FACTORS AFFECTING STOCK PRICE IN NEPAL: FINDINGS FROM A PERCEPTION SURVEY

A Thesis
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RECOMMENDATION LETTER

This thesis entitled **"Factors Affecting Stock Price in Nepal: Findings from a Perception Survey"** has been prepared by Mrs. Shirjana Poudel under my supervision. I hereby recommend this thesis for examination to the Thesis Committee as a partial fulfillment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS.

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APPROVAL LETTER

We certify that this thesis entitled **"Factors Affecting Stock Price in Nepal: Findings from a Perception Survey"** submitted by Mrs. Shirjana Poudel to the Central Department of Economics, Faculty of Humanities and Social Science, Tribhuvan University, in partial fulfillment of the requirements for the Degree of Masters of Arts in Economics has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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LIST OF ACRONYMS/ABBREVATIONS

AGM : Annual General Meeting

ADB : Agriculture Development Bank

AM : Arithmetic Mean

AMEX: American Stock Exchange

BOD : Board of Directors

BOKL : Bank of Kathmandu Ltd.

BVPS : Book Value Per Share

CV : Correlation of Variation

DDM : Dividend Discount Model

DF : Degree of Freedom

DPS : Dividend per Share

EBL : Everest Bank Limited

EPS : Earning Per Share

FY : Fiscal Year

HBL : Himalayan Bank Limited

IPO's : Initial public offerings

KBL : Kumari Bank Limited

LBL : Laxmi Bank Limited

Ltd : Limited

MBL : Machhapuchchhre Bank Limited

MBS : Master in Business Studies

MPS : Market Price Per Share

MVPS : Market Value Per Share

NBBL : Nepal Bangladesh Bank Limited

NBL : Nabil Bank Limited

NCCB : Nepal Credit and Commerce Bank

NEPSE: Nepal Stock Exchange

NIBL : Nepal Investment Bank Limited

NIDC : Nepal Industrial Development Corporation

No. : Number

NRB : Nepal Rastra Bank

NWPS : Net Worth per Share

NYSE : New York Stock Exchange

OE : Organized stock exchange

OTC : Over the Counter Market

Pvt. : Private

R	:	Correlation Coefficient
ROE	:	Return on Equity
RWM	:	random walk model
SBI	:	State Bank of India
S.D	:	Standard Deviation
SBL	:	Siddhartha Bank Ltd.
SCBNL	:	Standard Chartered Bank Ltd.
SEBO	:	Securities Board of Nepal
TU	:	Tribhuvan University
US$	:	US Dollar
USA	:	United States of America

CHAPTER I

INTRODUCTION

1.1 Background

A stock market, equity market or share market is the aggregation of buyers and seller of stocks, which represent ownership claims in business. These may include securities listed on a public stock exchange as well as those only traded privately. A stock exchange is a place or organization through which individual and organizations can trade stocks. All types of companies have their stocks listed on a stock exchange, which is directed by their country rule and regulation. This makes the stock more liquid and thus more attractive to many investors. Some large companies will have their stock listed on more than one exchange in different countries, so as to attract international investors. Stock exchanges may also cover other types of securities, such as fixed interest securities (bonds) or derivatives, which are more likely to be traded over the countries. Trade in stock market means the transfer for money of a stock or security from a seller to a buyer which requires these two parties to agree on a price.

In later study of 2015, there are 60 stock exchanges in the world with a total market capitalization of $60 trillion. Of these, there are 16 exchanges with a market capitalization of $1 trillion or more, and they occupy 87% of the global market capitalization. These are based on North America, Europe and Asia.

In our context, Nepal Stock Market was established in 1976with naming as Securities Exchange Centre (SEC) and started its trading secondary shares in 1981 for government bonds but SEC starts its secondary market when enhancement of Securities Exchange Act 1984 and it trade stocks in systematic and full-fledged way by Nepal stock Market Ltd in place of SEC, which was establish in 1993.

Till the date June 2017, there are 33 commercial Banks, 18 Corporate Debenture, 134 development bank, 85 finance, 16 government bond, 4 hotel, 14 hydropower, 25 insurance, 21 manufacturing and processing, 12 mutual fund, 13 others and 207 promoter shares are listed in NEPSE.

1.2 Statement of the Problem

More than 75% investors of Nepalese share market are aware about the factors affecting share price. But some of the investors are unknown about different indices that shows the performance of the company and tend to invest on the company without these indices. It causes the unusual relation of the financial indicators – Earning Price per Share (EPS), Book-Value per Share (BPS), and Dividend per Share (DPS) with the market price of share. The market rumours relating the financial position of the company is the major analytical tool for most of the Nepalese investors. The Market Value per Share (MPS) of most of the foreign joint venture commercial banks is high in comparison with the other banks and manufacturing companies. Against these problems this research deals with the following issues:

1. What is the trend and structure of Nepalese stock market?
2. What is the factors affecting the stock price of Nepal?

1.3 Objectives of the Study

This study aims to identify the factor respective for determinant of stock price and their relationship with the stock price. This is a perception based survey of investors. The specific objectives are:

1. To analyse the trend and structure of stock market of Nepal.
2. To examine the factors affecting the stock price of Nepal through an opinion based survey.

1.4 Significance of the Study

A few studies have been made on the securities listed in NEPSE. Most of the studies on the topic are related with financial performance evaluation, capital structure analysis, dividend policy, risk and return. However, there are few researches has yet been made on the core perspectives of the determinants of the stock price. Through an opinion based survey the present study will be have substantiate. The existing literature using an opinion based survey. These findings may be helpful to the potential investors to make the better investment decision. 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 and financial institution. Finally, there search intends to help

the national economy through mobilization of idle capital of average Nepalese in productive sectors to accelerate the economic growth and to reduce dependency on foreign assistance.

1.5 Limitations of the Study

The study tries to explore the factors determining the stock price in Nepal stock exchange. Both primary and secondary data are analyzed however; this study may face the following limitation during the course of research:

i) Excluding unusual result, only eagle eye concern to gist finding.

ii) This study takes into account the only latest available data for analyzing stock price determinants.

iii) This study covers only the relevant data of fifteen years i.e. from Fiscal Year 2001/02 to 2015/16.

1.6 Organization of the Study

The entire study has been organized into six main chapters.

The first chapter deals with background of the study, statement of problem, objective of the study, scope of the study ,importance of the study, limitations of the study and organization of the study.The second chapter provides 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. Fourth chapter deals with the overview of Nepal Stock Market. It gives a clear picture of how the collected data has been presented on the study and how it has been analyzed. The fifth 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. At last, the sixth chapter shows the summary of whole study, conclusion drawn and recommendations given. This ends the study of the paper. Besides these chapters, references are included in the last of this thesis.

CHAPTER II

REVIEW OF LITERATURES

This chapter contains review of the relevant literature obtained from published book, journals, articles, newspaper, web site and previous theoretical and empirical research work which are related to support the present study.

2.1 Conceptual Review

2.1.1 Stock Market

The term stock market is somehow abstract for the mechanism that enables the trading of company stocks. It is also used to describe the totality of all stocks, especially within a country, for example in the phrase “the stock market was up today”, or in the term “stock market bubble”

Stock market is different from a stock exchange, which is an entity (a corporation or mutual organization) in the business of bringing buyers and sellers of stock together.

2.1.2 Features of Common Stock

Common Stock is an ownership share in a corporation. Common stock certificates are legal documents that evidence ownership in a company that is organized as a corporation; they are also marketable financial instruments. Sole proprietorship and partnership are other forms of business organizations, but only corporations can issue common stocks. The main features of common stock are:

Claim on Income

The Common Stockholders bear a right to claim on income, which is earning available for ordinary shareholders, after paying expenses, interest charges, taxes and preferred dividend, if any. The income may be distributed among shareholders in the form of dividend or retained earnings. Dividends are immediate cash flow to shareholders, whereas retained earnings are the income reinvested in the organization, which ultimately increase the net worth of shareholders. Claim on Assets: The Common Stockholders have a residual claim on the company's assets in case of liquidation. Out of the realized value of assets, first the claims of debt-holders and

then preference shareholders are satisfied, and the remaining balance, if any, is paid to the common stockholders.

Right to control

The ordinary shareholders have the legal power to elect directors to the board. If the board fails to protect their interests, they can replace the directors. They are able to participate in the management of the company through their voting right and right to maintain proportionate ownership.

Voting Right

For each share of common stock owned, the common stockholder has the right to cast one vote at the annual meeting or Annual General Meeting (AGM) of stockholder. Common stockholders have the right to vote on stockholders matter, such as the selection or the board of directors, sale of fixed assets, merger of the company etc.

Pre-emptive Right

The law grants shareholders the right to purchase new shares in proportion to their current ownership. Thus the pre-emptive right entitles a stockholder to maintain his proportionate share ownership in the company. The stockholder's option to purchase, a stated number of new shares at a specified price during a given period, is called rights which can be exercised at a subscription price which is generally much below the current market price of shares.

Limited Liability

The Common Stockholders are the true owners of the company, but their liability is limited to the amount of their investment in shares. If a stockholder has already fully paid the issue price of shares purchased, s/he has nothing more to contribute in the event of financial distress or liquidation. The limited liability feature of share encourages unwilling investors to invest their funds in the company which helps company to raise funds.

2.1.3 Rights of Common Stockholders

Right to income

“Common Stockholders are entitled to share in the earnings of the company only if cash dividends are paid. Shareholders also prosper from the market value appreciation of their shares but they are entirely dependent on the board of directors for the

declaration of dividends that give them income from the company. Thus the priorities of common stockholders differ markedly from that of the creditors." (Van Horne and Wachonicz; 2000)

Voting Right

"The common stockholders of a company are its owners, they are entitled to elect a board of directors. In a large corporation, shareholders usually exercise only indirect control through the board of directors they elect. The board, in turn, selects the management and management actually controls the operations of the company. Voting can be done either in person at the shareholders annual meeting or by proxy." (Van Horne and Wachonicz; 2000)

Right to Purchase new Share

"A firm's corporate charter or state statute may require that a new issue of common stock or an issue of securities convertible into common stock be offered first to existing common stockholders because of their pre-emptive right. If the pre-emptive right applies to a particular firm existing common shareholders would have the right to preserve their proportionate ownership in the corporation. Thus, if the corporation issues common stock, the common shareholders must be given the right to subscribe to the new stock so that they can maintain their pro rata interest in the company." (Van Horne and Wachonicz; 2000)

2.1.4 Earnings per Share (EPS)

Earnings Per Share(EPS) is calculated by dividing a company's net revenues by the outstanding shares. This gives a number that can be used to compare the earnings of companies since it is unlikely any two companies will have the same number of shares outstanding. "Accounting earnings that represent the different revenues and expenses, including the expenses associated with non-equity source of funds (such as interest to debt, dividend of preference shares) is known as total earning available for common stock. If this portion of income is divided by number of outstanding shares, we get earning per share." (Francis; 1997)

2.1.5 Retained Earning

The total amount of earning of the firm that has not paid out as dividend throughout its history and indicated in the Balance Sheet as earning is known as Retained Earnings. These earnings are reinvested in the firm.

2.1.6 Dividend per Share

Dividends per share are calculated by dividing the total dividend amount paid for the financial period by the number of ordinary shares in issue. The directors may pay an interim dividend during the accounting period and then recommend a final rate of dividend per share for approval by shareholders at the Annual General Meeting (AGM).

2.1.7 Cash Dividend

Payments made in cash to shareholders are termed as cash dividends. Distribution of cash dividend causes the reduction in total assets and net worth of the company.

2.1.8 Stock Dividend

Distribution of bonus shares as dividend to the stockholder is known as Stock Dividend. This increases the number of shares of the company.

2.1.9 Book Value per Share [BPS]

The book value of the equity reflects the historical costs of - brick and meters 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 and Brigham; 1987)

2.1.10 Market Value per Share

Market value per share is the current price at which the stock is traded. For activity traded stocks that have thin markets, prices are difficult to obtain. Even when obtainable, the information may reflect only the sale of a few shares of stock and not typing the market value of the form as a whole. For companies of this sort, care must be taken in interpreting market price information. (Van Horne and Wachonicz; 1996)

The market price of share gives the value of shares, and the value of the organization. The market price 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. Since the common stock holders are owner of organization and have least priority to claim in liquidation, the share price is highly volatile and very sensible to environmental factors.

Due to the market imperfection and uncertainty, shareholders may give a higher value to the near dividends and capital gains. Thus, payment of dividend may significantly affect the market price of shares. Higher dividends increase the value of shares and low dividends reduce the value. (Pandey; 1999: 681)

2.1.11 Share Price Determinants:

Different studies have been conducted in the field of share price determinants by various researchers in the past. Some of them have been reviewed in this study in order to avoid possible duplication and bridge the gap-ness.

The process used to find the value of a security varies with the types of security. The firms are characterized as having high free cash flow, low growth opportunities and low insider ownership when compared to control firms. The fund targets are significantly undervalued compared to their industry peers and targeting likelihood is increasing significantly in the magnitude of the undervaluation. Markets recognize that the funds are able to spot undervalued firms. Similarly, the positive effects of fund on target firm in the short-run can persist in the long-run as well. Moreover, there is a correlation between long-run post-targeting performance and the post-target changes. (Francis, et al.; 1991)

Also, dividend policy affects the value of shares even in a situation in which return on investment is equal to the capitalization rate i.e. r = Ke. It is assumed that investors have a preference for present dividends to future capital gains under the condition of uncertainty. An increase in dividend pay-out ratio leads to an increase in the stock prices for the reason that investors consider that the dividend yield (d_1/p_0) is less risky than expected capital gain. The basic assumptions are as follows:

1. The firm is an all equity form.
2. No external financing is available so retained earnings will be used to finance any expansion.
3. The internal rate of return (r) and cost of capital (k) are constant.
4. The firm and its stream of earnings are perpetual.

5. The corporate taxes do not exit.
6. The retention ratio (b) once decided upon is constant. Thus, growth rate, g = b x r is constant.
7. 'K_e' must be greater than 'g' to get meaningful value.

