPS, BPS, In other words MPS, EPS, DPS, BPS are uncorrelated.

It is revealed from above tables and figure 4.10 That the SBI has not consistent performance over the seven years period. DPS is more volatile with 117.36% of CV. In comparison to DPS, MPS, EPS and BPS are volatile in increasing rate with 74.66% CV of MPS, 64.56% CV of EPS and relatively low degree of volatility i.e. 10.95% CV of BPS. The simple correlation analysis revealed that the MPS is positively correlated with DPS, BPS and EPS which indicates that on increasing DPS, BPS and EPS, MPS also increases and vice versa. There is high degree of correlation with DPS, BPS and EPS. The coefficient of determination shows that the 79.88% of changes in the MPS is explained by DPS, 53.98% of changes in the MPS is explained by BPS and this ratio to EPS is 12.05%. The simple correlation of coefficients of DPS, BPS and EPS with MPS are not significant at 95% level of significance.

The comparison of SBI with industrial Benchmark gives the following information:

For MPS of SBI, mean and level of risk are less whereas CV is higher than the industrial average meaning that MPS does not seem good. For DPS, mean and SD as well as CV is lesser than industrial average. BPS as well as EPS is also same as DPS. Thus, in overall, the SBI does not have satisfactory performance than industrial benchmark. [See Annex: II]

From the simple regression analysis, the regression equations are found (MPS being dependant variable) as: [Annex I]

#### MPS on DPS

$$\text{MPS} = 282.9010 + 57.1549 \text{ DPS}$$

The regression constant 282.9010 implies that when DPS is zero, MPS is 282.9010. The constant for DPS 57.1549 implies that when DPS increases by RS.1, MPS increases by RS. 57.1549 and vice versa. The simple correlation coefficient is 0.8937 with 262.3248 standard error of estimate.

#### MPS on BPS

$$\text{MPS} = 2700.4660 + 21.9978 \text{ BPS}$$

The regression constant 2700.4660 implies that when BPS is zero, MPS is 2700.4660. The constant for BPS 21.9978 implies that when BPS increases by RS.1, MPS increases by RS. 21.9978 and vice versa. The simple correlation coefficient is 0.7347 with 368.2966 standard error of estimate.

#### MPS on EPS

$$\text{MPS} = 392.1972 + 16.0137 \text{ EPS}$$

The regression constant 392.1972 implies that when EPS is zero, MPS is 392.1972. The constant for EPS 16.0137 implies that when EPS increases by RS.1, MPS increases by RS. 16.0137 and vice versa. The simple correlation coefficient is 0.3471 with 513.1113 standard error of estimate.

The multiple regression analysis of SBI gives the multiple regression equation (MPS being dependant variable and DPS, BPS & EPS being independent variables) as [Annex II]

#### MPS on DPS, BPS & EPS

$$\text{MPS} = -1635.4881 + 28.5635 \text{ DPS} + 14.9660 \text{ BPS} - 16.1136 \text{ EPS}$$

Where,

-1635.4881 = Dependant variable – intercept (MPS – intercept), Multiple regression constant

28.5635 = Partial regression coefficient of dependant variable (MPS) on DPS when BPS & EPS are held constant

14.9660 = Partial regression coefficient of dependant variable (MPS) on BPS when DPS & EPS are held constant

-16.1136 = Partial regression coefficient of dependant variable (MPS) on EPS when DPS & BPS are held constant

The equation implies that the multiple regression constant (a) is -1635.4881 which suggest that when DPS, BPS and EPS are zero, MPS would be -1635.4881. The constant for DPS is 28.5635 implies that when DPS increases by RS. 1, MPS increases by RS. 28.5635, the constant for BPS is 14.9660, implies that when BPS increases by RS. 1, MPS will increases by RS. 14.9660 and the constant for EPS is -16.1136, implies that when EPS increases by RS. 1, MPS decreases by RS. 16.1136 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.8845 and coefficient of multiple determinations 0.7823 with 339.2341 standard error of estimate. The multiple correlation coefficients are significant at 95% level of significance. [See Annex: II]

### **4.3 Analysis of Primary Data**

This thesis involves primary data also which were collected through questionnaire (Annex-V). During the course of collecting primary data, the researcher visited the private commercial banks as well as security brokers. Among the various factors affecting the share price, twenty factors were considered and primary information was collected from thirty [seven private commercial banks and twenty three security brokers] institutions. The answers of the respondents were marked with + 2 to – 2 on the basis of the degree of agreement to disagreement of the respondents. (-2 for strongly disagree, -1 for disagree, 0 for undecided, 1 for agree and 2 for strongly agree; using five degree Likert -Type Scale. The summaries of the respondent's response for each of the identified factors are presented in this section separately. All the necessary calculations for this section are presented in Appendices III and IV with the help of MS. Excel Software.

