

CHAPTER - I

INTRODUCTION

1.1 General Background

Present world economy has been more competitive and complicated. In this situation stock markets (capital market) have been a global phenomenon regardless of the size of the economy of any particular nation. The main role of the capital market is to allocate the economy's capital stock among various firms and industries involving in trading, investment and production dimensions. Capital market mobilizes unproductive saving to productive investment; it plays very important role in the advancement of growing economy. Thus the stock market is a place where shares of listed companies are traded or transferred from one hand to another at a fair market price through the organized brokerage system. Principally stock market refers to the secondary market for securities where as primary market refers to the market for new issues. In secondary market, to make transactions, primary role is performed by the brokers, in exchange they receive commissions. Therefore they are the backbone of stock market growth and its operation. The major function of stock market is to provide ready and continuous market for the purchase and sales of securities at a competitive price there by, imparting future market ability and liquidity to then securities prices play an important role by providing the scare recourse and investors can choose among the securities that represent ownership of firms activities (performance) under assumption that securities present at any firm "fully reflect" all available information.

"Securities are financial assets that form the part of an investor's wealth. Common stocks, preferred stocks, bonds, convertibles, warrants, options, rights, etc. are examples of securities. Security is not an age-old investment alternative in our country. The history of corporate securities in Nepal dates back to 1936 A.D. when Biratnagar Jute Mill issued 8,000 ordinary shares of

Rs.100 each for the first time. A year later, Nepal Bank Ltd too issued ordinary shares of the same par value. Biratnagar Jute Mill was also the first corporate body to issue debentures of Rs.500 each in early 1936. Yet other significant developments related to capital markets were – introduction of the Company Act in 1964, the first issuance of Government Bond in 1964, and the establishment of Securities Exchange Centre Ltd. in 1976.” (Pradhan;1999: 21-23).

The economy of the country largely depends upon the utilization of its resources and mobilization of capital. Due to lack of proper utilization of resources, the country is going backward. The mobilization of the capital is an important tool to utilize the resources and hence it affects the overall economy directly and indirectly. The financial institutions contribute the national economy by accumulating the capital funds to meet the financial needs of different productive sectors. They actively participate in the money market and the capital market, as both suppliers and demanders of the funds. Nepalese economy is in a developing phase. Financial sector has a crucial role to pool scattered savings for capital formation. Capital is the lifeblood of business Organizations. Every business enterprise requires short term, intermediate term and long-term capital fund for the smooth operations and expansion of organizational activities. Long-term funds plays highly significant role for future growth and prosperity of the organization. Most business organization collect long term funds from financial market.

Stock exchange is the market for long term capital where both new capital can be raised by companies and where existing share can also traded (bought and sold) by providing secondary market for investors to sell their shares, the stock exchange also provides a market for government loans and securities . On the market, the main operators are the market maker who trade in a group of share and the stock brokers who act as agents for their clients, who are the investors

who are actually buying and selling shares for example NEWYORK stock exchange (NYSE), Mumbai stock exchange and Nepal stock exchange (NEPSE).

Nepal Stock Exchange, a solely organized securities exchange market in Nepal, was established in 1993. It has been named for Securities Exchange Center which had been established with the objective of facilitating and promoting the growth of capital market. Nepal Stock Exchange now has objectives of imparting free marketability and providing liquidity to the government and corporate securities by facilitating transactions in trading floor through market intermediaries. It is the place where securities are traded upon. Amongst the listed companies, commercial banks are the most performing ones.

The number of commercial banks has been growing considerably in Nepal after the introduction of liberalized financial policy by the Government in early 1980's. And this has reached to a greater height after reestablishment of democracy in 1990. Today, there are 31 commercial banks operating in Nepal and few are in pipeline. However, in 1984, there were only two commercial banks. Despite many of these banks are foreign based joint venture companies. Common stocks have been issued to the general public and are the major source of their capital funds. Common stock transactions of this sector hold major portion of total transaction. The difference between market price and paid up price of common stock of commercial banks are higher than that of any other companies. Fluctuation in prices of commercial banks' stocks usually gets major issues in stock market. In this regard, it is important to understand what factors really affect the market price of common stock of commercial banks.

1.1.1 Concept of Commercial Banks

“The term 'Bank', signifies the place where we keep our money for safe

keeping as well as for earning some interest or the place from where we borrow money as loan. As regard to the borrowing money from the Bank, we may consider its function as that of money lender in our society. But a bank a moneylender is different in the sense that the former lends the money which is principally collected from their depositors while later does so from its own resources.” (*Stein and Urdang; 1985:29*)

The Random House Dictionary of the English Language defines the bank as an institution for receiving money and in some cases, issuing notes and transacting other financial business. Banks refer to an institution, which perform the activities related with money and credit. Banks have been traditionally regarded as merely the purveyor of money. But today they are not merely purveyor of money but creator or manufacturer of money in an economic system. Macleod, in his book 'Theory of Credit' has defined the bank not only as an institution, that borrows and lend money but also the institution for creating credit. In the opinion of Sayers, Banks are the institutions whose debts usually are referred to as bank deposit and are commonly acceptable in final settlement of other people's debt. He has taken the bank deposit as the debt owe by bank and that particular depositor can set off his liability with his creditor by the deposit in the Bank to the extent of his deposit amount.

The Commercial Bank Act 2031, under which commercial banks in Nepal are established and operated, has defined Commercial Bank as a bank which exchanges money, accepts deposit, advances loans and performs other commercial transactions and which is not specially established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose. The Act has defined the commercial Bank on the basis of its objectives and activities. Referring to the act, a commercial bank should be established with a specified objective of co-operative, agricultural,

industrial or any of such of specific purpose. The same Act has provided for the modalities of establishing a commercial bank, as per which a commercial bank can be established under the Company Act as a limited liability company only with the recommendations of Nepal Rastra Bank.

From the various definition made and opinion produced regarding commercial banking, it can be concluded that a commercial bank is set up to collect scattered funds and employ them to productive sector of economy.

1.1.2 Evolution of the Banking System in Nepal

“The history of banking was started from the very beginning. It started when goldsmith deposited valuables from people and changes same amount to the people for doing the same. However, in Nepal, banking history is said to be started from 723 AD when a king named Gunakama Dev borrowed money to reconstruct his kingdom, Kathmandu. Similarly, Jayasthiti Malla established a caste Tankadhari to lend money to the people.

In 1877 AD Tejarath Adda was established as a financial institution during the prime minister ship of Ranoddip Singh. At the beginning only government staffs were allowed to take loan at 5% interest rate, later, public were also allowed to take loan, after depositing collateral, at the same rate. Nepal Bank Limited replaced Tejrath Adda with the ownership of public and government on 1937 AD under Nepal bank act 1937 AD.

However, there was a need of central bank in the country; therefore, Nepal Rastra Bank the central bank of the country came into existence in 1956. Later on, it was followed by another commercial bank called Rastriya Banijya Bank with the full government ownership. The Nepalese authorities restricted the entry of new bank for many years in order to protect the entry of new bank for many years in order to protect the domestic banks. But, the authorities

ultimately lifted its restriction in 1984 on the entry of new banks in the form of joint venture banks with foreign collaboration.” (Bista; 1989:8)

In Nepal economic growth and development has been considered as a primal objective of economic planning since the beginning of the first five year plan in 1956. Objectives of the plan were to increase production, employment and to improve the living standard of the people. To fulfill these objectives of planning it was necessary that banking activities especially the loan was to be regulated as per priority. Thus, Nepal Rastra Bank was established under the first five year plan in 1956 with objectives below:

To ensure countrywide circulation of Nepalese currency.