The investors value the present dividend more than the future capital gains. An increase in dividend pay-out ratio leads to an increase in stock prices for reason of investor's capital gain. (Gordon; 1962)

Similarly, the actual market price can only pursue a consensus estimate of any given security's intrinsic value since securities analysts' value estimates differ. Similarly, a perfectly efficient security price is in a continuous equilibrium such that the intrinsic value of the security vibrates randomly and the market price equals the fluctuating intrinsic value in every instant in time. It is the speed of security's market price adjustment process which gauges the efficiency of a price.

A security with perfectly efficient prices would be in 'Continuous equilibrium'. Every time a new piece of news is released, the security's intrinsic value will change and the security's market price will adjust toward the new value. If any disequilibrium (of even a temporary nature) exists, then the security's price is less than perfectly efficient. Of course, actual market prices are not perfectly efficient because different securities analysts typically assign different value estimates to any given security (Samuelson; 1986).

2.2 International Context

In the mid of the 20th century some of the researcher contribute their youth in research of share price. The pioneering work on share price contribution goes to Collins (1957) for the US identified dividend, net profit, operating earnings and book value as the factors influencing share prices. Following Collins (1957) there have been various attempts to identify the determinants of share prices for different markets. The other empirical studies viz. Taulbee (2005), Nawazish (2008), Al-Shubiri (2010), Sharma (2011), Khan and Amanullah (2012), Srinivasan (2012), Malhotra and Tandon (2013), Almumani (2014) among others reveal that various factors in different markets determine the share price. Determining share prices is a complex and conflicting task. Shiller (1981) found that stock prices are not stable and fluctuate excessively in relation to the news about fundamentals (as dividends) primarily due to market

irrationality. Thus, it is asserted that understanding the impact of various fundamental variables on stock price is very much helpful to investors as it will help them in taking profitable investment decisions.

In different countries, different studies carried over different time periods across different markets have given varying results. Some recent studies related to the determinants of stock prices have been reviewed here.

Miller and Modigliani (1961) has concluded that dividend payout ratio (dividend policy) does not affect the wealth of the shareholders or on the share price of 35 the firm. It argues that the value of the firm is determined by the earning power of the firm's assets or its investment policy, and that the manner in which the earnings stream is split between dividends and retained earnings do not matter. However, this study is based on the assumptions of the perfect capital markets in which all investors are rational and information are available to all at free of costs, instantaneous transaction cost, infinitely divisible securities, and no investors large enough to affect the market price security, absence of flotation costs on securities by the firm, a world of no taxes, firm has a fixed investment policy and is not subjected to change and perfect certainty by every investor as to the future investments and profits of the firm.

Walter (1963) dividend policies almost always affect the value of the enterprise. The key argument in a support of the relevant proposition of the model is the relation between the return of firm's investment or its internal rate of return (r) and its cost of capital (k). As long as the internal rate is greater than the cost of capital (k), the stock price will be enhanced by retention and will vary inversely with dividend pay-out.

Fama(1965) studied studies conducted thaat the random walk model is considered one of the best definitive and comprehensive. He observed the daily proportionate price of each individual stock of Daw Jones Industrial Average. The time periods covered started from end of the 1957 to 26 September 1962. He employed the statistical tools such as serial correlation and run test to examine whether any dependency exists in any lag price changes. He found that the serial correlation coefficient for daily price hangs were very small and average was 0.03, which is close to zero, but correlation coefficient of 11 stocks out of 30 were more than twice of their computed standard errors. He used serial correlation coefficient for differencing intervals stronger evidence of dependence. It leads either Fama to conclude that the evidence produced

by the serial correlation model seems to indicate that dependence in successive price is extremely, slight or non-existent. Fama further examined by using run test analysis to testify whether price changes were likely to be followed by more price changes in the same time. In fact, he found that the actual and expected runs are not significantly different. The largest difference exists for daily changes, but the difference was not significant. However, the difference for the 4 days, 9 days and 16 days intervals was very small. In all cases, the departure from random walk hypothesis was negligible. On the basis of these tests, Fama concludes that there was little evidence, either from serial correlation or from run tests, of any large degree of dependence in the daily 4-day, 9-day and 16-day price changes.

Pettit (1972) had the objective of providing further support or evidence about the validity of the efficient market hypothesis by estimating the speed and accuracy, with which market price reacts to announcements of changes in the level of dividend payment. He analysed 625 announcement dates of all dividend changes collected from New York Stock Exchange for the period of January 1964 through January 1968, within which 1000 dividend changes were announced and daily price information was also studied for 135 announcements in 1967-1969. For analysis, the market model was used.

The study concluded that the market makes use of announcements of changes in dividend payments in assessing the value of a security and most of the information implicit in the announcement is rejected in the securities' price as of the end of the announcement period, and the study strongly supports the proposition that the market is reasonably efficient both on a monthly and daily basis.

Gupta (1985) analyzed that from January 1971 to March 1976, he have extensively tested indices and employed the autocorrelation analysis, run test and found the evidence in support of the RWM. He also concluded that the random walk model (RWM) appeared to be an appropriate model even for the share price behavior.

A study done Michele, Thaler and Wamack (1995) found that the short run price impact of dividend omissions is negative and that of initiation is positive. There are long term drifts in prices following announcements of initiations and especially

omissions and that there is no evidence of important change in volume or clientele, which mitigates price pressure as a potential explanation for the anomalous drift.

International Monetary Fund (IMF) (1997) examined the general relationship between stock price and macro-economic variables in Zimbabwe, using the revised Dividend Discount Model(DDM), error-correction model, and multi factor return generating model. In previous six years, there is a large fluctuation in stock price due to the shift of the risk premium that was caused by partial capital account liberalization.

Dockery (2000) studied the governance and supervision of the Warsaw Stock Exchange (WSE) and investigated the price behavior of the market using variance ratio tests and the Z test. The findings suggested that although an adequate infrastructure, both legal and physical, is in place, the behavior of the market cannot be said to follow a random walk process. The implications of such results were important not only for the institutional and private investors who may make improper portfolio choices, but also for public policymakers. Since the existence of an inefficient market that do not reflect fundamentals is likely to impede the market ability to play its role in allocating funds to the moist productive sectors of the economy.

The study of Uddin (2009) analyzed the relationship of microeconomic factors with the stock price by using multiple regression analysis. This research found a significant linear relationship among market return and some microeconomic factors such as net asset value per share, dividend percentage, earning per share of bank leasing, and insurance companies. The study of Nirmala, Sanju and Ramachandran (2011) identified the determinants of share prices in the Indian market. The study used panel data pertaining to three sectors viz., auto, healthcare and public sector undertakings over the period 2000-2009 and employs the fully modified ordinary least squares method. They found that dividend, price-earnings ratio and leverage are significant determinants of share prices for all the sectors under consideration. Further, profitability was found to influence share prices only in the case of auto sector. The study of Sharma (2011) examined the empirical relationship between equity share prices and explanatory variables such as: book value per share, dividend per share, earning per share, price earnings ratio, dividend yield, dividend payout, size in terms of sale, and net worth for the period 1993-94 to 2008-09. The results revealed that

earning per share, dividend per share, and book value per share has significant impact on the market price of share. Furthermore, results of the study indicated that dividend per share and earnings per share being the strongest determinants of market price, so the results of the study supports liberal dividend policy and suggests companies to pay regular dividends. Focusing on Pakistan Khan and Amanullah (2012) investigated different determinants of share prices of Karachi Stock Exchange (KSE) 100 index using Linear Multiple Regression model. A sample of 34 companies has been randomly selected from 34 sectors of KSE. Ten years' (2000-2009) data has been collected for the sample companies. The study found that rise in GDP, dividend and P/E ratio leads to rise in share prices but B/M ratio and interest rate are negatively related to share prices.

Malhotra (2013) in this studies a number of studies have been undertaken to identify the factors influencing stock prices in different stock markets. A sample of 95 companies is selected for the period 2007-12 and using linear regression model the results indicate that firm's book value, earning per share and price-earnings ratio are having a significant positive association with firm's stock price while the dividend yield is having significant inverse association with the market price of the firm's stock.

The stock market index, in general, is considered as the reflection of the expectation of future profitability of the companies. This market, therefore, tends to be influenced not only by macroeconomic fundamentals, but also by the unexpected political events as well as policy changes. Several studies have found the relationship between the political event and the stock market performance. For example, Beaulieu et al. (2006) investigated the short run impact of the political uncertainty associated with the 1995 Quebec referendum on the stock returns. The study found that the uncertainty surrounding the referendum outcome had short run impact on stock returns of Quebec firm, implying that the stock market was directly influenced by the political risk and uncertainty. Similarly, Jensen and Schmith (2005) estimated the impact of the four main Brazilian presidential candidates on the mean and variance of the Brazilian stock market using a number of time-series regressions. They argue that political events, such as the election of a politician that is expected to enact "market-friendly" policies, lead to increases in stock market returns while political events that are expected to

have a negative impact on the economy and specific firms lead to decreases in stock market returns.

Stock markets are heavily affected by news and rumors, like a “beauty context” as described by Keynes (1936). News can affect sentiments as well as expectation of the investors and performance of the companies. Most importantly, people interpret news differently based on their own cognitive power. There are some empirical examinations on the impacts of news on the performance of stock. For example, Boudoukh et.al.(2013) investigated the relation between news and the stock prices of 795 S and P 500 companies, covering the period of January 1, 2000 to December 31, 2009. Using advanced textual analysis method, they find that, when information can be identified and that the tone (i.e., positive versus negative) of this information can be determined, there is a closer link between stock prices and information. Similarly Alanyali et. al.(2013) investigated daily print issues of the Financial Times from 2nd January 2007 to 31st December 2012 to quantify the relationship between decisions taken in financial markets and developments in financial news. They find a positive correlation between numbers of times the name of a company mentioned daily in the Financial Times and the daily transaction volume of a company's stock both on the day before and on the same day of the news released. Their results provide quantitative support for the suggestion that movements in financial markets and movements in financial news are closely interlinked.

The study of Malhotra and Tandon (2013) attempted to determine the factors that influence stock prices in the context of National Stock Exchange (NSE) of 100 companies. A sample of 95 companies was selected for the period 2007- 2012 and linear regression model was used. The results indicated that firms’ book value, earning per share, and price-earnings ratio are having a significant positive association with firm’s stock price while dividend yield is having a significant inverse association with the market price of the firm’s stock.

Almumani (2014) attempted to identify the quantitative factors that influence share prices for the listed banks in Amman Stock Exchange over the period 2005-2011 using a linear multiple regression model. There is a significant positive relationship between EPS and the MP of the listed banks in Jordan. Moreover, moreover, there is a significant relationship between banks BV and MP. Another empirical finding from

the regression analysis shows a positive relationship between P/E and MP. Empirical findings from the regression analysis on the relationship between size and MP indicate that there is an inverse relationship between S and MP. Finally, other variables (DPS and DP) have insignificant impact on MP.

In twentieth and earlier of twenty first century, we got many journal and books which study about the fluctuation of stock price, its effecting factors and different field of economics contributed by various researchers. Pradhan and Dahal (2016) paper concern about "Factors Affecting the Share Price: Evidence from Nepalese Commercial Banks"

2.3 Nepalese Context

There are some researches carried out by different researchers in this topic in Nepal. Here are some of the reviewed thesis, which can help us to understand about their objectives, used statistical tools and major findings of the study. Number of thesis relevant to this study has been reviewed for the purpose of finding previous studies and their findings. Some of the important findings are presented here below:

Baral(2003) in his study he found that 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. 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 and 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.

Dhamala (2004) in his thesis concern to examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc. and to analyse the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc. In his study he finds 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.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 and 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.

A study conducted by Pradhan and Balampaki(2004) in their study deals with fundamentals of stock returns. It examines if dividend yield, capital gain yield and total yield are related to earnings yield, size, book to market ratio and cash flow yield. The study is based on pooled, crossed, sectional data of 40 enterprises whose stocks are listed in Nepal Stock Exchange Ltd. and traded in the stock market. The study reveals that earning yield and cash flow yield have significant impact on divided yield. 39 other main findings of the study are earning yield and cash flow yield have insignificant impact on book to market value whereas size has negative impact in dividend yield. In the case of earning yield and cash flow yield, cash flow yield have been found to be more informative than earning yield. Capital gain yield is positively influence by earning yield and size, whereas the same is negatively influence by book to market value and cash flow yield. Book to market value has been found to be statistically strong in predicting capital gain yield. Similarly, total yield is positively determined by earning yield and size whereas the same is negatively determined by book to market value and cash flow yield. Book to market value has been found to be more informative than other variables.

K.C.(2004) studied the relationship between financial development and economic growth, with focus on developmental role of stock markets has been in debate for sometimes-in past. Empirical studies suggest that financial development does not matter and stock market do spur economic growth. Unfortunately, in Nepal, despite a history of about half decade, financial sector despite, many problems have developed significantly in Nepal. However, most of the developments were confined to the

banking sectors. Stock market has virtually remained stalled because of this priority in the government's financial reform policies. Various measures of stocks market deployment indicate that the stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Low turnover ratio and value-traded ratio to volatility, and high concentration ratio indicate that the stock market in Nepal is liquid and risky. Investors tend to avoid stock market because they do not have option to it since stock market is less reliable source of raising funds for them. Due to this, financial system of Nepal has remained bank dominated.

Giri (2005) analysed the share price behaviour of the commercial banks listed at Nepal Stock Exchange and to examine the risk involved in the common stock investment of the sample commercial banks. In her study she finds 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. 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 and 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.

Shrestha (2006) analysed the stock price movement of the NEPSE market, to test the random walk or weak efficient market hypothesis and to test whether the successive price changes are independent or dependent with the price of historical change. In his study he finds 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. 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 and 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.

Regmi (2006) examined and evaluated the relationship of MPS with various financial indicators like NWPS, EPS, DPS, ROE, etc., to analyse the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc. and to find out whether stocks of the sampled companies are equilibrium priced of not. In his study he finds NABIL's MPS is positively correlated with all financial indicators. NIBL's MPS has negative correlation with all financial indicators. 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 and 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.