#### **4.3.1 Higher the Earnings (EPS), Higher the Share Price**

The responses of the respondents for the affect of EPS to the market price of share were found as shown in table 4.11.

**Table 4.11**  
**Higher the Earnings (EPS), Higher the Share Price**

S. no.	Responses	No.	Percentage
	Strongly Agree (SA)	4	13.33
2	Agree (A)	20	66.67
3	Undecided (U)	4	13.33
4	Disagree (D)	2	6.67
5	Strongly Disagree (SD)	0	0.00
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 80.00 % of the respondents were agree that the increased earnings increases the share price in the market. Only, 6.67% were disagreed and 13.33 % were undecided with the statement. So, the increase in EPS significantly increases the market price of the share and vice versa at 95 % level of significance. (See Annex: VI)

#### **4.3.2 Higher the cash dividend, higher the share price**

The responses of the respondents for the affect of cash dividend to the market price of share were found as shown in table 4.12.

**Table 4.12**  
**Higher the cash dividend, higher the share price**

S.no.	Responses	No.	Percentage
1	Strongly Agree (SA)	5	16.67
2	Agree (A)	18	60.00
3	Undecided (U)	3	10.00
4	Disagree (D)	3	10.00
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>
<i>Source: Annex IV</i>			

From the primary responses it is found that 76.67 % of the respondents were agree that the increased cash dividend increases the share price in the market. Only, 10.00% were disagreed and 10.00 % were undecided with the statement. So, the increase in cash dividend significantly increases the market price of the share and vice versa at 95 % level of significance.:

#### **4.3.3 Lower the growth rate (g), higher the share price**

The responses of the respondents for the affect of growth rate to the market price of share were found as shown in table 4.13.

**Table 4.13**  
**Lower the growth rate (g), higher the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	0	0.00
2	Agree (A)	2	6.67
3	Undecided (U)	5	16.67
4	Disagree (D)	20	66.66
5	Strongly Disagree (SD)	3	10.00
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 6.67 % of the respondents were agree that the decreased growth rate increases the share price in the market. Only, 76.66% were disagreed and 16.67 % were undecided with the statement. So, the decrease in growth rate significantly increases the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

#### **4.3.4 Higher the interest rate (r), higher the share price**

The responses of the respondents for the affect of interest rate to the market price of share were found as shown in table 4.14.

**Table 4.14**

**Higher the interest rate (r), higher the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	2	6.67
2	Agree (A)	17	56.67
3	Undecided (U)	6	20.00
4	Disagree (D)	4	13.33
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 63.34 % of the respondents were agree that the increase in interest rate increases the share price in the market. Only, 16.66% were disagreed and 20.00 % were undecided with the statement. So, the increase in interest rate does not significantly increase the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

**4.3.5 Higher the retention ratio, better the share price**

The responses of the respondents for the affect of retention ratio to the market price of share were found as shown in table 4.15.

**Table 4.15**

**Higher the retention ratio, better the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	2	6.67
2	Agree (A)	14	46.67
3	Undecided (U)	5	16.67
4	Disagree (D)	7	23.33
5	Strongly Disagree (SD)	2	6.67
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*



From the primary responses it is found that 53.34 % of the respondents were agree that the increase in retention ratio increases the share price in the market. Only, 30.00% were disagreed and 16.67 % were undecided with the statement. So, the increase in retention ratio does not significantly affect the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

#### **4.3.6 Stock dividend increases the share price**

The responses of the respondents for the affect of stock dividend to the market price of share were found as shown in table 4.16.

**Table 4.16**  
**Stock dividend increases the share price**

<b>S. no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	2	6.67
2	Agree (A)	14	46.67
3	Undecided (U)	5	16.67
4	Disagree (D)	8	26.67
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 53.34 % of the respondents were agree that the stock dividend increases the share price in the market. Only, 30.00% were disagreed and 16.67 % were undecided with the statement. So, the stock dividend significantly affects the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

#### **4.3.7 Higher cost of equity reduces the share price**

The responses of the respondents for the affect of cost of equity to the market price of share were found as shown in table 4.17.