- To mobilize capital for economic development and stipulated in trade and industries.
- To achieve stability in its exchange rate and
- Development of banking system of the country.

Under the guidance of Nepal Rastra Bank, the commercial banks establish a branch in each district of the country. The growing influence of liberal economic policies in early 80's first of all appeared in the form of Nepal's liberal policies in the banking sector. The financial system in Nepal has undergone rapid change particularly during the past decade. By Mid-July 2008, NRB licensed bank and non- bank financial institutions totaled 235. Out of them, 25 are commercial banks, 58 development banks, 78 finance companies, 12 micro-credit development banks, 16 saving and credit co-operatives, and 46 NGOs. Now, by Mid-January 2011, there are 31 commercial banks operating in Nepal and some are in pipeline.

1.1.3 Brief Economic Outline of Nepalese Securities Markets

A total of 61 public limited companies raised funds amounting to Rs.10, 822.41 million by issuing securities in the fiscal year 2009/10. In the fiscal year

2008/09, a total of 64 public limited companies had raised funds amounting to Rs.16, 828.50 million.

In the last fiscal year, total listed companies in Nepal Stock Exchange Ltd. were 159 which reached to be 176 in the fiscal year 2009/10. In the fiscal year 2009/10, annual turnover decreased by 45.3 percent to be Rs. 11,851.11 million as compared to turnover of Rs. 21,681.14 million in the fiscal year 2008/09.

Table 1.1
Securities Markets Indicators

Rs. in million

S.N.	Market Indicator	Fiscal Year		
		2007/08	2008/09	2009/10
1	Number of Public Issue	64.00	64.00	61.00
2	Amount of Public Issue	10,668.20	16,828.50	10,822.41
3	Number of Listed Companies	142.00	159.00	176.00
4	Paid-up Value of Listed Securities	29,465.00	61,140.00	79,356.00
5	Number of Listed Securities ('000)	321,131.00	637,868.00	821,746.00
6	Turnover	22,820.80	21,681.14	11,851.11
7	Market Day	235.00	234.00	225.00
8	Number of Traded Companies	136.00	170.00	198.00
9	Number of Traded Shares ('000)	28,599.77	30,547.16	26,231.35
10	Number of Transactions	150,800.00	209,091.00	213,733.00
11	Market Capitalization	366,247.50	512,939.07	376,871.37
12	% of Turnover on Market Capitalization	6.23	4.22	3.14
13	Capitalization on Nominal of Market % GDP at Market Price	44.62	53.43*	31.86#
14	NEPSE Index (points)	963.36	749.10	477.73

* Based on revised estimate of GDP # Based on preliminary estimate of GDP

(Source: Securities Board of Nepal 20 Annual Reports 2009/2010)

In the fiscal year 2009/10, the market capitalization of the listed companies decreased by 26.5 percent to be Rs. 3,76,871.37 million as compared to market capitalization of Rs. 5,12,939.07 million in the fiscal year 2008/09. In the fiscal year 2009/10, the preliminary estimate of the contribution of market capitalization to the GDP is 31.86 percent.

In the fiscal year 2009/10, the price index of the listed securities in Nepal Stock Exchange Ltd. (NEPSE Index) reached to 477.73 points with the decrease of 271.37 points as compared to fiscal year 2008/09. The trend of securities market indicators is presented in table 1.1.

1.2 Statement of the Problems

In Nepalese market several new practices are emerged. During this period a number of initial public offering were made. Many new stocks have been listed in NEPSE. By now a newly established banking industry are emerged as the largest partner in stock market. Similarly the trend of stock price is being fluctuated sometimes the stock price becomes too very high because of poor performance of the listed companies. Decrease in share price due to the lack of perfect information about investment.

Investors purchase the stocks of the commercial banks either in the primary market or in the secondary market. Most of these investors are not aware of the financial strength of the companies and they do not analyze companies' financial performances as well before investing their funds through secondary market. The market price of common stocks does not seem to be in accordance with the financial indicators. Instead, there has been major influence of rumors rather than strength of the companies in determination of the market prices of shares. Market price per share (MPS) of foreign joint venture commercial banks has been found to be higher than MPS of other banks other sectors too. Moreover, it will not be inappropriate to say that the overall NEPSE is depended upon the MPS of such companies.

Generally, the trend is that the MPS of public quoted companies is above their book value. The market value is determined by the supply and demand functions. However, in the efficient market, MPS fully reflect all the historical information's publicly available. Now the question of efficiency of the Nepalese share market arises. Higher amount of share prices may be the

outcome of the inefficient market behavior. Many commercial banks do not provide timely financial statement or annual report to the investors. The dubious and hazardous movement of the share prices has no sound fundamental backing of analysis and relationship to past results revealed in limited calculated dividend yield, net worth, and price multiplies. The investors conclude that there has been foul play using inside information. The reaction is based on the assumption of strong form of the market efficiency. The security exchange act strictly prohibits the misuse of inside information but the regulating authorities can make no advance notice of how there is the use of inside information. It denotes that every investor should be well aware of the degree of risks in which they are investing or going to invest their saving funds. There are very few practices of analyzing these aspects in the Nepalese context. Most of the investors are investing their funds haphazardly without considering risk involved in their investments. That's why, the major issues might be whether the MPS of listed companies are really representing the financial indicators i.e. NWPS, DPS, EPS.

Stock price is determined by demand and supply. Both the quantitative and qualitative factor determines the stock price to specify exactly what factors to determine the stock is a controversial\unpredictable issue. The stock price fluctuate time and stock exchange reacts with the environmental change. This study will try to identify the determinants of the stock price and find out the degree of affection those determinants. More specifically this study is expected to answer the following research question.

- What are the major determinants of the stock price in NEPSE?
- How earning and book value affect on the stock price?
- What is the effect of the dividend on the stock price?
- Are the investors aware of financial indicators, which influence the MPS of the company?
- What is the effect of the right share issue on the stock price?

1.3 Objectives of the Study

This study aims to identify the factors respective for determinants of the stock price and their relationship with the stock price, so that it will give a better insight into the stock price, furthermore, this study is proposed to meet the following specific objective:-

- To analyze the effect of the right share issue on the stock price.
- To analyze the quantitative as well as qualitative factors affecting the stock price in NEPSE with respect to commercial banks.
- To study the effect of earning and book value on the stock price.
- To examine the effect of dividend on the stock price.
- To analyze the market trends of MPS with financial indicators.

1.4 Significance of Study

A few studies have been made on the securities listed in NEPSE. Most of the studies made up to present on capital market are related to financial performance evaluation, capital structure analysis, dividend policy, risk and return etc. However, none of the researches has yet been made on the core perspectives of the determinants of the stock price. So the present study will be of substantial importance for investors, planners, researchers, students and policy makers to meet their personal and organizational objectives. This study attempts to construct the relation of MPS of the Nepalese commercial banks to the major financial indicators like EPS, BPS, and DPS etc. The relation is hoped to show the status of Nepalese commercial banks with respect to the determiners of share price. 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. Finally, the research 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 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.