Bhattarai (2006) examined and evaluated the relationship of MPS with various financial indicators like EPS, NWPS, DPS and DPR, to analyse the degree of risk involved in the common stocks investment of the sampled companies and to identify whether stocks of the sampled companies equilibrium priced or not. In her study she finds 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. 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 and

AFCL is in negative and in case of NIBL and NFCL there exist negative correlation coefficient of EPS and NWPS which is insignificant which shows that there is higher degree of managerial problem in issuing and managing shares of NIBL and 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 and MPS of 7 financial institutions and commercial banks have higher positive correlation with major financial indicators such as NWPS, DPS and DPR.

Dhakal(2007) concluded that the MPS of most of the banks are found to be correlated with other individual financial indicator like BPS, EPS and DPS insignificantly.
This shows that they individually rarely influences share price but they have combine effect on it. Most banks are unknown about laws and policies regarding share market but poor rules and regulation as well as infective regulatory mechanism of market makers are the problem of Nepalese capital market. Due to the inadequate knowledge of share market among Nepalese investors, capital market of Nepal has not been well developed yet. The reason why commercial banks are only the attractive sectors to invest, in the view of investors is that they are better managed and controlled, that is why they are in profit and distribute good rate of dividend.
Acharya(2008) in his study concluded that Share price are affected by different kinds of micro and macro variables such as EPS, DPS, information disclosed, political instability, growth rate according to respondents survey. However, interest rate, retention ratio, cost of equity, market liquidity, change in management do not significantly affect the share price in NEPSE.
In another study of Dangol (2010) examined the random walk behavior on daily market returns of the Nepal Stock Exchange for the period between July 2000 and January 2010 and found that the Nepalese stock market does not show any characteristics of random walk and thus, is not weak form efficient. Findings of Bhatt (2010) are also similar. This means news affects the movement of the stock market index. Further, Pradhan and KC (2010) assessed equity share price behavior in Nepal and tested the hypothesis that share price changes are independent using weekly data of 26 listed companies from mid-July 2005 to mid-July 2008. They found that random

walk hypothesis holds for less frequently traded stocks but do not hold for highly traded stocks at NEPSE.

Soti (2015) identified the prime determining factors of NEPSE Index and to examine the relationship between stock index (NEPSE) and some macroeconomic variables, CPI, narrow money supply and interest rate.

The major findings show in the study that the market price per share has high degree of positive relationship with EPS in all sample banks and largely depends on EPS. There are a few other studies on the explaining stock market performance, mainly from micro perspectives. For example, Joshi (2012) examined the impact of dividends on stock price in the context of Nepal and found the impact of dividends is more pronounced than that of retained earnings on stock prices in Nepal. Dangol (2008) studied the reaction of Nepalese stock market to announcements of unanticipated political events using the event analysis methodology. His analysis covered the period from 2001 to 2006. He found that good-news (bad news) political announcements generate positive (negative) abnormal returns in the post-event period. This finding suggests that there is a strong linkage between political uncertainty and common stock returns in Nepal.

2.4 Research Gap

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

i Most of the studies on share price behaviour conducted in the context of Nepal were based on secondary sources of information only.

ii No study has been conducted on price behaviour related to stock market efficiency by using professional investors, market analyser 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 analyser and potential investor. Moreover, the present study is conducted to fulfil the above gaps.

CHAPTER III

RESEARCH METHODOLOGY

This study follows both quantitative and qualitative approach. Quantitative analysis is done using financial and statistical tools.

3.1 Study Period

As per the secondary data of NEPSE, till 16 July, 2015, NEPSE has total 232 companies listed 2553.11 million shares having paid up value of Rs.210.59 billion. Moreover 21 Corporate bonds with the value of Rs.8.82 billion, 6 mutual funds with value Rs.4.5 billion and 10 government bonds having the paid up value of Rs.15.90 billion are also listed at NEPSE.

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 2013/14 to 2015/16 for these banks and other companies which are listed in NEPSE. For such only the available data are analysed. 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:

3.2 Sources of Data

Secondary data has been collected as par the requirement of the study. The secondary data are collected from Nepal Stock exchange Market.

i) Nepal Rastra Bank yearly report.
ii) Nepal Stock Exchange report (Listing, NEPSE index, Market Capitalization, Turnover).
iii) Previous thesis.

3.3 Techniques of Data collection

For the collection of secondary data, the official website of Nepal Stock Exchange, 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 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.

In the same way, frequent visits were made to Central Library, T.U. to review different books and previous studies. Similarly, in order to collect relevant documents, frequent visits are made to NEPSE office, SEBO office, Nepal Rastra Bank and respective banks for survey.

We distribute a set of questioner among people who visit different broker's office to buying and selling share. We request them to fill up our questioner with their own view. We collect these filled up questioner and collect data that are used in our study.

3.4 Sampling Method

For the study and analysis of data, we have to choose appropriate data. For this purpose selection of data have significant role. Data are gathered in this way and have been verified, 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.

3.5 Field Survey

Secondary data was collected from various published and unpublished materials by related organizations. Except primary data some other data related to the study has been collected from the secondary sources, which is official. The relevant data has been compiled from publication of the Economic Surveys published by NRB, Economic Reports by NRB, quarterly annual publication of NRB, periodical journals, books, magazines, seminar papers and reports of research centers.

3.6 Method of Analysis

In research, one of the important issue may be perception based analysis. Here we take descriptive statistics of the field based survey. It describes brief descriptive coefficients that summarize a given data set, which can be either a representation of the entire or sample population. People use descriptive statistics to repurpose hard-to-understand quantitative insights across a large data set into bite-sized descriptions. If it need, we have to use statistical tools too for different purpose. Some measures that are commonly used to describe a data set are measures of central tendency and of measures variability or dispersion.

CHAPTER IV

OVERVIEW OF NEPALESE STOCK MARKET

4.1 Feature of Nepalese Stock Market

The history of the Nepalese Stock Market in Nepal dated back to 1937 A.D. as Biratnagar Jute Mill and Nepal Bank Limited floated their shares in the Market. The company Act was introduced in 1964. Government Bonds were issued for the first time in 1964.The Securities Exchange Center (SEC) limited was established in 1973 for the purpose of facilitating and promoting the growth of Capital Market with the Government of Nepal and Nepal Rastra Bank. It was the first Capital Market institution in Nepal.

The SEC has operated under the Securities Exchange Act since it came in to fond in 1984. The interim Government (1990-1991) initiated a financial reform program and two indirect investment vehicles the citizen's investment schemes in the corporate sector. Then worldwide privatization and Economic Liberalization, it was felt that the operation of the SEC needed to change. So that it would be compatible with the changing economic system. Thus, in 1992 the Government initiated changes in the structure of the SEC by dividing it at the policy level into two distinct entities: The securities Board of Nepal (SEBON) and Nepal Stock Exchange (NEPSE) limited. Since that time they have been operating as the main constituents of the Securities Market in Nepal. At that time NEPSE limited was a non- profit organization that operates under the Securities Exchange Act of 1983.

NEPSE opened its trading floor on January 13, 1994 through its newly appointed licensed members and has adopted an "open out-cry'' system for transactions involving securities with trading hours 12 PM to 2 PM (TWO Hours). NEPSE automated the trading and settlement system by eliminating "open out-cry" from the fiscal year 2007/08. In 15 December 2006, the government started bond trading while automated trading system began in 24 August 2007. Market stabilizing measures like circuit breaker and Market halt was introduced in 15 September 2007. In 13 October 2007, trading through wide area network (WAN) began. In 28

November 2007, NEPSE provided real time information from website. In 11 December 2000, trading hour extended from 2 hours to 3 hours. In 31 March 2008, NEPSE started trading of promoter's shares. NEPSE has turned itself in a profit seeking organization since 10 May 2008.

In January 2010, NEPSE and CDSL India agreed to set up central Depository System (CDS) in Nepal. In April 2010, trading was started out of Kathmandu. In September 2010, agreement with CMC India limited for CDS software and clearing settlement software was done. In November 2010, 34 new brokers companies permitted for license at SEBON. In November 2010, new company registered for CDS. In April 2011, CDS was opened for the general people. In August 2011, new brokers started trading. In January 2012, CDS by law was implemented. NEPSE currently has 221 listed companies in 10 sectors, there are 50 broker firms. The NEPSE is the only one secondary capital market in Nepal. NEPSE had brought about a number of changes in order to grade up itself and provide efficient and reliable services

Within a short period of time since its inception, the NEPSE index witnessed significance ups and downs. Recently, after the result of the second CA election in November 2014, the NEPSE index took and upward trend until 2014. On July, 2014 the benchmark index reached 1036.1, the highest in the last six years. Then after, earlier on July 27, 2016, the NEPSE index had reached its all-time high of 1881.45 point before plunging to a record low of 292 on June 15, 2011.

Normally, the stock market index is taken as a barometer of an economy. Growth in stock index is normally considered as a good sign since it implies the investor are confident about the future prospect of the economy. It helps promote investment in the economy. However, a rapid increase in the stock market index is always a matter of concern. If the increase in the index is not justified by the fundamental, such a rise cannot be sustained and eventually the index will plummet in endangering the economic and financial stability. Hence, it is essential that the policy makers keep eyes on the stock market development and be ready to take appropriate measure, if needs arise, to prevent the build-up of bubbles and collapse in the market. For this, it is necessary to understand the relationship between the stock market index and the factors that influence it. Several factors may affect the stock market. Any factors that

have an effect on cash flows of firms or discount rate will have impact on the stock market. However which factor effect to what degree will vary from country to country, depending on size, type and other characteristics of the economy and the market.

In this contest, our thesis aims to analyse the relationship between the performance of NEPSE index and major macroeconomic variables in Nepal using monthly data that span from November 2010 to November 2016. In addition to main variables, this thesis also assesses the impact of changes in politics and Nepal Rastra Bank's policy on lending against share collateral. It is expected that the finding of this study would provide some meaningful insight to understand the determinants behind the performance of Nepalese stock market, useful for both policymakers and investors.

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Table 4.1: Glimpse of Nepalese Stock Market

Year	No. of listed companies	Market Capitalization *(Rs in million)*	Market Capitalization/GDP *(percent)*
1995	79	12963	5.9
2000	110	43123	11.4
2005	125	61366	10.4
2010	176	376871	31.6
2014	233	1057166	54.8
2015	232	989404	46.6

Source: Quarterly Economic Bulletin, Current Macroeconomic Situation of Nepal, FY 2014/15, NRB

In the last two decades, the number of listed companies at NEPSE has increased from 79 in 1995 to 237 in 2014. During the same period, market capitalization has increased from 5.9 percent to 54.8 percent of GDP. The growth in the listed companies mostly comprises the financial institutions that were opened following the liberal licensing policy of the NRB in the post-liberalization period. Existing regulations require bank and financial institution to publicly float at least 30 percent of shares and get listed in the stock exchange within a specific period of time. However there is no such a mandatory requirement for companies in the real sector.

Table 4.2: Structure of the Nepalese Stock Market

Type of Institution	No. of listed companies	Market Capitalization (%)
Financial Institutions	182	64.3
Insurance Companies	22	13.3
Manufacturing and Processing	18	1.9
Hotel	4	2.4
Trading	4	0.1
Hydro Power	5	8.7
Others	2	9.3
Total	237	100

Source: Current Macroeconomic Situation of Nepal (2014/15), NRB

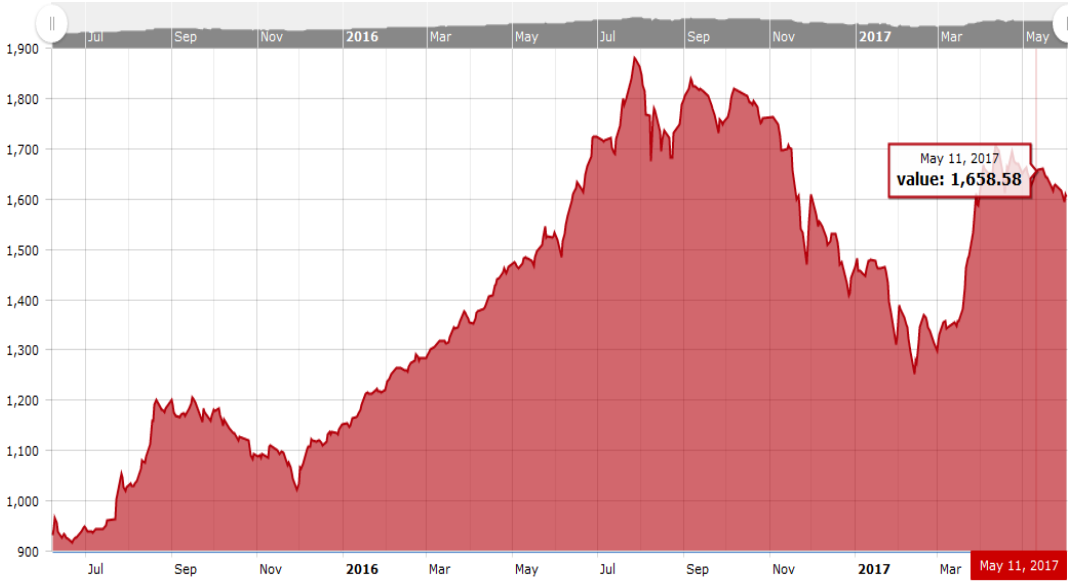
As such very few real sector companies have been listed in the stock market. The Nepalese stock market, thus, has been dominated by the banking sector and financial institutions. This domination is reflected in major stock market indicators, such as the amount of share traded, number of share traded and market capitalization. As of mid-July 2014, there were 182 (76 %) financial institutions out of 237 listed companies in NEPSE. Similarly, banks and financial institutions comprised 64.3 percent of the total market capitalization followed by insurance (13.3 percent) and hydropower (8.7 percent).

4.2 Movement of the NEPSE Index

The NEPSE index hovered around 200 points between 1994 and 1999. This was also the period when Nepalese stock market was evolving in terms of number of listed

companies and the market capitalization. From 2000 onwards, the NEPSE index observed a greater fluctuation.

Figure 4.1: NEPSE Index



Source: NEPSE, 2017

In Figure 4.1, we can see NEPSE peaking up three times in the past in November 2000, December 2007 and August 2008 before taking a sharp plunge. Now again in 2014, after the election of second Constituent Assembly, the NEPSE index has reached as high as 1036.1 points in mid-July 2014. In mid-September 2015NEPSE touches its peak 1200, gradually increased to 1860 in mid-July and in mid may it reached to 1658.58.