**Table 4.17**

**Higher cost of equity (Ke) reduces the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	2	6.67
2	Agree (A)	14	46.67
3	Undecided (U)	5	16.67
4	Disagree (D)	8	26.67
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 53.34 % of the respondents were agree that the higher cost of equity decreases the share price in the market. Only, 30.00% were disagreed and 16.67 % were undecided with the statement. So, the higher cost of equity does not significantly affect the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

**4.3.8 Lower personal tax rate reduces the share price**

The responses of the respondents for the affect of personal tax rate to the market price of share were found as shown in table 4.18.

**Table 4.18**

**Lower tax rate reduces the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	1	3.33
2	Agree (A)	7	23.33
3	Undecided (U)	6	20.00
4	Disagree (D)	14	46.67
5	Strongly Disagree (SD)	2	6.67
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 26.66 % of the respondents were agree that the lower tax rate decreases the share price in market. Whereas, 53.34% were disagreed and 20.00 % were undecided with the statement. So, the personal tax rate significantly affects the market price of the share at 95 % level of significance. (See Annex: IV)

#### **4.3.9 Fall in gold prices causes fall in the share price**

The responses of the respondents for the affect of gold price to the market price of share were found as shown in table 4.19.

**Table 4.19**  
**Fall in gold price causes fall in share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	0	0.00
2	Agree (A)	7	23.33
3	Undecided (U)	15	50.00
4	Disagree (D)	7	23.33
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 23.33 % of the respondents were agree that the fall in gold price causes fall in the share price in market. Whereas, 26.66% were disagreed and 50.00 % were undecided with the statement. So, change in gold price does not significantly decreases the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

#### **4.2.10 Fall in value of US \$ exchange rate causes fall in the share price**

The responses of the respondents for the affect of fall in the value of US\$ exchange rate to the market price of share were found as shown in table 4.20.

**Table 4.20**

**Fall in value of US\$ reduces the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	0	0.00
2	Agree (A)	6	20.00
3	Undecided (U)	17	56.67
4	Disagree (D)	7	23.33
5	Strongly Disagree (SD)	0	0.00
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 20.00 % of the respondents were agree that the fall in the value of US\$ causes fall in the share price in market. Whereas, 23.33% were disagreed and 56.67 % were undecided with the statement. So, fall in the value of US\$ does not significantly decreases the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

**4.3.11 Instability of the government causes fall in the share price**

The responses of the respondents for the affect of the instability of the government to the market price of share were found as shown in table 4.21.

**Table 4.21**

**Instability of government reduces the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	3	10.00
2	Agree (A)	22	73.33
3	Undecided (U)	4	13.33
4	Disagree (D)	1	3.33
5	Strongly Disagree (SD)	0	0.00
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 83.33 % of the respondents were agreed that instability of government causes fall in the share price in market. Whereas, 3.33% were disagreed and 13.33 % were undecided with the statement. So, instability of the government significantly decreases the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

#### **4.3.12 Strikes, demonstration etc. causes fall in the share price**

The responses of the respondents for the affect of strike, demonstration to the market price of share were found as shown in table 4.20.

**Table 4.22**  
**Strikes, Demonstrations reduces the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	3	10.00
2	Agree (A)	23	76.67
3	Undecided (U)	1	3.33
4	Disagree (D)	2	6.67
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 86.67 % of the respondents were agreed that strike, demonstration etc. causes fall in the share price in market. Whereas, 10.00% were disagreed and 3.33 % were undecided with the statement. So, strike, demonstration etc. significantly decreases the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

#### **4.3.13 Cease-fire/peace talks affect positively the share price**

The responses of the respondents for the affect of cease-fire/peace talks to the market price of share were found as shown in table 4.23.

**Table 4.23**

**Cease-fire/peace talk affect positively to the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	4	13.33
2	Agree (A)	22	73.34
3	Undecided (U)	1	3.33
4	Disagree (D)	2	6.67
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 86.67 % of the respondents were agreed that cease-fire/peace talks affect positively the share price in market. Whereas, 10.00% were disagreed and 6.67% were undecided with the statement. So, Cease-fire/peace talk significantly affects the market price of the share positively at 95 % level of significance. (See Annex: VI)

**4.3.14 Outbreak of Cease-fire increases the share price**

The responses of the respondents for the affect of cease-fire/peace talks to the market price of share were found as shown in table 4.24.