- Takes into account a few number of selected organization listed private commercial banks, from among the listed companies.
- Most of the primary data are best on research questionnaire. Therefore the reliability and validity of the data depends up on their source.
- The whole study is based on the data of different period.
- Takes into accounts the only latest available five years. Data for the last five years from 2005/06 to 2009/10 has been used to make the study.
- The study is mainly based on secondary data collected from the bank. Research based on secondary data is not fair from limitation due to inherent character.
- Selection of less number of sample organizations is another limitation of this study.
- The results obtain from study can't be generalized for all similar organization due to varying nature of their operation and business.
- A number of factors affect the market price of shares but study of only an aspect i.e. dividend, right share, MPS, BVPS and EPS are the focus of the study.
- This is not a comprehensive study about the dividend policy but it is only a supplementary research.

1.5 Organization of the Study

This study has been divided into five chapters, which are as follows:

Chapter I: Introduction

First chapters includes general introduction of capital market and Nepal stock exchange. It includes general introduction, statement of the problem, objectives of the study, scope of the study, limitation and organization of the study.

Chapter II: Review of Literature

The second chapter reviews the relevant previous studies made on the stock determination and principle set on stock market. It includes Review of books, articles, research papers and thesis.

Chapter III: Research Methodology

Chapter three includes the details framework of the study such as sample, population, variables, statistical, and financial tools to be used, sources of data, data collection, and analysis technique.

Chapter IV: Data presentation and Analysis

This chapter attempts to analyze and evaluate data with the help of analytical tools procedure and interprets the result obtained.

Chapter V: Summary, Conclusion and Recommendations

It sums up the results obtained through analysis and recommends some suggestions. This chapter will highlight the major findings of the study work and concludes the reports with the major recommendation/suggestion to the investors, listed commercials banks and government about the stock price determination.

Bibliography, appendix and other supporting documents have also been incorporated at the end of the study.

CHAPTER - II

REVIEW OF LITURATURE

This chapter, the focus has been made on the review of literature relevant to the capital market and organized stock exchange (OE). Every possible effort has been made to grasp knowledge and information that is available from the libraries, document collection centers, other information managing bureaus and concerned commercial banks. This chapter comprises the conceptual framework, review of related studies and justification of the study. Thus the gap between the previous research and current research can be filled.

2.1 Conceptual Review

Before getting into the core concept of factors determining the stock price, it is logical to be familiar with some technical terms, which are frequent use in researches on capital market and finance. So in this section, some of the technical terms related to the capital market are defined. A firm can collect funds required, by issuing shares and debentures as long-term sources offends. Common stocks are ownership capital whereas debentures are creditor ship capital. In between of ownership and creditor ship capitals, preferences share capital also exists, which is regarded as a hybrid source of financing.

2.1.1 Security Market

A securities market is the place where people buy and sell financial instruments. Financial instrument may be in the form of government bonds, corporate bonds or debentures, ordinary share, preference share etc. The securities market is the place where share of listed companies are traded or transferred from one to another a fair price through the organized brokerage system. The major function of securities market is a competitive price, future marketability and liquidity. Securities market can be further categorize into two groups as primary market and secondary market.

I. Primary market

“Primary market is the place where corporations and government issue new securities. All securities whether in money or capital market are initially issued in the primary market? This is the only market, in which the corporate or government issuer is directly involved in the transactions and receives direct benefits from an issue, i.e., the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individuals, businesses, governments or financial institutions, savers and investors, they become a part of the secondary market. The term Primary Market is used to denote the Market for the original sale of securities by an issuer and to the public. The issuer receives cash, which may be invested in productive assets or retirement of debt. Corporate bodies issue new securities in the primary market hence, securities available for the first time are offered through the primary security market. The issuer may be a brand new company or that has been in business for years. The securities offered might be a new type for the issuer or additional amount of security used frequently in the past” (*Gitman; 2000:33-34*).

II. Secondary market

“Secondary market is the market in which securities are traded that has been issued at same previous point of time. Share or stock is the major component of the securities market. Secondary market deals with previously issued shares mainly traded through stock exchange, over the counter market or direct selling. The function of the security market is to provide liquidity for the security purchased in the primary market. Once investors have purchased securities in the primary markets, they need a place to sell those securities. Without the liquidity of the secondary markets, firms would have difficulty raising funds for productive purposes in the primary markets” (*Cheney and Moses; 1996:72*).

Secondary Markets in another term can be called Security Market. Security Market brings buyers and Sellers of financial assets to facilitate trading. All securities are initially issued in the primary market. It is the places where original sales of securities are made. The secondary market denotes the place where securities are traded that has been issued in the primary market. Participation in country's Industrialization process as visualized by the national plans is possible through the efficient mechanism of the securities market. Securities market promotes efficient collection of small and scattered savings from the investors and provides returns to them in the form of dividend and interest with the productive uses of these savings. A developed securities market is the medium through which only those firms having good performance can raise capital through primary market. Liquid markets reduce the disincentives to investing in long- duration projects because investors can easily sell their stake in the project if they need their savings before the project matures. Moreover, securities markets play a key role in allocating capital to the corporate sector, which will have a real effect on the economy in aggregate.

2.1.2 Common Stock

The common stock represents equity, or an ownership position in a corporation. It is a residual claim in the sense that creditors and preferred stockholders must be paid as scheduled before common stockholders can receive any payments. In bankruptcy, common stockholders are in principle entitled to any value remaining after all other claimants have been satisfied (However, in practice courts sometimes violate this principle). The great advantage of the corporate firm of organization is the limited liability of its owners. "Common stocks are generally 'fully paid and non assessable' meaning that common stock holders may lose their initial investment but not more. That is, if the corporation fails to meet its obligations, the stockholders cannot be forced to give the corporation the funds that are needed to pay off the obligations. However, as result of such a failure, it is possible that the value of

corporations share will be negligible. This outcome will result in the stockholders having lost an amount equal to the price paid to buy the shares” (*Sharp; 2000:457*).

Common stock is finance an equity share is the ownership of a company that gives the owner the right to participate in electing the board of directors and voting on other matter brought before the stockholders, in proportion to the number of shares hold.

2.1.3 Stock Certificates

“The ownership of a firm’s stock has typically been represented by a single certificate, with the number of shares held by the particular investor noted on it. Such a stock certificate is usually registered, with the name, address and holding of the investor included on the corporation’s books. Dividend payments; voting material, annual and quarterly reports and other mailings are then sent directly to the investor, taking into account the size of his or her holdings. Shares of stock held by an investor may be transferred to a new owner with the assistance of either the issuing corporation or more commonly, its designated transfer agent. This agent will cancel the old stock certificate and issue a new one in its place, made out to the new owner. Frequently, a register will make sure that this canceling and issuing of certificate has been done properly. Usually, banks and trust companies act as transfer agents and registrars. Many stockholders have chosen to avoid these rather cumbersome procedures. Instead, depository trust companies are used, which substitute computerized records for embossed certificates” (*Sharpe; 2000:458*).

2.1.4 Securities

“When someone borrows money from a pawnbroker, he or she must leave some item of value as security. Failure to repay the loan (plus interest) means that pawnbroker can sell the pawned item to recover the amount of the loan

(plus interest) and perhaps make a profit. The terms of the agreement are recorded via pawn tickets. When a college student borrows money to buy a car, the lender usually holds formal title to the car until the loan is repaid. In the event of default, the lender can repossess the car and sell it to recover his or her costs. In this case, the official certificate of title, issued by the state serves the security for the loan. A person who borrows money for a vacation may simply sign a piece of paper promising repayment with interest. The loan is unsecured in the sense that there is no collateral, meaning that no specific asset has promised to the lender in the event of default. In such a situation, the lender would have to take the borrower to court to try to recover the amount of the loan. Only a piece of paper called a promissory note stands as evidence of such loan” (*Francis; 2002:227*).