Table 4.3: Fluctuation of Share Price

Company	90 Days Before Announcement in (Rs.)	10 Days Before Announcement in (Rs.)	The Day of Announcement in (Rs.)	7 Days After Announcement in (Rs.)	180 Days After Announcement in (Rs.)
NBL	470	480	370	370	380
NIBL	1170	1331	801	880	831
BOK	1015	801	815	460	315
PFL	105	95	95	95	95
NCML	400	410	410	220	180

Source: NEPSE, 2017

In the above table, we can see the price movement of share price of Nepal Bank Ltd (NBL) at different points of time. The share price is Rs.470 three months before the announcement date and reached to Rs.480 with the announcement and afterwards the

price reduced to Rs.370. Similarly, share price of Nepal Investment Bank Ltd (NIBL) increased from Rs.1170 to Rs.1331 from base date to ten days before the announcement date. The price was Rs.801 at the day of announcement whereas it is Rs.880 after 7 days and Rs.831 after six months of rights share issue. Actual share price of Bank of Kathmandu (BOK) decreased from Rs.1015 to Rs.801 from base date to ten days before announcement date. It was Rs.815 on the day of announcement where it was Rs.460 seven days after announcement and Rs.315 six month after announcement. This shows that there was a hasty decrease in the actual price except on the day of announcement. The share price of People's Finance Ltd (PFL) is decreased from Rs.105 to Rs.95 ten days before announcement date i.e. less than par value. The share price was Rs.95 at the day of rights announcement and it remained unchanged after seven days and six months of announcement. Before three months of announcement, share price of NIDC Capital Market is Rs.400 and it rose up to Rs.410 before 10 days of announcement. But after seven days of rights issue, there is extreme decline in NIDC's share from Rs.410 to Rs.220. After six months, the price fell down to Rs.180, a commendable reduction in price.

4.3 Primary Market

The total amount approved by Securities Board of Nepal (SEBON), regulator of capital market in Nepal, for the primary issuance to public on the FY 2014/15 was of Rs.14235.33 million from 48 numbers of approvals including ordinary shares, right shares, mutual fund and debentures. This is an increase of 95.90 per cent in total amount compared to the previous fiscal year. Out of the total approvals for public issues, 18 companies get approvals for initial public offering (IPO) of Rs.6977.34 million. This is also an increase of 200.29 percent on the amount when compared with the previous year. During the same period five companies get approval to issue debenture for the amount of Rs.2900 million. Likewise, three mutual funds have been approved during the review period amounting Rs.2050 million. Similarly, total 22 approvals were provided to companies to issue right shares amounting to Rs.2307.99 million which is a decrease of 45.61 per cent in amount when compared to the previous year.

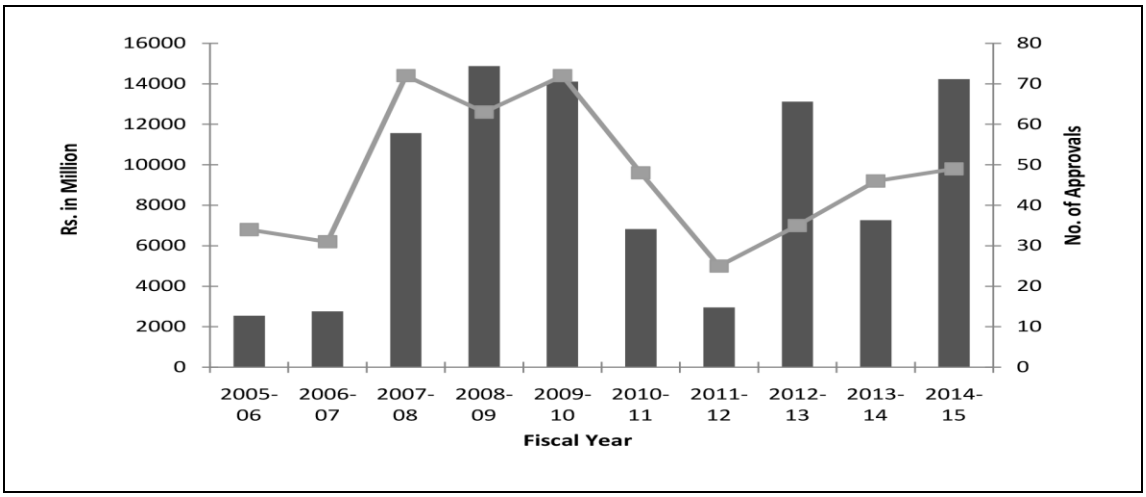
Table 4.4: Primary Approval issued by SEBON for the FY 2014/15

S.N.	Type of Securities	FY 2013/14		FY 2014/15	
		No. of Issue	Rs.In Million	No. of Issue	Rs. In Million
1	Debenture	2	700	5	2900
2	Ordinary Share	18	2323.56	18	6977.34
3	Mutual Fund	0	0	3	2050
4	Right Share	26	4243.13	22	2307.99
5	Total	46	7266.69	48	14235.33

Source: SEBON, 2014l15

Following chart shows the capital mobilization trend for the last ten years in the primary market.

Figure 4.2: Capital Mobilization through Primary Market



Source: SEBON, 2014l15

4.4 Secondary Market

Secondary market addresses liquidity requirements of the investors. Almost all change in economy and listed companies is reflected in the price of securities. The political changes and natural disaster in the country has impacted Nepalese capital market during the fiscal year 2014/15. The indicators of secondary market like NEPSE Index, annual turnover, number of transaction, turnover to market capitalization and average price per share traded have been decreased in the review period.

4.5 Turnover

Turnover in secondary market is one of the important indicators of capital market. Trading volume in last fiscal year had increased tremendously by 258.64 percent as compared to the fiscal year 2012/13 but during this fiscal year the trading volume has decreased slightly by 15.48 per cent as compared to fiscal year 2013/14.

During the FY 2014/15, turnover of Rs.65.33 billion has been realized, which was Rs.77.29 billion last year. Similarly, during the review period, 159.72 million numbers of shares have been traded which is a decrease of 25.41 per cent compared to a year earlier. Accordingly, numbers of transactions have also decreased by 15.73 percent to 477278. It was 566389 last year. As compared to previous fiscal year there is a decrease in trading volume, number of shares traded and also in number of transaction which shows that NEPSE was in diminishing trend during the fiscal year. There was slight increase in number of scripts traded during the year to 271 which was 269 in previous fiscal year. The total trading days has decreased during the year to 216 for the market was closed due to earthquake on the last quarter of the fiscal year. The daily average turnover counts for Rs.302.89 million in the review year, it was Rs.336.75 million a year back and Rs.93.08 million in the previous year.

4.6 Group-wise Distribution of Turnover

The listed companies in NEPSE has been divided into nine sectors namely commercial banks, development banks, finance companies, hydropower companies, hotels, trading companies, manufacturing and processing companies, insurance companies and other companies. Furthermore, transaction details of promoter shares, mutual funds, preferred stocks are included in the table below.

Table 4.5: Group-wise Distribution of Turnover during the FY 2014/15

S.N.	Group	No. of Shares ('000')		Amount (Rs. In Million)	
		Traded Shares	% of the Total	Traded Amount	% of the Total
1	Commercial Banks	56707.57	35.50	29865.08	45.71
2	Development Bank	23634.54	14.80	8516.71	13.04
3	Finance	6043.93	3.78	1601.68	2.45
4	Hotels	2079.88	1.30	1063.19	1.63
5	Hydro Power	11085.54	6.94	6687.34	10.24
6	Insurance	7047.99	4.41	8948.65	13.70
7	Manufacturing and Processing	78.43	0.05	185.35	0.28
8	Mutual Fund	27353.7	17.13	384.71	0.59
9	Others	773.8	0.48	481.45	0.74
10	Preferred Stock	30.79	0.02	29.3	0.04
11	Promoter Share	24848.47	15.56	7551.66	11.56
12	Trading	32.82	0.02	16.45	0.03
13	Total	**159717.46**	**100.00**	**65331.57**	**100.00**

Source: SEBON, 2014/15

As usual, the volume of trading amount and the number of shares traded from the commercial banks group has the highest stake on the total trading volume and total shares traded respectively. Excluding the trading of promoter shares of commercial banks, the group's trading volume was Rs 29.87 billion, 45.71 per cent of total traded amount. Similarly, the group of insurance companies and development banks remained at second and third position with 13.70 per cent and 13.04 per cent of the total traded amount respectively. Similarly, the trading volume of promoter share group and hydropower companies group has remained at fourth and fifth position with 11.56 per cent and 10.24 per cent respectively. It shows that commercial bank group is highly liquid in comparison to other groups.

Table 4.6: Group-wise Distribution of Companies on the basis of Number of Trades

S.N.	Group	FY 2013/14		FY 2014/15		Change %
		No. of Trades	% of the Total	No. of Trades	% of the Total	
1	Commercial Bank	266892	47.11	200775	42.14	-24.77
2	Development Bank	137856	24.33	144565	30.34	4.87
3	Finance	22577	3.99	22268	4.67	-1.37
4	Hotels	7231	1.28	4891	1.03	-32.36
5	Hydro Power	57055	10.07	48695	10.22	-14.65
6	Insurance	62853	11.09	42345	8.89	-32.63
7	Manufacturing and Processing	271	0.05	763	0.16	181.55
8	Mutual Fund	5059	0.89	4089	0.86	-19.17
9	Others	3529	0.62	2690	0.56	-23.77
10	Preferred Stock	248	0.04	187	0.04	-24.60
11	Promoter Share	2908	0.51	5079	1.07	74.66
12	Trading	61	0.01	60	0.01	-1.64
13	Total	566540		476407		

Source: SEBON, 2014/15

From above table we can see that on the basis of number of transaction the stake of commercial bank group is as usual at top. Development Bank group and Hydro Power group remains at second and third position respectively. Transaction of other groups except commercial bank, hydro power and development bank group is minimal, which shows that these group are transacted frequently Transaction of almost all the group has decreased except development bank group and manufacturing and processing group in comparison to previous year.

4.7 Trading of Mutual Fund Units

During the fiscal year 2014/15 four new Mutual Funds have been listed to make the total of six in this group. However increase in the number of Mutual Fund does not contribute much to increase in the trading volume of Mutual Funds group. In comparison with previous year, trading volume has decreased by 19.27 per cent making total of 27353.70 thousand units of mutual funds amounting Rs.384.71 million trades during the review period.

4.8 Trading of Preference Share

Out of two preference shares listed at NEPSE, only one from Everest Bank Ltd, which has a convertible feature, has been traded during the FY 2014/15. The trading amount of preference shares has been 29.30 million in the fiscal year 2014/15 which was179.14 million in the fiscal year 2013/14. The number of preference shares traded during the period was 30.79 thousand.

4.9 Market Capitalization

Market capitalization is an important secondary market indicator as it is compared with the indicators of the economy. It is calculated by multiplying closing price with outstanding shares of the company. It has decreased by 6.41 percent and reached to Rs. 989403.96 million as compared to the previous year. It was 1057165.83 million in the fiscal year 2013/14. Decrease in the price of listed companies is the main cause for the decrease in market capitalization.

Table 4.7: Group-wise Change in Market Capitalization (Rs. In Millions)

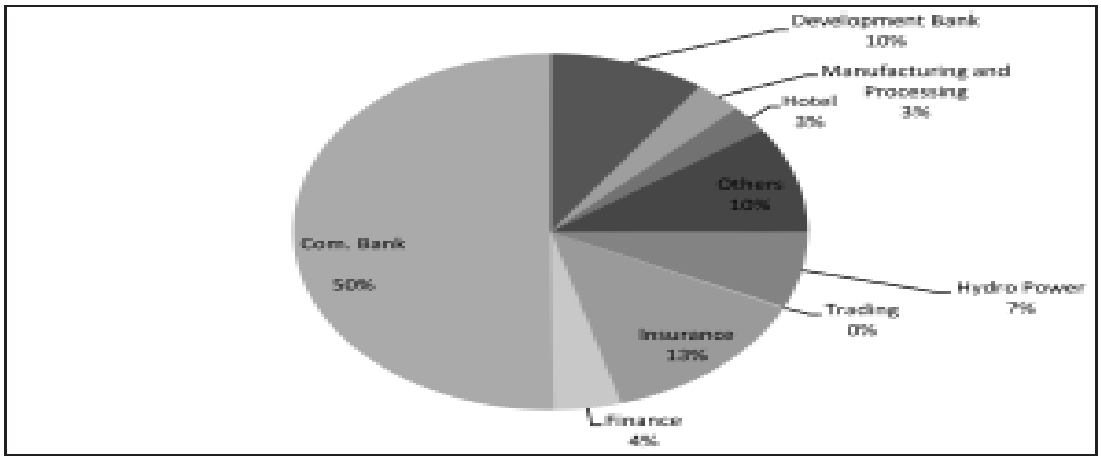
S.N.	Group	Opening		Closing		Change %
		Market Cap	% of the Total	Market Cap	% of the Total	
1	Commercial Bank	563035.15	52.76	496242.39	50.16	-11.86
2	Hotel	25506.21	2.39	24855.72	2.51	-2.55
3	Hydropower	92513.88	8.67	69211.83	7.00	-25.19
4	Development Bank	57055	10.07	48695	10.22	-14.65
5	Insurance	141238.09	13.24	133677.08	13.51	-5.35
6	Manufacturing and Processing	20196.16	1.89	29681.41	3.00	46.97
7	Finance	43332.98	4.06	42217.89	4.27	-2.57
8	Others	96616.77	9.05	95416.39	9.64	-1.24
9	Trading	1096.19	0.10	1177.73	0.12	7.44
10	Total	**1067144.58**	**100.00**	**989403.96**	**100**	

Source: SEBON, 2014/15

By reviewing the group-wise market capitalization composition, banks and insurance companies recorded the highest of the total market capitalization as usual. Commercial bank's group contributes about 50.16 percent of the total market capitalization and insurance group contributes about 13.51 percent of the total market capitalization. Both

commercial and insurance group has decreased by 11.86 percent and 5.35 percent respectively from the opening market capitalization for the FY 2014/15. The market capitalization of development bank group and manufacturing and processing group has increased significantly by 15.92 percent and 46.97 percent respectively as compared to the opening figure. The above group-wise market capitalization shows that Nepalese capital market is highly concentrated on banking sector during the period. It can be clearly shown in the following figure.