**Table 4.24**

**Outbreak of cease-fire increases share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	0	0.00
2	Agree (A)	2	6.67
3	Undecided (U)	3	10.00
4	Disagree (D)	19	63.33
5	Strongly Disagree (SD)	6	20.00
	<b>Total</b>	<b>30</b>	<b>100.00</b>

From the primary responses it is found that 6.67 % of the respondents were agreed that outbreak of cease-fire affect positively the share price in market. Whereas, 83.33% were disagreed and 10.00 % were undecided with the statement. So, outbreak of cease-fire significantly affects the market price of the share negatively at 95 % level of significance. (See Annex: IV)

#### **4.3.15 Better the national economy, better the share price**

The responses of the respondents for the affect of national economy to the market price of share were found as shown in table 4.25.

**Table 4.25**  
**Better the national economy, better the share price**

<b>S. No.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	4	13.33
2	Agree (A)	21	70.00
3	Undecided (U)	4	13.33
4	Disagree (D)	1	3.33
5	Strongly Disagree (SD)	0	0.00
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 83.33 % of the respondents were agreed that better national economy affect positively the share price in market. Whereas, 3.33% were disagreed and 13.33% were undecided with the statement. So, better economy significantly affects the market price of the share positively at 95 % level of significance. (See Annex: IV)

#### **4.3.16 Better the global economy, better the share price**

The responses of the respondents for the affect of global economy to the market price of share were found as shown in table 4.26.

**Table 4.26**

**Better the global economy, better the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	2	6.67
2	Agree (A)	11	36.67
3	Undecided (U)	10	33.33
4	Disagree (D)	6	20.00
5	Strongly Disagree (SD)	1	3.23
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 43.34% of the respondents were agreed that better global economy affect positively the share price in market. Whereas, 23.23% were disagreed and 33.33% were undecided with the statement. So, better global economy does not significantly affect the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

**4.3.17 Higher the market liquidity, lower the share price**

The responses of the respondents for the affect of market liquidity to the market price of share were found as shown in table 4.27.

**Table 4.27**

**Higher the market liquidity, lower the share price**

<b>S. No.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	2	6.67
2	Agree (A)	9	30.00
3	Undecided (U)	7	23.33
4	Disagree (D)	10	33.33
5	Strongly Disagree (SD)	2	6.67
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*



From the primary responses it is found that 36.67% of the respondents were agreed that higher market liquidity affect negatively the share price in market. Whereas, 40.00% were disagreed and 23.33% were undecided with the statement. So, higher market liquidity does not significantly affect the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

#### **4.3.18 Share price is influenced by season**

The responses of the respondents for the affect of season to the market price of share were found as shown in table 4.28.

**Table 4.28**  
**Share price is lower in winter than in summer**

<b>S. No.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	1	3.33
2	Agree (A)	5	16.67
3	Undecided (U)	14	46.67
4	Disagree (D)	9	30.00
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 20.00% of the respondents were agreed that share price is influenced by season. Whereas, 33.33% were disagreed and 30.00% were undecided with the statement. So, the season i.e. summer or winter does not significantly affect the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

#### **4.3.19 Share price is lower in Sunday than on Thursday**

The responses of the respondents for the affect of week of the day to the market price of share were found as shown in table 4.29.

**Table 4.29**

**Share Price is lower in Monday than in Thursday**

<b>S.No.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	2	6.67
2	Agree (A)	7	23.33
3	Undecided (U)	16	53.34
4	Disagree (D)	4	13.33
5	Strongly Disagree (SD)	1	3.33
<b>Total :</b>		<b>30</b>	<b>100.00</b>

*Source : Annex IV*

From the primary responses it is found that 30.00% of the respondents were agreed that share price is lower on Sunday than on Thursday. Whereas, 16.66% were disagreed and 53.34% were undecided with the statement. So, the week of the day effect does not significantly affect the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

**4.3.20 Higher the risk, higher the share price**

The responses of the respondents for the affect of risk to the market price of share were found as shown in table 4.30.

**Table 4.30**

**Higher the risk, higher the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	1	3.33
2	Agree (A)	2	6.67
3	Undecided (U)	4	13.33
4	Disagree (D)	20	66.67
5	Strongly Disagree (SD)	3	10.00
<b>Total</b>		<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 10.00% of the respondents were agreed with higher the risk, higher the share price. Whereas, 67.67% were disagreed and 13.33% were undecided with the statement. So, the risk factor significantly affects the market price of the share negatively at 95 % level of significance. (See Annex: IV)

#### **4.3.21 Larger companies have higher share price**

The responses of the respondents for larger companies have higher share price were found as shown in table 4.31.