When a firm borrows money, it may not offer collateral. For example, some loans may be secured (backed) with specific pieces of property (building or equipment). Such a loan are recorded by means of mortgage bonds, which indicate the term of repayment and the particular assets pledged to the lender in the event of default. However, it is much more common for corporation to simply pledge all of its assets, perhaps with some provision for the manner in which the divisions will take a place in the event of default. Such a promise is known as debenture bond. Finally, a firm may promise a right to share in its return for investors funds. Nothing is pledged, and no irrevocable promises are made. The firm simply pays whatever its directors deem reasonable from time to time. However, the investor is given the right to participate in the determination of who will be the members of the board of directors. The right protects the investor against serious malfeasance. A share of common stock, which can be sold to someone else, who will then be able to exercise the right, represents the investor’s property right. The holder of common stock is said to be an owner of the corporation and can, in theory, exercise over its operation through the board of directors. “In general, only a piece of paper represents the

investor's rights to certain prospects or property and the conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property right is called a security. It may be transferred to another investor, and with it will go all its rights and conditions. Thus, everything from pawn ticket to share of common stock is a security. Hence, the term of security can be understood as a legal representation of the right to receive prospective future benefits under stand conditions. The primary task of security analysis is to identify misplaced securities by determining these prospective future benefits, the conditions under which they will be received and the likelihood of such conditions" (Francis; 2002: 31).

I. Stock Price

Stock price is the amount of money that one has to pay to purchase/receive a stock company if a buys of Bank of Kathmandu from B, he/she pays Rs.2000 for these 10 shares and then the price of the share is Rs. 200 (i.e.2000/10). Thus, stock price is the amount paid by a buyer to buy one stock or the amount received by selling a stock. The stock price is determined in a stock market, by market forces, i.e. demand (buyers force) and supply (sellers force). The demand and supply are based on the environmental forces and individuals future expectations/assumptions. The stock (market) price is different from its par value and book value.

II. Par Value

"When a corporation is first chartered, it's authorized to issue up to a stated number of shares of common stock, each of which will often carry a specified par value. Legally a corporation may be precluded from making payments to common stock holders if doing so would reduce the balance sheet value of stockholders equity below the amount represented by the par value of outstanding stock. For this reason, the par value is typically low relative to the price for which the stock is initially sold. Some corporations issue no-par stock.

(In the case, a stated value must be recorded in a place as the par value). The initial offering price of share may vary from its par value if stocks are issued on premium or discount” (*Sharpe; 2000; 461*).

III. Book Value

“With the passage of time, a corporation will generate income, much of which is paid out to creditors (as interest) and to stock holders (as dividend). Any remainder is added to the amount shown as cumulative retained earnings on the corporation’s books. The sum of the cumulative retained earnings and other factors (such as ‘common stocks’ and ‘capital contributed in excess of par value’) under stockholders equity is the book value of the equity:

$$\text{Book Value of Equity} = \text{Cumulative Retained Earnings} + \text{Capital Contributed in excess of Par} + \text{Common Stock}$$

The book value per share is obtained by dividing the book value of the equity by the numbers of shares outstanding” (*Sharpe; 2000; 461-462*).

IV. Earnings per Share

The firm’s earning per share is generally of interest to present or prospective stockholder and to management. The amount earned during the accounting period on each outstanding share of common stock, calculated by dividing the period’s total earnings available for the firm’s common stock holders by the number of common stock outstanding.

V. Dividend

The percentage of earning the firm pays in cash to its shareholders is known as dividend. The dividend, of course, reduces the amount of earnings retained in the firm and effect the total amount of internal financing. Nothing is more important than dividends to stockholders. They buy share of firm with the hope of sharing profits earned by firms. The role motive of stockholders is to receive

return on their investment; nothing pleases them than knowing the firm's earnings and more profits earn more dividends coming in.

a) Cash Dividend

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

b) Bonus Share (Stock) Dividend

An issue of bonus share represents a distribution of share in addition to cash dividend to the existing stockholder. This practice has the effect of increasing the number of outstanding share of the company, which is distributed proportionately. Thus, a shareholder retains proportionate ownership of the company.

VI. Market Price per Share (MPS)

“A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter. Generally, par values of most stocks are set at fairly low figures with compare to their market values and the market value per share of common stock is the function of the current and expected future dividend of the company and the perceived risk of the stock on the part of investors” (*Van Horne & Wachowicz; 2000:546*).

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

have least priority to claim in liquidation, the share price is highly volatile and very sensitive to the environmental factors. An organization has two types of environment, i.e. internal and external. The environment within the organization is called the internal environment and is somehow in control of the organization. Therefore, the organization tries to maintain the favorable environment to maximize the share price of the stock market. On the other hand, the external environment forces are not within the control of the organization, but such forces highly affect the market price of shares. So, the firm tries to adjust themselves according to the changing environmental forces, and such adjustments are intended to maximize the share price or the value of the firm. Since the market price of shares is very much sensitive to the environmental forces, the share price increases if there is favorable environment and vice versa. This increase in the share price is based on the market mechanism or market forces, i.e. demand and supply. If the earnings and dividend of an organization increases, then the investors has positive perception towards the organization and they like to buy the shares of the organization, as a result demand increases; on the other hand the suppliers like to hold the shares and supply decreases, and there is gap between demand and supply so the market price of shares increases. The investors determine the price, they would like to pay for the shares of an organization and the sellers determine the price, they would like to receive by selling shares based on their assumptions towards the organization and future expectations. Such assumptions and expectations vary from individual to individual. Since different person analyzes the same situation differently with their limited knowledge. The index of stock gives the surrogate of market price of the share. NEPSE index is the surrogate of all listed companies in NEPSE. So, it's one of the indicators of stock price in NEPSE.

There are various indexes to analyze the stock behavior in the world's capital market. "Stock market indexes are 'pure numbers' used for making the

comparison between index numbers in the same series or other index number. An index is usually a ratio tabulated from average of different securities. Typically, a time series of index numbers is constructed from the same base date and base value (usually set as 100 or 10 or 1) to make time differently comparable. Some past year is selected as the base year from which index's base value is calculated in order to impart time perspective to the index" (*Francis, 1991: 183*).

2.1.5 Stock Market and Stock Exchanges

"Secondary markets are those in which outstanding previously issued securities are traded. By far the most active secondary market, and the most important one to financial managers, is the stock market. It is here that the price of firm's stocks are established, and since the primary goal of financial management is to maximize the firm's stock price, a knowledge of the market in which this price is established is essential for anyone involved in managing a business. There are two basic types of stock markets the organized exchanges, which include the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and several regional exchanges, and the less formal over-the-counter markets. Since the organized exchanges have actual physical market location and are easier to describe and understand, we shall consider them first. The organized security exchange are tangible physical entities. Each of the larger once occupies its own building, has specifically designated members, and has an elected governing body its board of governors. Members are said to have 'seats' on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange" (*Weston, 1987: 78*).