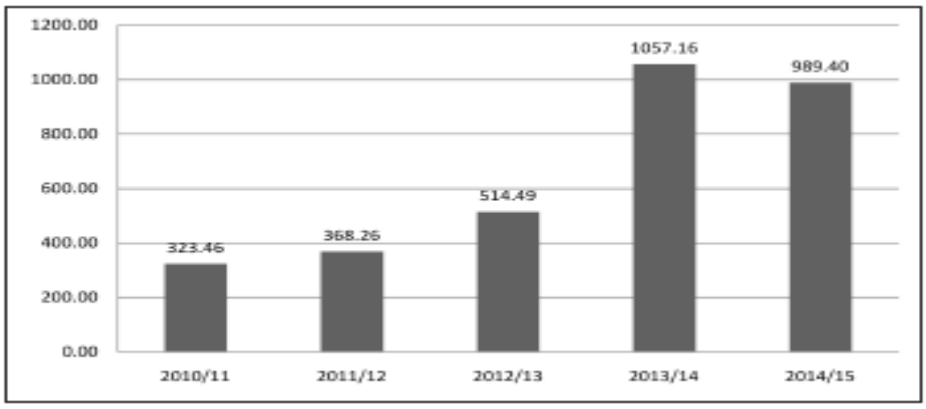
Figure 4.3: Group-wise Distribution of Market Capitalization



Source: SEBON, 2014/15

Market capitalization-GDP ratio has decreased to 46.57 per cent this year which was 54.81 percent in the fiscal year 2070/71 and 30.24 per cent in the fiscal year 2069/70. Similarly, the ratio of annual traded amount to market capitalization has also decreased to 6.60 percent from 7.30 per cent in the previous year. It shows that during the review period, number of traded shares hence the liquidity in the market has decreased as comparison to previous fiscal year.

Figure 4.4: The trend of market capitalization for last 5 years.



Source: SEBON, 2014/15

4.10 Indices

Index is one of the most important indicators of secondary market which is also considered as barometer of country's economy. NEPSE index group consists of various indices and they are calculated on the basis of market capitalization. Out of them overall NEPSE index is the oldest one which is being calculated since 1994. Similarly the other indices are sensitive index, group-wise index and float index.

4.10.1 Overall NEPSE Index

NEPSE Index is calculated by considering all listed shares including that of promoter shares of all listed companies in Nepal Stock Exchange Limited. As other secondary market indicators, NEPSE Index was in decreasing trend during the FY 2014/15. The closing NEPSE index remains at 961.23 and the highest point during the year was 1083.55 on 21 July 2014 and the lowest is recorded in 27 May 2015 of 837.83 points. NEPSE index has decreased by 84.66 points which is 8.09 percent during the year. The mean index throughout the year is 940.74 point and standard deviation is 79.48 which show that NEPSE was less volatile during the year compared to last year when the standard deviation was of 144.21. The trend of overall NEPSE index can be viewed from the following figure:

Figure 4.5: Trend of Overall NEPSE Index

Source: SEBON, 2014/15

4.10.2. Group-wise Index

As more than 50 per cent of total market capitalization is concentrated on Commercial Banks, this group significantly affects the overall NEPSE index. The group-wise index of Commercial Bank group has decreased by 13.19 per cent and Hydropower decreased by 26.97 per cent from the opening figure whereas the group wise index for Development Bank and Manufacturing and Processing companies increased by 16.33

and 46.97 percent respectively compared to their corresponding opening index. The detail of group wise index with percentage change is presented in the following table:

Table 4.8: Change in Group wise Index in Respect to Starting of the FY 2014/15

S.N.	Group	Opening Index	Closing Index	Change %
1	Commercial Banks	957.63	831.35	-13.19
2	Manufacturing and Processing	1138.28	1672.88	46.7
3	Hotels	1929.38	1880.92	-2.51
4	Others	756.59	747.19	-1.24
5	Hydropower	3075.4	2246.11	-26.97
6	Trading	188.42	202.39	7.41
7	Insurance	4401.9	4154.19	-5.63
8	Finance	517.96	520.3	0.45
9	Development Banks	695.47	809.04	16.33

Source: SEBON, 2014/15

4.11 Listing of Secuities

Till Ashar end 2072 (16 July 2015), NEPSE has total 232 companies listed 2553.11 million shares having paid up value of Rs.210.59 billion. Moreover 21 Corporate bonds with the value of Rs.8.82 billion, 6 mutual funds with value Rs.4.5 billion and 10 government bonds having the paid up value of Rs.15.90 billion are also listed at NEPSE.

Table 4.9: Securities Listed during FY2014/15

S.N.	Type of Securities	No. of Companies	No. of Listed Securities '000	Paid Up Value (Rs. in Millions)
1	Bonus Share	110	141914.36	13108.31
2	Ordinary Share	7	32644.92	3264.49
3	Right Share	26	15397.07	1539.71
4	Mutual Fund	4	325000.00	3250.00
5	Corporate Bond	2	1250.00	1250.00
6	**Total**	**516206.35**	**22412.51**	

Source: SEBON, 2014/15

Additional 7 companies' enlisted their 32644.92 thousand ordinary shares having paid up value of Rs.3264.49 million. However, the listing of 7 new companies and merger and acquisition of 7 companies makes the total listed companies to 232. Out of 7 new companies, 6 represent development banks and 1 from finance companies group. The details of newly listed companies during the fiscal year are presented on the following table.

Table 4.10: Group-wise Distribution of Companies Classified under Group "A"

S.N.	Group	Number of Companies under Group "A"
1	Commercial Bank	25
2	Finance	23
3	Development Bank	46
4	Hotel	1
5	Hydropower	3
6	Insurance	15
7	Others	1

Source: SEBON, 2014/15

4.12 Most Influential Determinant of Share Price

On the basis of the responses collected from the respondents, the different indicators which influence share price has been ranked as follows in the table.

Table 4.11: Most Influential Determinant of Share Price

S.N.	Indicators	Basis	Rank						Total	Weight	Mean Wt.	Overall Rank
			1	2	3	4	5	6				
1	EPS	**Total**	25	18	4	2	0	1	50	87	1.74	1
		Professional Investor	17	13	1	1	0	0	32	50	1.56	1
		Potential Investor	6	4	3	1	0	1	15	33	2.20	2
		Market Analyzer	2	1	0	0	0	0	3	4	1.33	1
2	DPS	**Total**	18	23	7	2	0	0	50	93	1.86	2
		Professional Investor	11	14	5	2	0	0	32	62	1.94	2
		Potential Investor	6	8	1	0	0	0	15	25	1.67	1
		Market Analyzer	1	1	1	0	0	0	3	6	2.00	2
3	Assets	**Total**	0	0	2	4	18	26	50	268	5.36	6
		Professional Investor	0	0	2	2	10	18	32	172	5.38	6
		Potential Investor	0	0	0	2	7	6	15	79	5.27	6

		Market Analyzer	0	0	0	0	1	2	3	17	5.67	6
4	**Capital**	**Total**	0	3	6	6	21	14	50	237	4.74	5
		Professional Investor	0	2	4	3	15	8	32	151	4.72	5
		Potential Investor	0	1	2	2	6	4	15	70	4.67	5
		Market Analyzer	0	0	0	1	0	2	3	16	5.33	6
5	**Political**	**Total**	4	5	21	10	6	4	50	171	3.42	3
		Professional Investor	3	3	14	7	4	1	32	105	3.28	3
		Potential Investor	1	1	6	3	2	2	15	55	3.67	4
		Market Analyzer	0	1	1	0	0	1	3	11	3.67	4
6	**AGM**	**Total**	3	1	10	26	5	5	50	194	3.88	4
		Professional Investor	2	1	6	16	3	4	32	125	3.91	4
		Potential Investor	1	0	4	7	2	1	15	57	3.80	4
		Market Analyzer	0	0	0	3	0	0	3	12	4.00	4

Source: NEPSE, 2014/15

On the basis of above table, it is cleared that EPS is the most influential factor (ranked: 1) on the share price. Similarly, DPS (ranked: 2), Political Situation (ranked: 3), AGM/Election of Board (ranked: 4), Capital Structure (ranked: 5) and Assets (ranked: 6) are other factors that have impact on the share price of the financial institution.

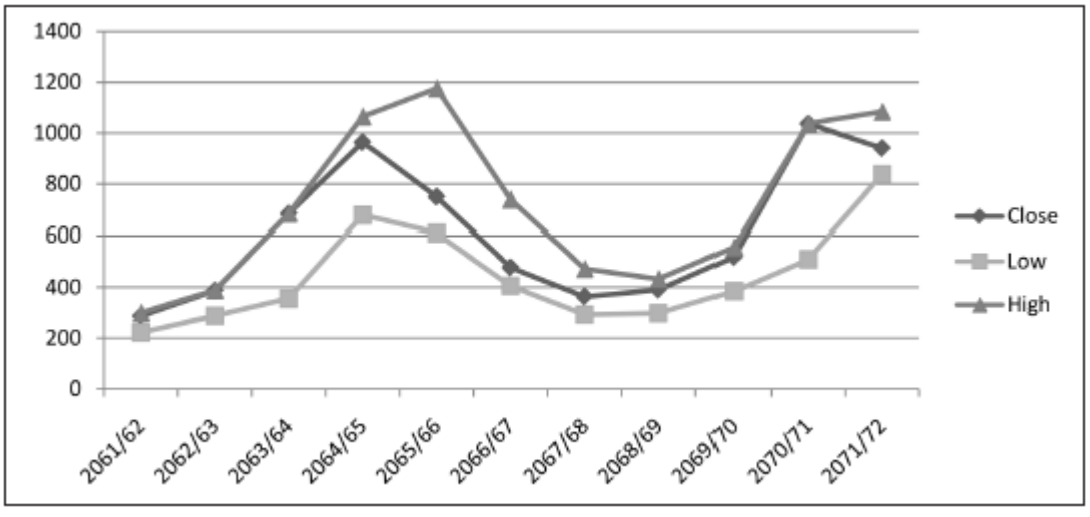
Table 4.12: Date wise NEPSE Index from Dec 23, 2016 to Dec 28, 2016

Group / Days	Commercial Bank	Dev. Bank	Finance	Hotel	Hydro Power	Insurance	Manufacturing and Processing	Trading	Others	Float Index	Sensitive Index	NEPSE Index
First	1357.84	1511.25	686.98	1808.05	1699.38	6661.28	2136.91	205.03	730.56	106.31	309.21	1432.57
Second	1333.7	1489.42	670.41	1790.11	1668.66	6469.65	2136.91	205.03	727.09	104.32	303.73	1407.53
Third	1336.38	1501.67	673.97	1829.56	1699.37	6499.36	2136.91	205.03	727.67	104.87	304.94	1413.15
Fourth	1365.08	1522	695.75	1885.23	1710.34	6786.04	2136.91	0	729.4	107.13	311.64	1443.38
Change	7.24	10.75	8.77	77.18	10.96	124.76	0		-1.16	0.82	2.43	10.81

Source: NEPSE, 2015/16

Index calculated from the market capitalization of companies classified under group is called sensitive index. Calculation of sensitive index was started from Jan-1, 2007. The index stood at 204.67 points at the end of FY 2014/15 which is a down fall of 19.86 points or 9.70 percent as compared with the corresponding opening sensitive index of the fiscal year 2014/15.

Figure 4.6: NEPSE index in last ten years



Source: NEPSE, 2014/15

In the above figure it shows that the sensitive index reached to the highest point on 2066/67 and at lowest on 2067/68. Frome the above table we can also see that the average sensitive index value during the period is 201.08 and standard deviation is 11.03. The standard deviation for sensitive index was 24.30 in the previous fiscal year which shows that the index was less volatile in that fiscal year. This also shows that sensitive index fluctuation is less than the NEPSE Index.

Table 4.13: Change in Group wise Index in Respect to Starting of the FY 2014/15

S.N.	**Group**	**Opening Index**	**Closing Index**	**Change %**
1	Commercial Banks	957.63	831.35	-13.19
2	Manufacturing and Processing	1138.28	1672.88	46.97
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6	Trading	188.42	202.39	7.41
7	Insurance	4401.9	4154.19	-5.63
8	Finance	517.96	520.3	0.45
9	Development Banks	695.47	809.04	16.33

Source: NEPSE, 2014/15

As more than 50 per cent of total market capitalization is concentrated on Commercial Banks, this group significantly affects the overall NEPSE index. The group-wise index of Commercial Bank group has decreased by 13.19 per cent and Hydropower decreased by 26.97 per cent from the opening figure whereas the group wise index for Development Bank and Manufacturing and Processing companies increased by 16.33 and 46.97 percent respectively compared to their corresponding opening index. The detail of group wise index with percentage change is presented in the above table

Chapter V

ANALYSIS AND DISCUSSION OF SURVEY DATA

This chapter presents the analysis and discussions of the findings of the data collected from the perception survey. The data were analysed using financial and statistical tools also aims to fulfil the objectives of the study.

5.1 Analysis of Survey Data

Our research choose a data that was collecting as a primary data for purpose of studying relationship of EPS, DPS and BPS with MPS is determined separately to each of the sampled listed companies. For the collection of data a questionnaire included a set of 12 questions were prepared and presented to 50 respondents. The respondents were selected randomly from the group of Share-Known personalities, especially from the Share buyer/purchasers in NEPSE floor and College Students. An attempt was made to collect the responses from Share Brokers as well but due to their uninterested and busyness, responses could not be collected. The questions contained variety in types. From Question No. 1 to 6, the degree of agreement over the statements was asked to mention, and according to their degree of agreement the score was provided from +2 to -2. Remaining questions were of multiple choice types, in which the respondents were asked to choose the best alternative from the list.