**Table 4.31**  
**Larger companies have higher share price**

<b>S. No.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	3	10.00
2	Agree (A)	14	46.67
3	Undecided (U)	5	16.67
4	Disagree (D)	7	23.33
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 56.67% of the respondents were agreed with higher the risk, higher the share price. Whereas, 26.33% were disagreed and 16.67% were undecided with the statement. So, the larger company size significantly affects the market price of the share at 95 % level of significance. (See Annex: IV)

#### **4.3.22 Share price increases with change in management**

The responses of the respondents for share price increases with change in management were found as shown in table 4.32.

**Table 4.32**

**Share price increases with change in management**

<b>S. no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	0	0.00
2	Agree (A)	5	16.67
3	Undecided (U)	17	56.67
4	Disagree (D)	7	23.33
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 16.67% of the respondents were agreed with share price increases with change in management. Whereas, 26.33% were disagreed and 56.67% were undecided with the statement. So, change in management does not significantly affect the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

**4.3.23 Lower the BPS, higher the share price**

The responses of the respondents for lower the BPS, higher the share price were found as shown in table 4.33.

**Table 4.33**

**Lower the BPS, higher the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	0	0.00
2	Agree (A)	2	6.67
3	Undecided (U)	5	16.67
4	Disagree (D)	20	66.66
5	Strongly Disagree (SD)	3	10.00
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 6.67% of the respondents were agreed with lower BPS causes higher the share price. Whereas, 76.66% were disagreed and 16.67% were undecided with the statement. So, BPS significantly affects the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

#### **4.3.14 Share price is influenced by demand & supply**

The responses of the respondents for share price is affected by demand and supply were found as shown in table 4.34.

**Table 4.34**  
**Share price is affected by demand and supply**

<b>S. no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	4	13.33
2	Agree (A)	20	66.67
3	Undecided (U)	2	6.67
4	Disagree (D)	3	10.00
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 80.00% of the respondents were agreed with lower share price is affected by demand and supply. Whereas, 13.33% were disagreed and 6.67% were undecided with the statement. So, the fact that demand and supply of the stock significantly affects the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

#### **4.3.25 Rumors and whims affect the share price**

The responses of the respondents for share price are affected by rumors and whims were found as shown in table 4.35.

**Table 4.35**

**Rumors and Whims affects the share price**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	4	13.33
2	Agree (A)	17	56.67
3	Undecided (U)	5	16.67
4	Disagree (D)	3	10.00
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 70.00% of the respondents were agreed with share price is affected by rumors and whims. Whereas, 13.33% were disagreed and 16.67% were undecided with the statement. So, the fact that rumors and whims significantly affects the market price of the share and vice versa at 95 % level of significance. (See Annex: IV)

**4.3.26 Capital market is not developed due to poor regulatory mechanism**

The responses of the respondents for capital market is not well developed due to poor regulatory mechanism were found as shown in table 4.36.

**Table 4.36**

**Capital market is not well developed due to poor regulatory mechanism**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	4	13.33
2	Agree (A)	17	56.67
3	Undecided (U)	4	13.33
4	Disagree (D)	4	13.33
5	Strongly Disagree (SD)	1	3.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 70.00% of the respondents were agreed with capital market is not well developed due to poor regulatory mechanism. Whereas, 16.33% were disagreed and 13.33% were undecided with the statement. So, the fact that capital market is not well developed due to poor regulatory mechanism is significant at 95 % level of significance. (See Annex: IV)

#### **4.3.27 Listed companies are not serious towards shareholder's interests**

The responses of the respondents for listed companies are not serious about shareholders interests were found as shown in table 4.37.

**Table 4.37**  
**Listed companies are not serious towards shareholder's interest**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	5	16.67
2	Agree (A)	16	53.32
3	Undecided (U)	2	6.67
4	Disagree (D)	5	16.67
5	Strongly Disagree (SD)	2	6.67
	<b>Total</b>	<b>30</b>	<b>100.00</b>

*Source: Annex IV*

From the primary responses it is found that 69.99% of the respondents were agreed with the fact that listed companies are not serious about shareholders interests. Whereas, 23.34% were disagreed and 6.67% were undecided with the statement. So, the fact that listed companies are not serious about shareholders interests is significant at 95 % level of significance. (See Annex: IV)

#### **4.3.28 NEPSE and SEBO are not able to protect shareholders interests**

The responses of the respondents for NEPSE and SEBO are not able to protect shareholders interests were found as shown in table 4.38.