I. Nepal Stock Exchange (NEPSE)

a) Introduction

The Nepal Stock Exchange Limited popularly called NEPSE is the only Stock Exchange of Nepal. It is located in SinghaDurbar Plaza, Kathmandu Nepal. On April 4, 2008 the equity market capitalization of the companies listed on NESPE was US\$ 3658.39 million.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13 January 1994. As of November 2010, the numbers of listed companies are 266, which include Commercial Banks, Hydro Power Companies, Insurance Companies and Finance Companies among others. The NEPSE Index is primary all equity market index of NEPSE.

b) Objective

The basic objective of NEPSE is to provide liquidity to government bonds and corporate securities by facilitating transactions through intermediaries, such as, broker's market makers etc. The other important objectives of NEPSE are to protect investors' right and develop a secondary market, as prescribed in the Memorandum of Association (MOA) and Article of Association (AOA) of the NEPSE.

c) Functions

The main function of NEPSE is to provide trading floor for trading on securities. Beside this prime function, NEPSE performs the following:

- Provide trading floor for the listed securities.
- Enlist corporate as well as government securities like shares preference shares, development bonds and corporate bonds.

- Supervise and regulate its members.
- Provide clearing and settlement facility to trade securities.
- Timely dissemination of information.
- Act as a front line regulator for members.

d) Trading System

NEPSE operates on the 'NEPSE Automated Trading System '(NATS), a fully screen based automated trading system, which adopts the principle of an order driven market. Purchase & Sell of Physical Share certificates is done through NATS. The Automated Trading System was started from 24 August 2007.

e) Price Range

Price Range is applicable on individual securities. The trading of the individual securities are not halted but allowed to trade within the price range.

- The price band is 10% of previous close on either way.
-) During the ATO session the range is 5% on either way of Previous Close Price. After the band is 2% on either way of the Last traded price till it reaches to 10% of the previous close.

f) Order Matching Rules

The system adopts principle of order driven market. The best buy order is matched with the best sell order. An order may match partially with another order producing multiple trades. For order matching the best buy order is the one with the highest price and the best sell order is the one with the lowest price. This is because the system views all buy orders available from the point of view of the sellers and all sell orders from the point of view of the buyers in the market. So, of all buy orders available in the market at any point of time, a seller would obviously like to sell at the highest possible buy price that is offered. Hence, the best buy order is the order with the highest price and the best sell order is the order with the lowest price.

g) Settlement

NEPSE has adopted a T+3 settlement system. Settlement will be carried out on the basis of paper verses payment. The trading is done at "T" and at T+1; the buying brokers have to submit bank vouchers for settlement with covering letter. At T+2, the selling brokers must submit share certificate with covering letter. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank. Once the settlement is done the buying brokers with the consultation of the clients must decide and present the purchased shares if they want to record it as blank transfer. This must be completed within T+5.

h) Blank Transfer

Under this mechanism an opportunities to derive the market benefit is provided. But presently, the buying brokers must complete the BT process within T+5. The transactions that are executed can be recorded in different way and NEPSE has considered all possible retention. The followings are the major key points to be considered. This is related only with buy of the securities. The buyer may decide to have market benefit either to have capital gains or to minimize the loss. In order to do this s/he may partly send for name transfer or may register it in blank transfer. If s/the register total purchase in blank transfer and can put for sale and if only the part of the shares are subscribed then s/he can handover the part and the part can be forwarded for name transfer to the concerned company. In order to do this s/he has to cancel the blank transfer for that portion.

II. Securities Board of Nepal (SEBON)

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Act, 2007.

Objectives

The major objective of SEBON is to regulate the securities market and protect investor's interests. As per the Securities related Act, 2007, the major functions of SEBON are as follows.

- Register securities of public limited companies.
- Approve prospectus for issuing securities.
- Provide license to operate stock exchanges.
- Provide license to operate securities businesses.
- Permit the operation of collective investment schemes and investment fund program.
- Draft regulations, and issue directives and guidelines.
- Supervise and monitor stock exchanges and securities business activities.
- Take legal action against the non-compliance companies as per the legal provisions.
- Conduct research, study and awareness programs regarding securities markets.
- Advise the Government of Nepal to formulate policies and programs relating to securities market as and when required. Development of securities and the capital market.

2.1.6 Dividend Policy & Market Price of Stock (MPS)

Once a company makes a profit, it should decide on what to do with the profit. It could continue to retain the profit within the company or it could payout the profit to the owners of the company in the form of dividend. Dividends are payments made to stockholders from a firm's earnings in return to their investment whether those earnings were generated in the current periods and policy refers to the decision about how much earnings at what form should be distributed. Thus dividend policy is to determine the amount of earnings to be

distributed to shareholders and the amount to be retained or reinvested in the firm. The objective of a dividend policy is maximization of shareholders wealth position. MPS is the value of stock which can be obtained by a firm from the market. Market value of a share is one of the variables which are affected by the dividend per share and earnings per share of the firm. If the earning per share and dividend per share are high, the market value per share will also be high. Market value of the share may be higher or lower than the book value. If the firm is growing concern and it's earning power is greater than cost of capital, the market value of the share will be higher than the book value. If the firm's earning capacity is lower than cost of capital MPS will also be lower. MPS is determined by capital market.

Market price of the stock usually fluctuates by the adequate information. No one can earn more in the inefficiency and inefficiency is legally prohibited in order to regulate the security market in every nation. But being focused in this study, dividend policy and its impact on market price of stock, there should be discussed different models and practices which have significant effects in MPS or not. So, MPS and security valuation are integral parts in it. Without valuation no one can quote the price and there is no chance of trading. Dockery, E. (2000).

Every day in newspaper one can see the market price of the different shares from different companies. The trading of the share definitely requires the MPS which can be obtained by the stock valuation. Share valuation is an economic process that generates rational securities prices. Although the price fluctuations may appear to be chaotic, they are random fluctuations that result from the random arrival of the new information. Stiglitz J. (1997).

Dividend policy and MPS has always correlation; if the company pays high dividend the MPS increases and vice-versa. But in some cases out of this

interrelation, the price may remain constant or decrease too. Therefore the information lack or flow is also vital in the analysis of MPS.

2.1.7 Right Issue & Market Price of Stock (MPS)

Common stock is the easy way of raising capital to a firm. When a firm wants to raise more fund then issues shares to existing shareholders of a proportional number of additional securities, the stock flotation is called a rights offering. The rights of existing shareholder's in a firm to retain an equal percentage ownership over time by subscribing to new stock issuances at or below market prices. If the preemptive right is contained in firm's charter then firm must offer any new common stock to its existing shareholders. "A right issue involves selling of ordinary shares to the existing shareholders of the company" (*Pandey; 1998:1015*).

Immediately after the announcement of the right offering, the markets price of the stock would increase by some amount but theoretically, it is said that the right offering does not the value of shareholders.

2.1.8 Factors Affecting Market price of share

Market price of share means the price of share determined by the market and the traded in stock exchange. Generally, this market price of share is determined by demand and supply of market. But this is not only the determinant of share price. Other factors that determine the market price of share are as follows:

- **Dividend:** Shareholders who invest their money in common stock always seek returns in the form of dividends. So, if the company pays higher rate of dividends, then ultimately the share price goes higher and vice versa.

- **Cost of Capital:** Cost of capital refers to the cost of fund raised in the company. If cost of capital is higher, then return will be automatically lower and finally the share price goes down.
- **Company's earning:** Highly earnings organization pays higher dividend that moves the price of share upward and vice versa.
- **Signaling Effects:** Signaling effects are those rumors which are related to stock market like budget speech, insurgency, dividend announcement, rights offerings etc. Due to those rumors investors buy and sell stocks, which finally affect the price of share.
- **Economic Condition:** Overall economic condition of the country is also one of the determinants of stock price. If the economy is in growing trend, price of share also increases and vice versa.

2.2 Review of Books, Journals & Articles

This part of the literature review is devoted to review of major previous studies relating to stock prices in detail. There are large numbers of studies in foreign and Nepalese context but only few of them are briefly reviewed below.