5.2 Classification of Respondents

A total of 50 respondents were surveyed randomly from the floor of NEPSE to conclude the different behaviour of Share Price of Nepalese Commercial Banks. Among these, 32 respondents were professional investors of Share investment, 15 were potential investors who are willing to invest in Share but have not invested yet

and rest 3 were market. To delineate the facts about the determinants that practically affect the share price, number of professional investors has been taken comparatively higher than the number of market and potential investors. Likewise, the respondents are classified in terms of their age and sex as given in given table.

Table 5.1: Classifications of Respondents

S.N.	Basis of Classification	Male	Female	Number	Percentage
1	***Occupation***				
	Professional Investors	26	6	32	64
	Potential Investors	10	5	15	30
	Market	3	0	3	6
	Total	**39**	**11**	**50**	**100**
2	***Age***				
	Below 25	5	2	7	12
	25 to 40	15	7	22	68
	40 above	19	2	21	20
	Total	**39**	**11**	**50**	**100**
3	***Sex***				
	Male			39	78
	Female			11	22
	Total			**50**	**100**

Source: Field Survey, 2016

As given in above table, 78% of the respondents were male where as 22% were female. Similarly, 12% of the respondents were from the age group below 25 years, 68% were between 25 to 40 years and 20% were 40 above.

5.3 Purpose of Share Investment

The first question asked the respondents to declare their purpose of the investment. In given table below, that shows the results of the responses of primary data.

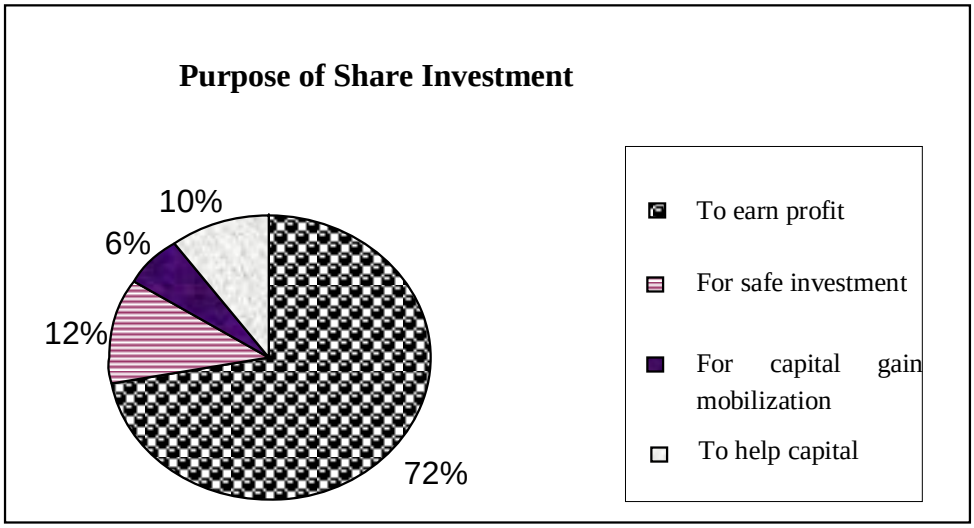
Table 5.2: Purpose of Share Investment

S.N.	Responses	No. of Respondents				%
		Professional Investor	Potential Investor	Market	Total	
1.	To earn profit	25	9	2	**36**	**72%**
2.	For safe investment	2	3	1	**6**	**12%**
3.	For capital gain	2	1	0	**3**	**6%**
4.	To help capital mobilization	3	2	0	**5**	**10%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

The above table shows the number of respondents and their percentage relating the purpose of share investment in Nepalese Share Market. It clears that majority (72%) of Nepalese investors invest their savings for the purpose of earning maximum profit. They believe that share investment is an important way of earning profit and hence they invest. Only 12%, 6% and 10% of the respondents gave the response as they invest their savings for the purpose of making money safe, to earn capital gain and to help the capital mobilization respectively. It can be shown in pie-chart (Figure No. 5.1) as follows:

Figure 5.1: Purpose of Share Investment



Source: Field Survey, 2016

5.4 Reason of Public attraction in Commercial Banks

The reason for the attraction towards the investment in commercial banks of Nepal was as a next question. The responses were obtained as shown in given table below.

Table 5.3: Reason of Public Attraction in Commercial Banks

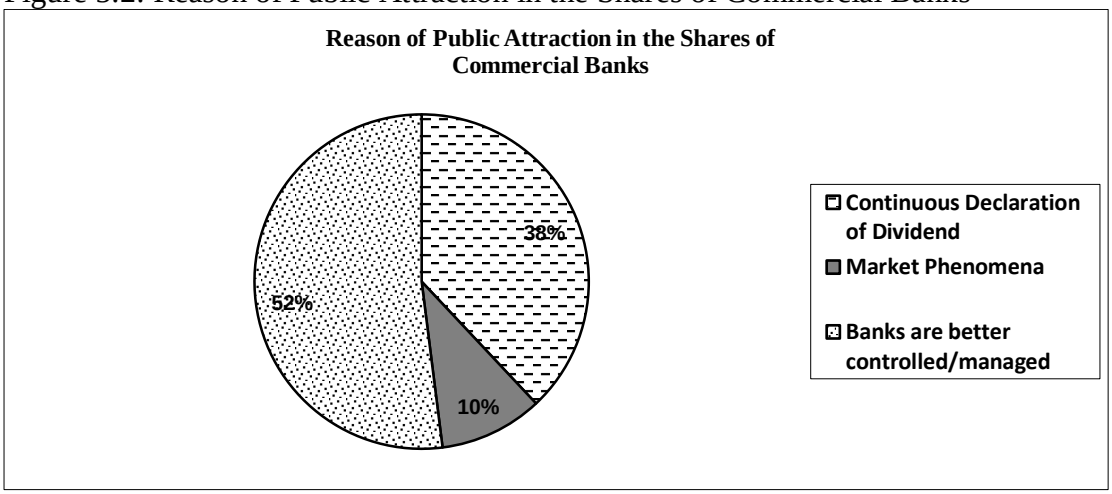
S.N.	Responses	No. of Respondents				%
		Professional Investor	Potential Investor	Market	Total	
1.	Continuous Declaration of Dividend	14	4	1	**19**	**38%**
2.	Market Rumour	2	3	0	**5**	**10%**
3.	Banks are better controlled/managed	16	8	2	**26**	**52%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

The above table shows the different reasons for the greater attraction of general public toward the investment in the Shares of Commercial Banks. It shows that a slight higher percentage (52%) - in comparison with others, of total respondents are convinced to declare that banks are better managed and hence they are being the attraction of all. Likewise, 38% of the total respondents stated that they tend to invest

in Commercial Banks due to their continuous declaration dividend. And rest (10%) said that the market rumour is the main cause that attracts the general public for share investment in Commercial Banks. It has been shown in the following chart (Figure No. 5.2) as follows:

Figure 5.2: Reason of Public Attraction in the Shares of Commercial Banks



Source: Field Survey, 2016

5.5 Public Awareness about Share Investment

The percentage of public awareness among the 50 respondents about share investment has been revealed in table below.

Table 5.4: Public Awareness about Share Investment

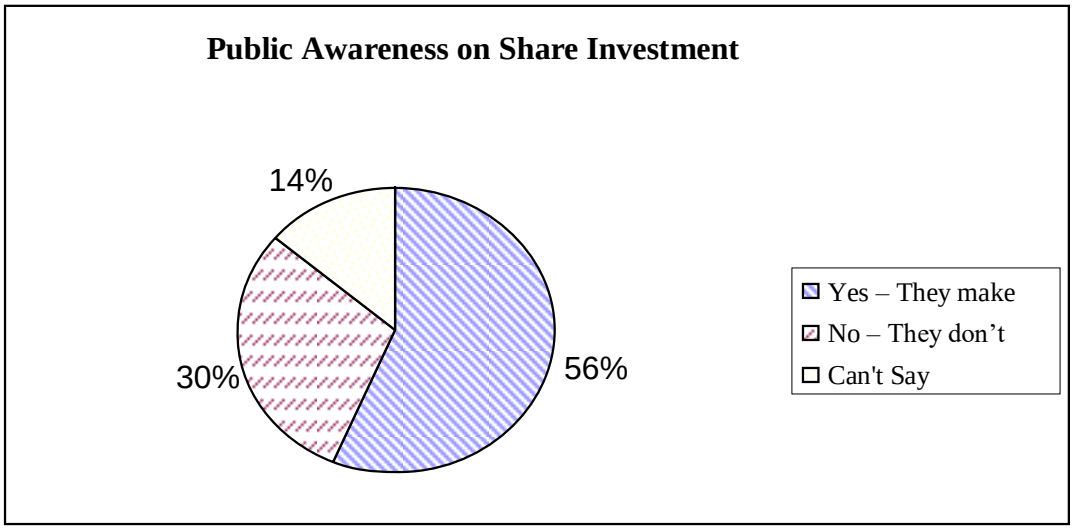
S.N.	Responses	No. of Respondents				%
		Professional Investor	Potential Investor	Market	Total	
1.	Yes – They make	21	7	0	**28**	**56%**
2.	No – They don't	8	5	2	**15**	**30%**
3.	Can't Say	3	3	1	**7**	**14%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

It has been revealed from the study that 56% of the Nepalese investors are aware about the share market and the market phenomenon of the shares, 30% of the respondents said that they are investing in share without proper knowledge about

share. They said that they are investing in Share because they are influenced by some relatives or friends to earn profit. Rest 14% of the respondents wanted to say nothing about this. It has been shown in Pie- chart (Figure No.5.3) as follows:

Figure 5.3: Public Awareness on Share Investment



Source: Field Survey, 2016

5.6 Status of Present Laws and Policies

The responses for the perfection of present laws and policies about buying and selling of share revealed the following results:

Table 5.5: States of Present Laws and Policies

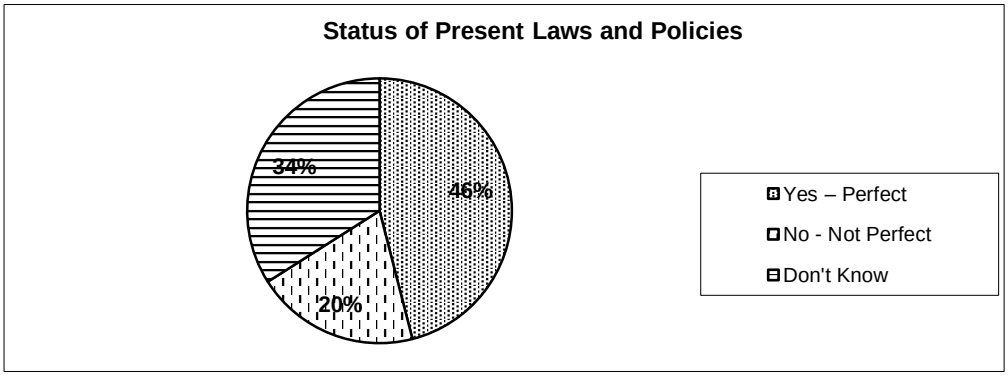
S.N.	Responses	Number of Respondents				%
		Professional Investor	Potential Investor	Market	Total	
1.	Yes – Perfect	15	7	1	**23**	**46%**
2.	No - Not Perfect	7	3	0	**10**	**20%**
3.	Don't Know	10	5	2	**17**	**34%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

Above table shows that almost half (46%) of the investors feel themselves that the prevailing laws and policies regarding buying and selling of share are perfect. About one fifth (20%) of the respondents said that they don't know anything about the laws and policies. And 34% of the respondents said the present laws and policies are not

perfect to regulate the Share Market proficiently. It can be depicted in the form of Pie-chart below (Figure No. 5.4):

Figure 5.4: Status of Present Laws and Policies



Source: Field Survey, 2016

5.7 Role of EPS in the Determination of Share Price

The responses for the question whether EPS is the main determiner of Share Price or not gave the following results:

Table 5.6: Higher EPS indicates Higher Share Price

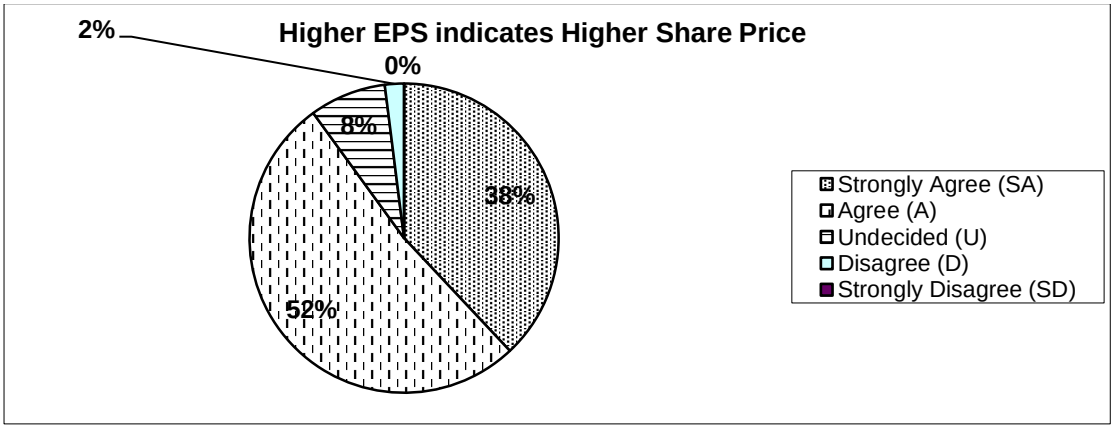
S.N.	Responses	No. of Respondents				%
		Professional Investor	Potential Investor	Market	Total	
1.	Strongly Agree (SA)	14	5	0	**19**	**38%**
2.	Agree (A)	16	8	2	**26**	**52%**
3.	Undecided (U)	2	2	0	**4**	**8%**
4.	Disagree (D)	0	0	1	**1**	**2%**
5.	Strongly Disagree (SD)	0	0	0	**0**	**0%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

Above table shows that most of the respondents agreed that EPS is the main determiner of Share Price. 38% of the total respondents who agreed the statement strongly were highly convinced that EPS is the main determiner whereas 52% stated they agree the statement. In this way, 90% of the total respondent agreed the statement. Only remaining 10% stated they were either undecided (8%) or disagree

(2%). From this we can conclude that the investors think that EPS is the major tool for the Nepalese investors to analyse whether the organisation is best enough to invest or not. It can be presented in chart as follows:

Figure 5.5: Higher EPS indicates Higher Share Price



Source: Field Survey, 2016

5.8 Role of Dividend Pattern in the Determination of Share Price

The responses of the respondents regarding the role of dividend pattern in the determination of share price are summarized and presented in given table.