**Table 4.38**

**NEPSE and SEBO are able to protect shareholder's interest**

<b>S.no.</b>	<b>Responses</b>	<b>No.</b>	<b>Percentage</b>
1	Strongly Agree (SA)	2	6.67
2	Agree (A)	4	13.33
3	Undecided (U)	3	10.00
4	Disagree (D)	17	56.67
5	Strongly Disagree (SD)	4	13.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>

From the primary responses it is found that 20.00% of the respondents were agreed with the fact that NEPSE and SEBO are able to protect the shareholders interests. Whereas, 70.00% were disagreed and 10.00% were undecided with the statement. So, the fact that NEPSE and SEBO are not able to protect shareholders interests is significant at 95 % level of significance.

#### **4.4 Empirical Findings of the Study**

In this study both of the primary as well as secondary data are analyzed. The researcher, with the help of research questionnaire, gathered primary data which helped to identify the factors affecting stock price. Similarly, with the help of secondary data, the relationship of market price per share with dividend, earning as well as book value was determined. Here, the empirical findings from both of the primary as well as secondary data analysis are presented separately below:

##### **4.4.1 Findings from Secondary Data Analysis**

The analysis of secondary data of seven private commercial banks gives the following results:

- For Standard Chartered Bank, MPS is negatively correlated with DPS where as it is positively correlated with BPS and EPS. None of these relationships are significant at 95% level of significance. BPS, EPS and MPS are less volatile except DPS. In overall, SCB has very good performance in the last seven years.



- For NBL, MPS is positively correlated with DPS, BPS and EPS. However, the relationship is not significant at 95% level of significance. DPS, BPS and EPS as well as MPS are less volatile. It is revealed from analysis that NBL has good performance in last seven years.
- For BOK, MPS is positively correlated with all of the independent variables i.e. DPS & EPS, where as negatively with BPS, the degree of correlation shows insignificant at 95% level of significance. The volatility of DPS, MPS and EPS are a little bit higher than that of BPS which has a good performance. In overall, BOK does not have good performance in the last seven years
- While analyzing the HBL, MPS is positively correlated with DPS, BPS and EPS. The degree of correlation shows insignificant at 95% level of significance. BPS is very much consistent where as MPS and EPS are not bad and DPS is a little bit more volatile. HBL in overall have satisfactory performance.
- For EBL, there exists medium degree of positive correlation of MPS with all independent variables. The t-test explains that these results do not show significance at 95% level of significance. The performance of BPS and EPS are good. MPS is in increasing trend where as DPS is more volatile which is not good. In overall, the good performance of EBL is lacked by lower mean of independent variables in the last seven years period.
- MPS has negative correlation with DPS and BPS, where EPS is positively for NIB. However, these degrees of correlation are not significant at 95% level of significance. BPS has not good performance and EPS and MPS are in increasing trend, where as DPS is in volatile condition. In overall, the NIB does not reach the industrial benchmark because of lower mean of independent variables.
- For, SBI bank, MPS has high degree of correlation with DPS and BPS, low degree correlation with EPS. But, t-test analysis shows that neither of them is significant at 95% level of significance. BPS consistent and good where as EPS, MPS and DPS have higher volatility respectively. In overall, the SBI does not have satisfactory performance than industrial benchmark.

From the view point of multiple correlations, it is known that independent variables (DPS, BPS and EPS) are significantly correlated to SCB and SBI only. Remaining all is insignificantly correlated.

#### **4.4.1.1 Empirical Findings from Primary Data Analysis**

On the other hand, the analysis of primary data reveals the following results:

- MPS is significantly affected by company's performance such as earnings, cash dividends payment, book value, risk associated with the company and growth rate at 95 % level of significance.
- When looking at, the other relevant factors to share piece such as interest rate, retention ratio, and cost of equity etc., these factors do not affect significantly, whereas stock dividend significantly affects the share price at 95% level of significance.
- Similarly, the political, economic and environmental factors such as instability of government, strike and demonstrations, national economy, tax rate, etc. significantly affect the share price where as global economy insignificantly affect the share price at 95% level of significance.
- From other factors, gold prices, value of US\$ exchange rate, seasonal factors like summer and winter, day of the week, change in management have insignificant impact on the share price.
- Similarly, size of the company, demand and supply, rumors and whims etc significantly affect the share price.
- While analyzing the response of capital market is not well developed in Nepal, Listed companies are not serious about shareholder's interests and NEPSE and SEBO are not able to protect share holders interest has shown significant implication at 95% level of significance.

## **CHAPTER V**

### **SUMMARY CONCLUSIONS & RECOMMENDATIONS**

This is the final chapter that involves summary, conclusions and recommendations of the research work. The facts and findings from primary and secondary data analysis are presented in this chapter. Besides summarizing and concluding research work, recommendations are made to concerned persons and organizations.