2.2.1 Foreign Context

International Monetary Fund (IMF) (1997), Policy Development and Review Development Division published a working paper entitled “*Determinants of Stock Prices: The Case of Zimbabwe*”. The working paper examined the general relationship between stock prices and macroeconomics variables in Zimbabwe, using the revised DDM, error correction, model, and model, the multi factor return – generating model. Despite the large fluctuation in stock prices since 1991, the analysis indicated that the Zimbabwe Stock Exchange functioned quite consistently during that period. Whereas sharp increases in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization, the movements of

monetary aggregates and market interest rates explained the rapid increase of 1990's in stock prices.

Jennergren and Korsvold (1975) in their book “*The Non Random Character of Norwegian and Swedish Stock Market Prices*” examined the daily price series of 15 stocks from Oslo stock exchange (Norway) and 30 stocks from Stockholm stock exchange (Sweden) by using serial correlations and run analysis, during 1957, and found considerable dependence in both Norwegian and Swedish stock market prices. Based on their findings, they concluded, “price changes are not dependent random variable in case of the majority of the 45 investigated Norwegian and Swedish Stocks. This implies that the random walk hypothesis is probably not a very accurate description of share price behavior on the Norwegian and Swedish stock markets.

Dorkery (2000) in his article, “*Some Consideration in the Governance and price Behavior of the Warsaw Stock Exchange*” examined 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's ability to play its role in allocating funds to the most productive sectors of the economy.

Gupta (1985) analyzed in his book, “*Equity Share Price Behavior in India*” during the period from January 1971 to March 1976 and extensively tested indices. He employed the autocorrelation analysis, run test, and found the evidence in support of the RWH. He also concluded that the random walk

model appeared to be an appropriate model even for the share price behavior (*Gupta, reprinted in 1989: 53-54*).

Miller and Modigliani (1961) in their article, “*Dividend Policy, Growth and the Valuation of Shares*” have concluded that dividend payout ratio (dividend policy) does not affect the wealth of the shareholders or on the share price of 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 as mentioned below:

- 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.
- An absence of flotation costs on securities by the firm.
- The firm has a fixed investment policy and is not subjected to change.
- A world of no taxes.
- Perfect certainty by every investor as to the future investments and profits of the firm.

Walter (1963) in his article, “*Dividend Policy: It’s Influence on the Value of Enterprise*” argues that dividend policies usually affect the value of the enterprises. The investment policy of a firm cannot be separated from its dividend policy, which is just the opposite of what MM said. The key argument in the support of the relevant proposition of the model is the relation between the return of Firm’s investments or its internal rate (r) and its cost of capital (k), the stock price will be enhanced by retention and will vary inversely with dividend payout. The basic assumptions of the model are:

- The firm finances all investments through retained earnings i.e. the firm does not use debt or equity financing.

- The firm's r and k are constant.
- The firm distributes its entire earnings or retains it for investment immediately.
- There are no change values of earnings per share and dividend per share.
- Perpetual life of the firm.

Based on the above assumptions, Walters's formula to determine the market price per share is as follows:

$$P = \frac{DPS}{K} + \frac{r (EPS - DPS)/K}{K}$$

Where,

P = Prices of shares;

EPS = Earnings per Share;

r = internal rate of return;

K = cost of capital.

Myron Gordon (1985) in his study "*The investment, Financing and Valuation of corporation*" concludes that the dividend policy of a firm affects its value. Unlike Walters model, he argues that the dividend policy affects the value of share even in a situation in which the return on investment is equal to the capitalization rate that is ($r=K_e$). It is assumed that investors have a preference for present dividends for future capital gains under the condition of uncertainty. This argument insists that an increase in the stock prices for the reason that the investors consider that the dividend yield (d_1/P_0) is less risky than expected capital gain. The basic assumptions of this model are as follows:

- The firm is all equity firms.
- No existing financing is available so retained earnings will be used to finance any expansion.
- The internal rate of return (r) and cost of capital (k) are constant.
- The firm and its stream of earnings are perpetual.

- The corporate taxes do not exist.
- The retention ratio (b) once decided upon is constant. Thus, the growth rate, $g = 'b \times r'$ is constant.
- ' K_e ' must be greater than ' g ' to get meaningful value.

The market value of a share is equal to the present value of the future streams of dividends. A simplified version of Gordon's model can be symbolically expressed as;

$$P = \frac{EPS(1 - b)}{K_e - (b * r)}$$

Where,

P = Price of Share;

EPS = Earnings per Share;

b= Retention ratio;

1-b=dividend payout ratio;

K_e = capitalization rate or cost of capital,

$B*r$ = growth rate.

Fama (1965) in his article, "*The Behavior of Stock Market Prices*" study on the random walk model is considered one of the best definitive and comprehensive studies conducted. He observed the daily proportionate price of each individual stock of Dow 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 changes 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- day, 9- day and 16- day 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.

Dolley (1934) in his study, “*The Price Effect of Stock Right Issues*” uses 303 stock rights issued out of 422 privileged subscription recorded in NYPSE. He classified these stock rights by various methods such as industry wise according to the years in which they were issued. In this study, he defines many key terms clearly with example. To analyze the price effect of stock rights issue he uses the price from announcement date to record date. Since the sole object in this procedure was to develop the general price trends, the dates for which these quotations were obtained were only approximately one, two, and three and four weeks prior to the record date. The entire sample of 303 stocks was not used in this test because it was thought that a smaller number would serve to reveal the general trend.

The right of this study seems that the possibilities of stockholders realizing an immediate profit from a right issue are narrowly limited. Investors is about as likely to lose, as he is to gain if he sells his stock at the announcement date and buys back just prior to the record date. If he sells his stock ex-rights together with his rights on the record date, in two cases out of three he will realize a slight appreciation over the value of his stock on the preceding business day. If

the stockholders decide to exercise his rights, he would do well to exercise them towards the end of the subscription period, thus allowing for a possible decline in the market price of the stock ex-rights below the subscription price, which would render the stock ex-rights below the subscription price, which would render the stock rights valueless.

However, if the stockholder elects to sell his stocks rights, his chances of securing the optimum market price would slightly better if the he should sell at the beginning rather the end of the subscription period. For the professional speculator, it would seem in general market that the best chances for profit would lie either in purchasing the stock rights on just prior to the record date, or in selling the rights short on the record date and covering later in the subscription period. However, the individual price reactions both of the stock and the rights vary so widely from case to case as to render speculation according to rigid rules highly unsafe.

2.2.2 Nepalese Context

“There are many loopholes in our stock exchange Act. Investor feels insecure here. A few years back there was a company called Nimrod Pharmaceuticals Company that floated in shares but where is it now? Similarly, it has been more than a decade that Bansbari Leather has allotted its shares, but why didn't the company list its shares in the market? It has been 5 years that Gorakhkali rubber Udhdyog has not called its AGM. The NRB has recently done a decision to take on liquidation of Nepal Development Bank Ltd. Government remains silent in all these cases. This is why the public as well as the institutional buyers is not feeling secure in investing in stock market.” (*Business age; Jan 2000:25*)

“Investment in the capital market now has become very uncertain, sending the investor in search of avenues of more certain retains. The equity investment is

considered riskier than investment in bond preferred stock etc. the secondary market is not performing well. The NEPSE index is hovering around 208 and 215 since long. After great slump Nepal stock market in F/Y 2000/01, dissatisfaction has increased in the mind of investors. The NEPSE index on 23 Nov 2000 had reached the peak of 545, 82 and after that it is continuously on the decline.” (*Business Age; March 2004: 42*)

Pradhan and Balampaki (2004) in his study, “*Fundamentals of Stock Return*” have given some important insight regarding nature of stock return in Nepal. This 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, cross-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 dividend yield. 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 has been found to be more informative than earning yield. Capital gain yield is positively influenced by earning yield and size, whereas the same is negatively influenced 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) has conducted a study entitled, “*Development of Stock Market and Economic Growth in Nepal*” based upon the data of ten years. The study reports that 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.