Table 5.7: Role of Dividend Pattern in Share Price Determination

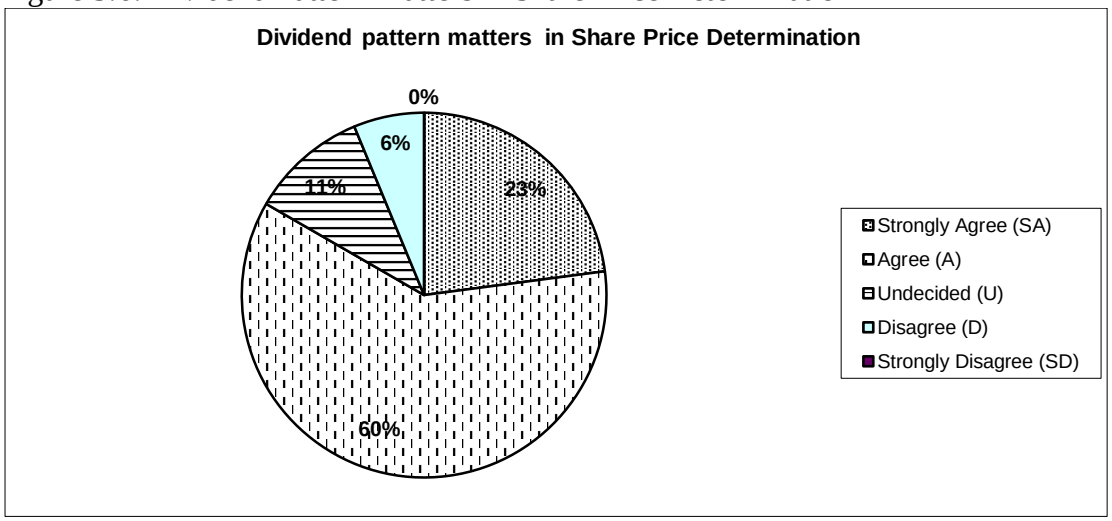
S.N.	Responses	Number of Respondents				%
		Professional Investor	Potential Investor	Market	Total	
1.	Strongly Agree (SA)	5	5	1	**11**	**22%**
2.	Agree (A)	19	9	1	**29**	**58%**
3.	Undecided (U)	5	1	1	**7**	**14%**
4.	Disagree (D)	3	0	0	**3**	**6%**
5.	Strongly Disagree (SD)	0	0	0	**0**	**0%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

Above table clears that dividend pattern plays a great role on the determination of Share Price, 58% of the respondents agreed that higher rate of dividend results the good Share Price, 22% of the respondents strongly agreed the statement that dividend

pattern in Share Price determination. The remaining 16% stated that either they were undecided (14%) regarding the matter or disagree (6%). It has been presented in the form of Pie-chart (Figure No. 5.6) as follows:

Figure 5.6: Dividend Pattern Matters in Share Price Determination



Source: Field Survey, 2016

5.9 Role of Company Assets Structure

The following table shows the responses gained against the statement that Company Assets Structure indicates higher Share Price.

Table 5.8: Role of Company Assets Structure in Share Price Determination

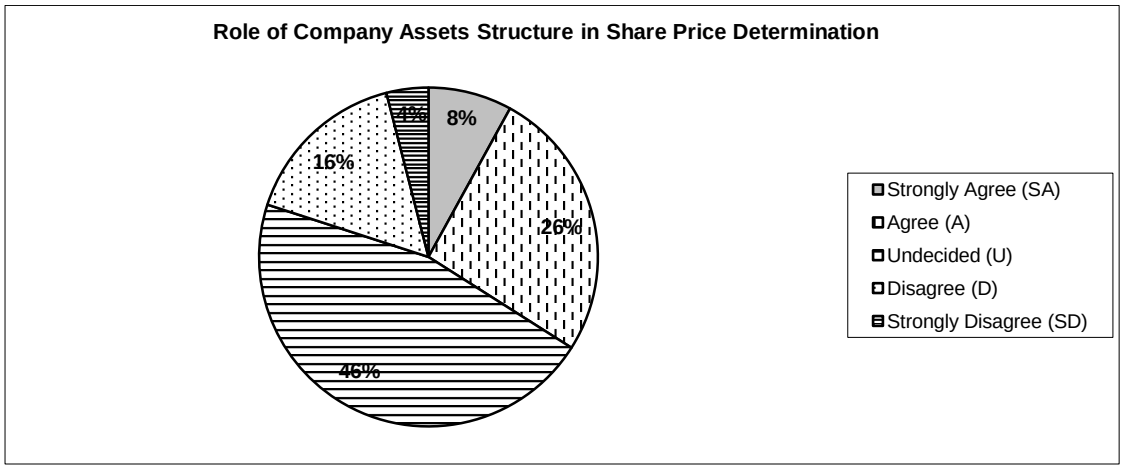
S.N.	Responses	No. of Respondents				%
		Professional Investor	Potential Investor	Market	Total	
1.	Strongly Agree (SA)	4	0	0	**4**	**8%**
2.	Agree (A)	7	5	1	**13**	**26%**
3.	Undecided (U)	14	7	2	**23**	**46%**
4.	Disagree (D)	5	3	0	**8**	**16%**
5.	Strongly Disagree (SD)	2	0	0	**2**	**4%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

The above table shows that the Company Assets Structure plays no important role in the determination of Share Price in the view of respondents. That is why, almost half

(46%) of the respondents neither agrees nor disagree the statement and choose to say undecided. Only 14% were strongly agreed whereas 26% choose to agree the statement. The percentages of the respondents who choose disagree and strongly disagree were 16% and 4% respectively. Figure No. 5.7 shows the graphical explanation of the above result.

Figure 5.7: Role of Company Assets Structure in Share Price Determination



Source: Field Survey, 2016

5.10 Role of Capital Structure

The responses of the respondents regarding the role of capital structure in the determination of share price are summarized and presented in the table given below:

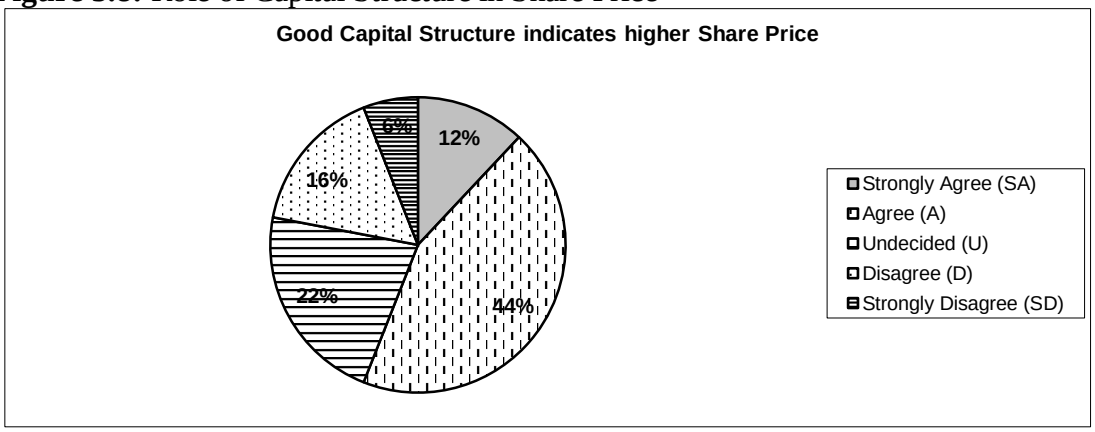
Table 5.9: Good Capital Structure indicates higher Share Price

S.N.	Responses	No. of Respondents				%
		Professional Investor	Potential Investor	Market	Total	
1.	Strongly Agree (SA)	4	2	0	**6**	**12%**
2.	Agree (A)	15	7	0	**22**	**44%**
3.	Undecided (U)	3	6	2	**11**	**22%**
4.	Disagree (D)	7	0	1	**8**	**16%**
5.	Strongly Disagree (SD)	3	0	0	**3**	**6%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

The above table shows that the capital structure of organisation is responsible to determine their share price. More than half (12% strongly agreed and 44% agreed) of the respondents agreed that better capital structure is responsible for the higher Share Price. 22% were undecided whereas 16% and 6% were disagreed and strongly disagree to the statement. It has been presented in graphical form in figure no. 5.8.

Figure 5.8: Role of Capital Structure in Share Price



Source: Field Survey, 2016

5.11 Role of Political Fluctuation

The role of political fluctuation in Share Price was observed and found the results as shown in given table below.

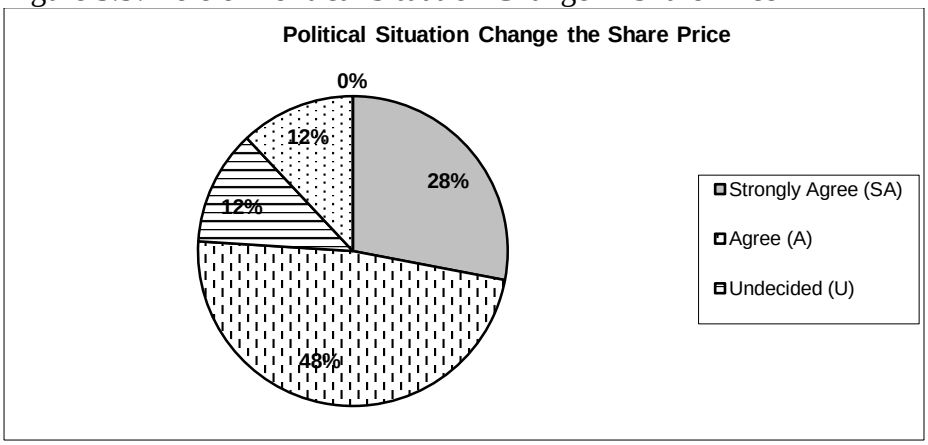
Table 5.10: Political Situation Change the Share Price

S.N.	Responses	No. of Respondents				%
		Professional Investor	Potential Investor	Market Analyser	Total	
1.	Strongly Agree (SA)	6	5	3	**14**	**28%**
2.	Agree (A)	17	7	0	**24**	**48%**
3.	Undecided (U)	3	3	0	**6**	**12%**
4.	Disagree (D)	6	0	0	**6**	**12%**
5.	Strongly Disagree (SD)	0	0	0	**0**	**0%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

The above table shows that the national political environment is also responsible on the determination of share price because more political fluctuation cause the decrease in Share Price. It was revealed that 14% of the total respondents agree the say that political situation causes the change in share price whereas 28% strongly agreed it. 12% were undecided and 12% said to disagree the statement. It is presented in graphical form in Figure No. 5.9.

Figure 5.9: Role of Political Situation Change in Share Price



Source: Field Survey, 2016

5.12 Effect of AGM and BOD Election in Share Price

The following table shows the effect of Annual General Meeting and Election of Board of Director in Share Price.

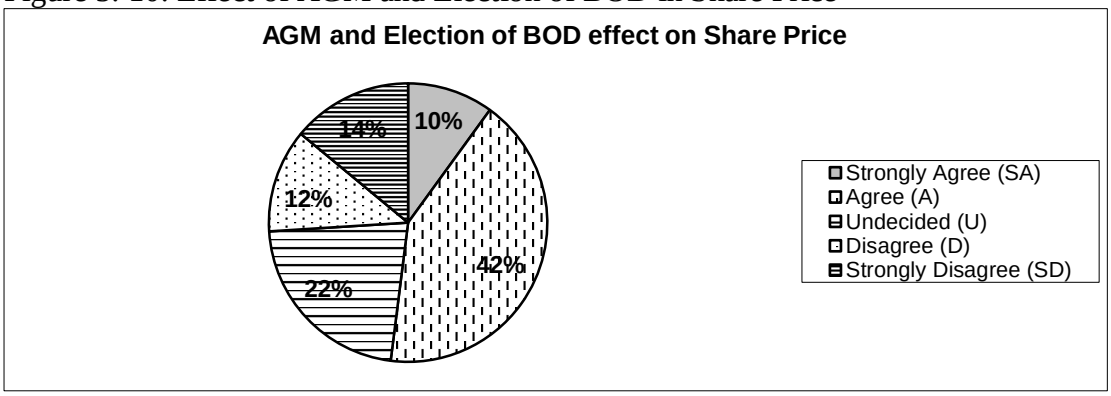
Table 5. 11: AGM and Election of BOD Effect on Share Price

S.N.	Responses	No. of Respondents				%
		Professional Investor	Potential Investor	Market Analyser	Total	
1.	Strongly Agree (SA)	2	2	1	**5**	**10%**
2.	Agree (A)	14	6	1	**21**	**42%**
3.	Undecided (U)	4	7	0	**11**	**22%**
4.	Disagree (D)	6	0	0	**6**	**12%**
5.	Strongly Disagree (SD	6	0	1	**7**	**14%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

The above table shows that the Annual General Meeting and election of Board of Directors influences the Share Price. It was observed that 42% of the total respondents were agreed and 5% were disagreed. In the same way, 22% of the respondents were undecided and there were 12% and 14% respectively under disagreed and strongly disagreed group. It has been presented in pie-chart below (Figure No. 5.10):

Figure 5. 10: Effect of AGM and Election of BOD in Share Price



Source: Field Survey, 2016

5. 13 Company Risk vs. Share Price

The respondents gave the following results against the statement that whether the higher risk of the company results higher share price or not.