#### **5.1 Summary**

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Centre Ltd. in 1976 were other significant development relating to capital markets.

Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

The then His Majesty's Government, under a program initiated to reform capital markets converted Securities Exchange Centre into Nepal Stock Exchange in 1993. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983.

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. NEPSE opened its trading floor on 13th January 1994. The then His Majesty's Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of the NEPSE.

After the restoration of democracy in 1990, the then HMG/N initiated privatization and economic liberalization, the industrial development as well as the capital market development process took a pace. However, with the initiation of Maoist armed revolution, the industrial and capital market development process got a break. The nation has been paralyzed in terms of economic development due to the lack of peace and security. Most of the government investment has been concentrated to maintain security only. Similarly, lack of political stability and Royal takeover of February 1; has added fuel in this issue.

Nepalese capital market is still in primary stage. Most of the citizens are not aware of the basic knowledge regarding security market. As a result they have not been able to make investment and if even invested; are being exploited in the absence of proper knowledge. In spite of poor condition of the security market in Nepal, government of Nepal has not given priority in its current tenth five year plan. Government has not been able to create basic infrastructures, sound policies and laws and their effective implementation, for the capital market development. As a result, there is not transparency in the performance of the listed companies and the capital market due to which capital market is struggling to mature.

The researcher has tried to explore the factors affecting share price in NEPSE, with special focus to private commercial banks. The major objectives of the dissertation work are listed as:

- To identify qualitative as well as quantitative factors affecting the stock price in NEPSE with focus to commercial banks
- To determine the effect of earnings and book value to the stock price
- To determine the effect of dividend to the stock price
- To make appropriate recommendations/suggestions for the betterment of the stock market and so on.

To meet the desired objectives, the researcher identified the effect of quantitative factors, DPS, BPS & EPS with MPS by correlation and regression analysis of secondary data, whereas, to identify the qualitative factors affecting the share price, the researcher used the questionnaire approach.

On the one hand, from the secondary data analysis it is found that, for some companies, the correlation coefficient of MPS with independent variables ( i.e. DPS, BPS & EPS ) is significantly positive whereas in some other cases significantly negative at 95% level of significance. MPS is significantly positively correlated with DPS, BPS and EPS of NBB where as MPS is significantly negatively correlated to none of the factors.

Even though DPS, BPS & EPS affect the MPS positively, there are several other factors in the internal as well as external environment that affect the share price significantly. Theoretically, when earnings, dividends and book value per share increases, the market price per share also increases and vice versa. But in case of NEPSE, this theory does not seem to be true hundred percent meaning that there are various other factors too that affects the share price.

On the other hand, the qualitative factors affecting the share price are identified through the primary data analysis. Dividends, earnings, book value per share, growth rate and risk associated with the company are some internal factors affecting the market price per share. Among other environmental factors affecting the share price are political stability, cease fire and peace talks, strikes/bandha, rumors and whims, national economy, demonstrations, demand and supply situations. While analyzing the effects of interest rate, retention ratio, stock dividend , cost of equity, tax rate, value of US \$ exchange rate, gold price, global economy, market liquidity, season, day of the week, size of the organization, change in the management etc , it is found that these factors have nominal effects o share price.

During the course of research work, it was understood that, there is not good regulatory mechanism in the NEPSE for the listed companies to protect shareholders interests. The listed companies other than banks and financial companies, are not able to conduct the AGM in time, submit their report to SEBO/N and give the detail information to the shareholders (knowingly and unknowingly) .Thus, it seems that, on the one hand, listed companies are not able to protect the shareholders interests properly and on the other hand, there is lack of effective watchdog to implement rules and regulations.

Talking about the listed companies in the NEPSE, most of the companies are unable to meet organizational objectives. Service industries and manufacturing industries are suffering loss in the present context. The only the satisfactory sector is banking and financial institutions.