Timilsena (1997) had conducted a research on, “*Dividend and Stock Prices: An empirical study*” used multiple regression models of three independent variables. Besides this he also tried to highlight the relationship between stock price and other independent variables setting separate simple linear regression equations. The sectors chosen for the study were manufacturing and trading sectors and banking and insurance sector. The major findings of the study were as follows:

- The relationship between dividend per share and stock price per share is positive.
- Dividend per share affects the stock price variedly in different sectors.
- Changing the dividend policy of dividend per share might help to increase the market price of the share.
- The relationship between price and retained earnings per share is not prominent.

- The relationship between stock prices and lagged earnings prices ratio is negative.

2.3 Review of Related Rules and Guidelines

I. Company Ordinance, 2064

There are following important provisions regarding securities issue in company ordinance, 2064.

- Company should publish its prospectus before issuing the securities. Before publishing it, company must be the approved from SEBON.
- Much information about the company, its promoters and the contents of the issuing securities should be mentioned in the prospectus, according to the format prescribed by the ordinance.
- Company must publish the notice in the national daily newspaper at least 3 times, 15 days period to the security date.
- Par value of the company should not be more than Rs.100 for shares.
- Company should not call the amount of more than 50% of its par value at the time of share application but this rule is not compulsory for those companies, which have published their balance sheet from last three years.
- Company should allot the issuing securities with in the three months of closing the date for application submission and it should provide the certificate of securities within the 2 months of security allotment.
- Company should not allot the security to those applicants who have not subscribed 50% excluding underwriting.
- Company should not issue its securities on discount but in some cases, this rule is not applicable. For example, in the case of transfer of creditors, this rule is not applicable.
- Company should issuing the securities at premium of that whose net worth is more than total liabilities, which has been profiting continuous for last 3 years and whose AGM has passed these rules.

- Company ordinance explain about the rights of the existing shareholders on new issuing share in section 54(4).
- If the company cannot sell its rights share within 35 days of the closed date, it should take the other alternatives to sell the shares by taking permission from SEBON.

II. Banking and financial institution ordinance, 2064

There are following major provision for banking and financial institution to issue their securities on their ordinance, 2064.

- Every bank and financial institution should be approved from SEBON and their prospectus should be registered to NRB to issue any type of securities.
- Bank and financial institutions should call the total amount of share at the time of application.
- Every bank and financial institutions should follow the current rules of securities to do the activities about the securities issue.

III. Security Exchange Regulation, 2064

It has been issued security exchange regulation Act, 2007 under the security exchange Act, 2007. There are following provisions in this regulation.

- Every security must be register in the SEBO/N and to issue them, related company should be taking the permission.
- For registration and permission, company should be giving the application to SEBO/N along with various documents. Following are the some important document for application.
- Detail of memorandum, article of association and prospectus of the company.
- Acts and rules under which company is formulated.
- Amount, par value, number and type of share and special provisions of issuing security.

- Other condition and facilities of security issue.
- Reason of change in price on previous time issued securities.
- Types, number, amount and transaction of last three years, if previous issued securities.
- Issue manager of security and under writer of securities.
- Provision of representation in board of directors for equity shares.
- Provision about distribution of profile.
- Three years audited and three years projected income statement and balance sheet.
- Name, address, duties and responsibilities of directors, managers and chief officers.
- Name, cast, address, qualification of person who prepares memorandum and article of association.
- Other details asked by SEBO

IV. Securities Registration and Issue Approval Guidelines, 2064

Securities Registration and Issue Approval guidelines 2064 include the following provisions about securities issue.

- Any corporate firm can be issued their securities after getting the approved letter from SEBO/N. But they should be complete the various directives given by SEBO/N for different time. For taking the approved letter, company should be giving the application along with various documents prescribed by acts.
- For issuing the securities, company has been complete its 1 year period, it published its balance sheet and profit/loss account and complete its activities according to the objectives.
- Company should be advertised the public issue, 7 to 15 days before issuing the securities. In advertisement various information, e.g. place of getting and submitting the application, method of the filling application,

paid up among, name of bank and center, account number of the investment banker etc. are mentions.

- There should not be less than 35 days and more than 60 days of the time between the issue dates of closed date of the securities issue.
- Securities must be listening in the security market within the 45 days after allotment to transaction in the market.
- There should be open the securities issue within 2 month after getting the issue approved.
- Paid up value of the share should be completely collected before issuing the rights share.

V. Securities Allotment Guidelines, 2064

Following provisions are mention about the securities allotment in securities allotment guidelines.

- There should be ranking, scrutiny and classifying the all applications of the securities.
- Securities should be allotment on the basis of board lot system.
- Where there is also subscription of the issued securities then these should be given the first priority to the minor applications.

There should be published the notice about allotment after 3 days of allotment decision.

2.4 Thesis review

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.

Gautam (2000) conducted a study on the topic of "*Analysis of Share Price Movement Attributed to Rights Offering Announcement*". The main objectives of his study were to find the effect or rights offering on the share price

movement and if there is any problem in the primary issue of securities. He analyzed the adequacy of the contents of the company act 2053 in regard to section 21, that emphasis about that matter to be disclosed in the issue prospectus.

The major findings of his study were:

- Change in share price due to rights offering cannot be generalized.
- There is lack of legal provision in company act regarding the issue of right share.
- There is lack of investors protection act.
- Nepalese security market has failed to use various capital market instruments such as warrants, convertible, option etc.
- Security board has failed to establish one window policy to support the primary issue of shares.

Lamsal (2002) had conducted the study on, “*Impact of Information on Share Price*” was to determine the impact of information, (i.e. dividend declaration, return on equity and EPS, on share price). To analyze his study, he had used t-test and correlation. But, he did not consider rights issue and other factors are as an important factor in share price determination. So, here researcher has analyzed the factors affecting share price movement. In this study, he finds that:

- There is significant difference in share price of four sample companies out of five because of information of dividend declaration.
- Share price of sampled organization has decreased significantly after the issuance of directives made by NRB.
- In most cases, Mps is negatively correlated with EPS, DPS, & ROE.

Ojha (2002) had conducted a research on “*Financial Performance and Common Stock Pricing*”. The main objectives of the study were to study and

examine the difference of financial performances and stock prices, the relation of dividends and stock price, and to explore the singling effects on stock price.

The main findings of his study were:

- Due to lack of proper investment opportunity most of the investors have directed their saving towards the secondary stock market.
- People have misconception that the issuance of bonus shares and right shares, which actually decreases the worth per share and resultantly, ought to decrease the market price of share.
- Other firm has issuing bonus shares more times than a new one.

After reviewing the above thesis, it is found that various studies have been done on the topic of share price and its determinant. Researcher have highlight the share practice in Nepal from various aspects and also making effort to highlight the under subscription problem. So, this study is trying to find the determinant of share price by taking share of sample banks. This study may be an important effort to inform the shareholders and companies regarding the factors of share price determinant in Nepal.