Table 5. 12: Higher the Risk, More the Share Price

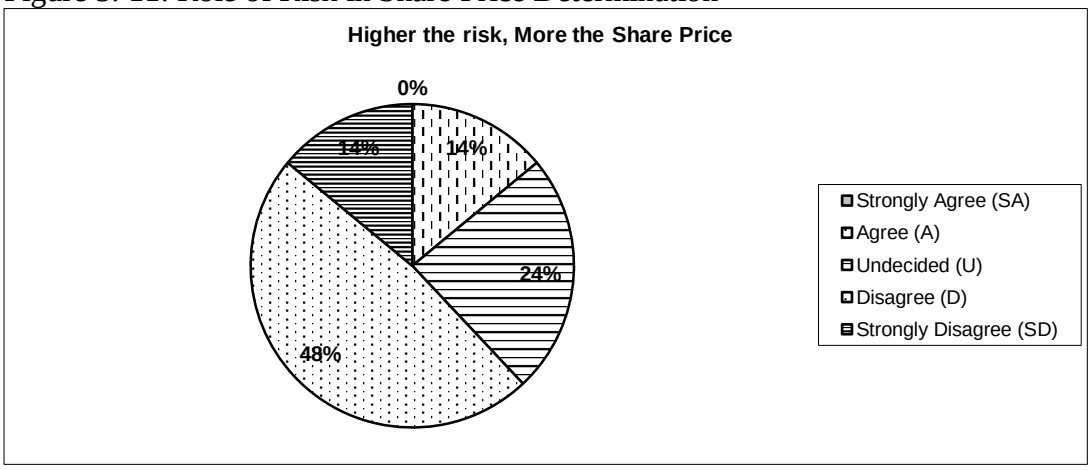
S.N.	Responses	No. of Respondents				%
		Professional Investor	Potential Investor	Market Analyzer	Total	
1.	Strongly Agree (SA)	0	0	0	**0**	**0%**
2.	Agree (A)	7	0	0	**7**	**14%**
3.	Undecided (U)	6	6	0	**12**	**24%**
4.	Disagree (D)	12	9	3	**24**	**48%**
5.	Strongly Disagree (SD)	7	0	0	**7**	**14%**
Total		**32**	**15**	**3**	**50**	**100**

Source: Field Survey, 2016

The above table shows that the Annual General Meeting and election of Board don't significantly influence the Share Price of the company. 48% of the respondents disagreed that the higher risk of company result increases in Share Price whereas 24% were undecided. Likewise, 14% agreed the statement and 7% strongly disagreed the statement.

The figure given below (Figure No. 5.11) shows the respondents response against the risk factor of share price change.

Figure 5. 11: Role of Risk in Share Price Determination



Source: Field Survey, 2016

CHAPTER VI

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Major Findings of the Study

Till16 July, 2015, NEPSE has total 232 companies listed 2553.11 million shares having paid up value of Rs.210.59 billion. Moreover 21 Corporate bonds with the value of Rs.8.82 billion, 6 mutual funds with value Rs.4.5 billion and 10 government bonds having the paid up value of Rs.15.90 billion are also listed at NEPSE.

Liquidity in the market, important function of stock exchange can be measured by the ratio of traded amount to GDP of the country and traded amount to market capitalization. The ratio of traded amount to market capitalization for the FY 2014/15 is 6.60 per cent which was 7.30 per cent in the preceding year. Similarly, the ratio of traded amount to GDP is 3.07 per cent which was 4 per cent a year ago and 1.30 per cent previous year. It shows that the liquidity in the market has decreased this fiscal year in comparison to the fiscal year 2013/14.

From the data above, it can be seen that secondary market of Nepal is highly concentrated on bank and financial institutions. The data shows that 46.31 percent of total market capitalization consists of largest ten companies and the concentration ratio of top ten companies on turnover volume is 34.64 percent. Top ten companies on market capitalization consist of six and top ten companies on turnover consists of eight companies from banking sector. It again shows that the market is mainly dominated by banking and financial institutions. This may cause problem to construct efficient portfolio in the market and could be the main barrier for the institutional investors. For this companies from real sectors should be encouraged to list and bond market should be facilitated to get traded in capital market. New instruments like Index Fund, Exchange Traded Fund and Pension Fund are to be introduced in the stock market for sustainable growth of capital market and investors should be provided with added facilities like margin trading, online trading, depository services etc. Further efforts to bring additional foreign capital from NRNs or foreign institutional investors will also help the smooth development of the market.

On the basis of survey data analysed, the major findings of the study can be summarized as below:

- Basically, most of the investors are intended to maximize their profit through share investment. They think share as a good sector of investment assuming that it gives a good return in short and long term.

- Earnings per share (E.P.S.) is one of the main factors, Which is also called net income per share, is a market prospect ratio that measures the amount of net income earned per share of stock outstanding. It has significant impact on the market price of share.

- The sum of declared dividends for every ordinary share issued and there is a positive relationship between Market Price per Share (MPS) and DPS.

- Stocks with a low P/E ratio have a better investments performance than high P/E stocks. There is a positive relationship between MPS and P/E ratio.

- Return on Assets (ROA) is also another major ratio that indicates the profitability of a form. There is a positive relationship between MPS and ROA
- Total assets or total net assets are used to describe a firm's size (S). The shares of large companies are actively traded and they provide more liquidity and marketability to the investors. There is a positive relationship between MPS and S.
- Gross domestic product (GDP) is the total production of goods and services valued at current prices. Nominal GDP is gross domestic product in current dollars. There is a positive relationship between MPS and GDP.
- Inflation rate due to its significant negative impact on stock price movements in Nepse. There is a positive relationship between MPS and INF.
- Money supply or money stock is the total amount of monetary items available in an economy at a specific time of the country. Based on it, it is a significant factor to fluctuation in stock price. There is a positive relationship between MPS and MS.
- Investment in Nepalese Commercial Bank is the first choice of Share investors. It is because the banks are better controlled, and they distribute a

good rate of dividend. It is found the investors think that banks are better managed hence making good rate of profit. They distribute regular dividend which attracts them to invest in the commercial banks.

- The majority of the investors declare themselves as informed investors but still Nepalese investors lack the proper knowledge about the share market.
- The majority of Nepalese investors found to be either unknown about laws or like to say imperfect policies causing the problem in share market.
- The investors perceive the increase in EPS as better performance of the organisation and hence they increase the demand of Share which causes the increase in share price. Majority of the investors are convinced that higher EPS cause higher share price.
- Dividend pattern plays a great role on share price movement. Higher the DPS, more will be the Share Price. Most of the investors like to analyse the Dividend pattern of the company before they invest in their shares.
- Company assets structure and capital structure of the company plays a moderate role on share price movement. The potential investors tend to consider the assets and capital structure of the organisation second to EPS and DPS analysis.
- Political fluctuation cause change in Share Price. They influence share market in a very direct way. It means that fluctuating political situation badly damage the share price of an organisation whereas stable political condition of the country is much favourable for upward movement of Share Price.
- AGM and Election of BOD also plays moderate role on share price movement. Good signalling after General Meeting could influence the market price of share.

6.2 Summary of Major Findings

Nepalese Stock Market is in developing stage. Though Share Market plays a vital role on the mobilization of capital in national economy, in the case of Nepal, it is still crawling towards the betterment.

The history of Security Market in Nepal is not old. It was started with the floatation of Shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction 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 developments regarding the Capital Market.

Investors invest their savings in the Common Stock of public companies through Primary and Secondary Markets. Generally, the investors aimed to maximize their profit from their investment. But due to the lack of proper knowledge and poor regulatory performance of Nepalese Capital Market, the investors may not achieve the returns as expected. Only the few educated city dwellers know what share market is and how they are regulated. Besides, government has not prioritized the development of capital market sufficiently.

The prime objective of this study is to find out the major determinants of Share Price of Nepalese Commercial Banks. Hence, major commercial banks presently listed in NEPSE are taken in consideration for the purpose. Market Price of these banks has been analytically tested here to compare with other financial indicators like DPS, EPS and BPS. For such analysis secondary data has been gathered from the different sources and different statistical tools have been used to analyse these. Not only this, a set of question of presented to 50 respondents aiming to collect primary data related to share price of Nepalese commercial banks. The result of the responses has been analysed thoroughly in this thesis.

6.3 Conclusion

On the basis of Primary and Secondary data analysis, the following conclusions have been achieved:

- Due to the inadequate knowledge regarding the share market among Nepalese investors, capital market of Nepal has not been well developed yet.
- The investors generally tend to earn profit from share and they think that EPS and DPS are prime factor to be analysed and to be considered on investing their savings on Share Price.
- Most investors are unknown to laws and policies regarding share market. Poor rules and regulations as well as ineffective regularity mechanism of market makers are the problems of Nepalese Capital Market.
- Market Price per Share of Most of the Banks are insignificantly correlated with all the indicators (DPS, BPS and EPS) in most of the cases. This implies

that they individually don't influence the share price but they jointly influence -the Share Price. There can be other factors to which influence the share price.

- EPS and DPS are the major influence of the Share Price. Besides this, political situation, annual general meeting, assets structure and capital structure of the organisation also influence the share price of the company.
- The commercial bank is the first choice of Nepalese investors. But the lack of systematized and managed regulatory system is required for the further improvement of share market.
- The reputed and established commercial banks have very good trend of their financial performance whereas new banks are penetrating their market. Most of the banks are operating in profit in recent years though they suffered some losses during their initial stages. Still, the investors are positive towards the shares of these banks.

6.4 Recommendations

The following suggestions can be recommended regarding the share price of Nepalese companies which are listed in NEPSE on the basis of the data analysed in the previous sections:

Since general public are unaware about the share and share market, an organised effort is necessary to aware the public about it. A separate department in NEPSE or an independent organisation is recommended which analyse, inform and create the awareness within the emerging potential investors about share and share market through different approaches like seminar, conference or print, air media.

To control the speculation in share, an effective control mechanism is necessary. A clear system is to be employed to evaluate and punish such speculations so that no further influence can be observed in Share Price due to artificial reasons. The government should create a rational and sincere environment within share brokers and share traders for controlling such speculations.

Government should formulate and implement a rigid rules and regulations for the further development of Share Market. A mechanism to take immediate action for the faulty company is to be established.

The investors are recommended to receive a clear picture of their financial track before investing in the company. They should be alert and aware about the misconduct of relative company, brokers, NEPSE or government. They are required

to boost their knowledge up regarding share and share market to get the expected returns from their investment.

An open policy to encourage and promote foreign investors in share price would be fruitful to strengthen the share market of Nepal considering the fact of present globalization.

For the clear and absolute result regarding the determinants of share price, a population study of whole share market for a longer study period is required. This gives the only factual information about the actual determinants of share price.

The public companies should provide up-to-date information to the present and potential investors regularly so that they can be an informed investor.

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Questionnaire for Survey-2017

Central Department of Economics

Tribhuvan University

(For the purpose of M.A. Thesis)

Factors Affecting the Fluctuation of Stock Price in Nepal Stock Exchange

1. Interviewee Information

Name	Sex M= Male F= Female	Age	Education 1= Illiterate 2= under SLC 3= SLC 4= +2 5= Bachelor 6= Master 7= Above master	Occupation 1= Agriculture 2= Livestock 3=labor 4=Govt. Service 5=Foreign employ. 6=other(specific)	Marital status 1= Unmarried 2= Married 3=Separated	Absentees Members
1Prakash K.C,	Male	41	Under SLC	Foreign Empioy	Married	
2Bindu K.C.	Female	27	Bachelor	Business	Married	
3						
4						
5						
6						
7						
8						
9						

I am a student of Master's, Shirjana Poudel, is conducting a research on **"Factors Effecting Fluctuations of Stock Price in Nepal Stock Exchange".** I would be extremely thankful if you spare some time to answer the following questions. All the facts disclosed by you will be used for academic purpose only.

Date of Interview: 02 /07/2017 **Serial No:**

Respondent's Name: **Address:**

1. What is your occupation?

a) Service b) Business c) Student d) Other

2. Your Educational Qualification?

a) Illiterate b) SLC/SEE c) +2 d) Bachelor e) Masters f) Above Masters

3. Gender

a) Male b) Female

4. Are you investing into Stock Market?

a) Yes b) No

5. What type of investor are you?

a) Short Term b) Mid Term c) Long Term d) Mix of any Two

6. What attracts you to Equity Market?

a) High Return b) Speculation c) Dividend d) Liquidity of invested Fund

7. What sources do you use to make decisions on investments in the stock market?

a) Internet b) Press c) TV d) Broker advice e) Report of the Company f) Other

8. What sources do you use to track your investments?

a) Internet b) Press c) TV d) Broker e) Investor Association Advice f)Other

9. What are the objective factors that you think are in general taken into account when investing in the stock market?

a) Dividend b) Low share price c) Expectation of share price increase d) returns of other e) substitutive investments

10. What aspects of the company do you think are taken into account when purchasing shares?

a) Dividend policy b) Low share price c) Expectation of share price increase d) Corporate governance standards of the company e) Other

11. What factors influence you to sell your shares of a certain company?

a) Low or no dividend b) Low share price c) Expectation of share price decrease d) Inappropriate corporate governance practices e) Unethical business practices f) Other

12. What kind of information / attention / services do you expect from the company in which you invest?

a) Availability of information to shareholders b) Transparency of criteria used by the management c) Good investor relations department d) Other

13. Do you usually participate in the general shareholder meeting of the companies in which you invested?

a) Yes b) No

14. Do you find it interesting to attend corporate presentations from companies in which you have invested?

a) Yes b) No

15. Which of this options do you prefer: (ONLY ONE)

a) A stock price increase b) An increase of the dividend c) A rise of the profits of that company

16. Which is your investment time horizon in general?

a) When price is increasing b) When Price is decreasing c) If company announce dividend d) When price is constant e) Unauthentic gossiping about increase of stock market

17. Your investment objective:

a) High income b) Reasonable income c) Reasonable income and safety d) For future welfare e) Retirement protection f) Tax benefit

18. Your risk taking capacity

a) High b) Medium c) Low

19. Rate the satisfaction with the return generated by your investment option?

	Highly Satisfied (5)	*Satisfied (4)*	*Neutral (3)*	*Dissatisfied (2)*	*Highly Dissatisfied (1)*
Shares					
Mutual funds					
Bonds					
Debentures					
Derivatives					

20. Rate the satisfaction with the factors that was considered while investing?

	Highly Satisfied (5)	*Satisfied (4)*	*Neutral (3)*	*Dissatisfied (2)*	*Highly Dissatisfied (1)*
Return on in Investment					
Tax Benefits					
Capital Appreciation					
Maturity Period					
Risk					
Safety of Principal					
Liquidity					
Increase of Interest rate of Bank					

THANK YOU FOR YOUR COOPERATION.