## **5.2 Conclusion**

Based on the above summary and findings of the research, the researcher came into the following conclusions:

- Adequate knowledge and information regarding the capital market is lacking in Nepalese investors. This is precisely the reason why they are cheated by the concerned companies and the NEPSE shows rather irrational behavior.
- Most of the listed companies do not provide sufficient and timely information to NEPSE as well as their shareholders. And even the supplied information does not have similarity among NEPSE, Annual Report and their particular websites. Meaning that they try to attract potential investors by providing exaggerated information regarding their performances.
- From the secondary data analysis it is revealed that, pricing behavior differs company to company. Even though, DPS, BPS and EPS jointly have significant effect on the share price, individually they do not have consistent relationship with MPS. It means that there may be other major factors influencing and determining the share price significantly.
- Whereas analysis of primary data (from view point of respondents) summarizes, company performance (EPS, book value, DPS, risk), information disclosed, timely AGM, other political and economic factors such as political stability, national economy, peace, strikes/bandhas, demand and supply situation of the share, cease-fire etc. are the some important factors having significance influence on the share price. Similarly, other relevant factors, interest rate, tax rate, seasonal factors, day of the week effect, gold price, global economy, value of US\$, cost of equity, market liquidity, size of the firm and change in management do not have significant effect .
- Due to poor rules and regulations as well as effective regularity mechanism, one the one hand, shareholders are not confident enough to invest in the share

whereas on the other hand, capital market has not been growing as per expectation. Similarly, lack of political stability, peace and Maoist revolution has constrained the smooth development of security market.

- The study concludes that the Nepalese stock market is in infancy stage. There is a gap between the theory and practice of investment in Nepalese stock market due to lack of proper study/analysis of stock market. Professionalism is lacking.
- In spite of the several constraints, the NEPSE has been growing gradually. The commercial banking sector is the best performer among the listed companies. We can't undermine the truth that with the presence of peace and political stability, the capital market gets far better soon.

### **5.3 Recommendations**

Based on the research work, the researcher has reached the following recommendations:

#### **To Investors**

Lack of education and sufficient information is the main weakness of the investors. They should seek their right towards accurate and timely information, as well as for protection. Similarly, investors should be alert to exploit the opportunities through short term speculation. So, they are suggested to raise their voice and complain about the misconduct of relevant company or NEPSE, SEBON as well as of Government. They are encouraged to enrich their level of knowledge and make the investment opportunities fruitful.

#### **To Brokers**

Brokers are suggested not only to look at their interests but also be sincere and cooperate with investors. Since they have greater level of practical knowledge they should provide rational and accurate advices to their clients/investors and foster professionalism.

## **To SEBON NEPSE**

Perfect markets require that all information concerning future risks and returns of securities be readily available to all investors. As there exists various market imperfections, relevant information are not easily available to the investors. They are often published in national dailies, but most of the information is highly aggregated and not reliable. Because of the lack of technical knowledge, majority of the investors is unable to analyze the available information. As such, a single buyer and a single seller can affect the price of securities. NEPSE has to insure listed companies relevant information. Similarly, NEPSE can expand its service to regional and local level so that it gives the equal opportunity to all the potential investors. The existing manual method of security trading should be replaced with computerized method to ensure the accuracy and systematic. Investors should be provided with investment guidelines and relevant information through media. It should monitor the activities of brokers as well as listed companies.

## **To Listed Companies**

Listed companies are requested to avail the accurate and timely information to concerned authorities as well as to investors. They should conduct timely AGM, and fulfill the requirement of concerned authorities. They should not provide gimmicks to attract the potential investors.

As the conclusion of my research, I would like to provide the following suggestion to the board of the Bank management committee.

a. It will be better if the bank uses / follows CAMEL test. CAMEL test is investment, CAMEL stands for :- C= Capital adequacy

A= Assets Management

M = Management efficiency

E = Earning per share

L = Liquidity position

b. Signaling effect :- Whenever bank/company decide to provide bonus, dividend and publicize it in the public, people begin to buy share and price of the share increase. Likewise, when the economic condition of the bank / company deteriorates, then the



price of the share decrease. So the bank/ company can increase or decrease the price of share by applying signaling effect method, so I would also like to suggest the bank/ company to follow the signaling effect method.

### **To Government**

Government should formulate as well as implement effective rules and regulations, code of conduct, for the gradual development of capital market. For this purpose national as well as international stock experts should be consulted. Similarly, it should encourage independent rating agencies so that the investors will have a confident picture of financial health and future prospects of organizations/instruments. NEPSE should be given authority to take immediate action for wrongdoer companies. Government should encourage the concerned body to organize programs, seminars time to time to create awareness among the investors.

### **To Further researcher**

Research is an ongoing process. Study of security is a vast field of study. Through this research, the researcher has tried to explore the factors affecting share price of commercial banks, which is I believe more specific, the further researcher can focus their study towards more specific factors. Similarly, they can even carry out research based on primary source. The other relevant factors for example can be impact of CEO charisma, Research, inflation, oil/energy prices etc that affect the share price.

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