Dhamala (2004), Studied on “*Determinants of Share Price in Nepalese Financial Market*” taking ten public companies i.e. 5 from commercial banks and 5 from finance companies covering relevant data and information for 5 years from 1996 to 2001. The main objectives of the studies are the effect of MPS on the stock price and company’s financial performance determine MPS and its effect in Nepal Stock.

In his study he found that:

- The Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance.

- The market price of the share in Nepal is not indicative of a company's financial performance in stock market and the share market is imperfect, is not efficient, and is liable to manipulation.
- Basically, value of share price is to be determined by the future prospects of the company based on the past financial indicators.

Neupane (2004) conducted a study on “*Determinants of Stock Price in Nepal Stock Exchange*” taking 11 sample organizations using various financial and statistical tools like standard deviation, correlation, regression analysis, t-test, Z-test with the objectives DPS, EPS and BPS relationship with MPS and their effect in MPS and effect from other factors on the stock price.

He concluded that:

- In NEPSE, DPS, BPS and EPS individually do not have consistent relationship with the market price of share, among the listed companies.
- The pricing behavior varies from one company to another. But EPS, BPS and DPS, jointly have significant effect in market price shares.
- There may be other major factors affecting the share price significantly. NEPSE is in its primary stage, adopting open outcry system for stock trading and stockbrokers lack professionalism to create investing opportunities in NEPSE.
- Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing and processing, trading and hotel sector have weak performance. So financial intermediaries are strong but their ultimate investment is suffering.

Ghatri (2005) has made the study on the topics of “*Share Issue Practice in Nepal and its Impact on the Share price of listed companies*”. The main objective of his study was to find out the significant changes in share price after and before announcement of the shares. To conduct the study, he had used the correlation coefficient, coefficient of determinants, regression analysis, t-test and financial formula.

The major findings of his study were:

- There was significant different in share price after announcement of the share except people finance Ltd. among 10 sample companies of his study.
- Market is not mature and company with track record is very low.
- Most companies are issuing shares to fulfill the capital requirement as per the NRB directives. Shareholder of Nepalese security market has lack of knowledge about share.
- After increase the share capital through share issue, earning per share is decrease by 0.29769 when 1 unit increase in share capital amount.

Dhakal (2007) has conducted on his study, “*Determinants of Share Price on Nepalese Commercial Banks*” with randomly selected 10 commercial banks. The main objectives of his study DPS, EPS and BPS relationship with MPS and another is the main problem of Nepal Capital Market 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.

He found that:

- 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.
- Inadequate knowledge of share market among Nepalese investors, capital market of Nepal has not been well developed yet.
- Commercial banks are only the attractive sectors to invest, in the view of investors are that they are better managed and controlled, that is why they are in profit and distribute good rate of dividend.

Pradhan (2007) has made a study on “*A Case Study on Stock Offering and Its Impact on Stock Price in Nepalese Market*”. The main objectives of the study were to examine and identify issue practice in Nepalese financial market and its

theoretical values of stock and its effect on stock price and change in market price of the stock before and after the announcement of IPO.

The major findings of this study are:

- There was change in the share price after and before share announcement.
- Under subscription after share issue is normal because of lack of awareness, poor financial performance of company, financial condition of share holders.
- After share issue there will be decline in EPS.

Acharya (2008) in his study, “*Determinants of Stock price in Nepalese Commercial Banks*” with randomly selected 10 commercial banks. The main objective of his study is the effect of DPS and EPS on stock price and another is to identify the major factors to effect on the stock price.

He concluded that:

- Share price are affected by different kinds of micro and macro variables such as EPS, DPS, and information disclosed, political instability, growth rate.
- Interest rate, retention ratio, cost of equity, market liquidity, change in management do not significantly affect the share price in NEPSE.
- The market price per share has high degree of positive relationship with EPS in all sample banks and largely depends on EPS.

2.5 Research Gap

Earlier studies and researches on the stock price movement in the NEPSE are carried out on the apparent approach by taking the most common Indicators in consideration. During the review of previous thesis, it is found that this study will fulfill the gap, which had been made by the earlier researcher. Researcher has taken sample from only the first class commercial banks, which also could predict the sensitive stock moment as well. Moreover, the researcher has been

conducted on price behavior related to stock market efficiency by using share brokers, market analysts and individual investors as primary sources of information. There was a need to conduct a survey with the share brokers, market analyzers and individual investors who are the major stakeholders of the stock market. Furthermore, it shows that there is very few research works conducted on various aspects of securities price formation of commercial banks in the field of stock market. The studies conducted in developed security markets may not be entirely relevant in the security markets of underdeveloped country like Nepal. Their applicability to test in the context of smaller and underdeveloped capital market like ours. The changes taken place after the completion of these studies might have reduce their relevance. Therefore, it is necessary to test the validity of these studies and their applicability in our context. Most of the above stated studies use technical method and statistical methods like regression analysis, correlation coefficient, NEPSE trend etc. for analysis purpose. Only few of studies use fundamental analysis tools for the research work. More than that, some few studies are concerned about financial indicators like EPS, DPS and BVPS, which are the most influencing factors for the MVPS. So, this study tries to analyze the relationship of these factors along with influencing factor on market price of the stock. Various quantitative and qualitative factors affect the share price formation. Many studies documented that dividend is one of the most influencing factors in share price formation. The fundamental analysts say that the price of stock is the present value of the future cash flows and the price of stock must be equal to this value. The role of brokers and market makers is crucial in pricing. Another factor playing a major role in price formation is information and signaling effects. Political turmoil, unstable government, lack of farsighted policies and other macro economic factors equally play the vital role in the price fluctuation and make impact in a decisive role in share price formation which researcher try to analyze during study.

CHAPTER – III

RESEARCH METHODOLOGY

A systematic research study requires a proper methodology to achieve the set of objectives. Research methodology is a systematic method of finding solution of a problem i.e. systematic collection, recording, analysis, interpretation and reporting of data and information. This chapter aims to present a basic framework of the research work. The overall approach to the research is presented in this chapter. This chapter contains the research design, sample size, data collection procedure, data processing tools and techniques, variables etc.

3.1 Research Design

In this study, historical as well as descriptive design is adopted. To determine the affect of earning, book value, dividend and other factors on stock price, historical research design is adopted along with correlation and regression analysis and to identify the qualitative factors affecting stock price, the descriptive research design is adopted. Therefore, the main objective of this study is to examine the interrelation of MPS with EPS, DPS, BVPS and other financial indicators. To achieve this objective descriptive and exploratory research designs have been adopted. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been used to determine factors determining stock prices of commercial banks in NEPSE.

3.2 Population and Sample

The total variables/observation is simply called population. There are 31 commercial banks (including government owned, private and joint ventures) at present and only five banks are taken as sample of the study. The process of selecting the sample out of the population is called sampling. In this study, the population size is 31 and the sample size is 5. The sample size is 16.13% of the

population size in this study. The sampling method used is he judgment sampling. The sample of the study is as follows:

SN	Name	Operation date(A.D.)	Head Office	Paid Up Capital(Millions)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.3
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	9437.5
4	Nabil Bank Limited	1984/07/16	Kathmandu	2029.8
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2409.1
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	1398.5
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1600.0
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	1653.6
9	Nepal Bangladesh Bank Limited	1994/06/05	Kathmandu	1860.3
10	Everest Bank Limited	1994/10/18	Kathmandu	1079.6
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	1359.5
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar, Rupandehi	1399.6
13	Lumbini Bank Limited	1998/07/17	Narayangadh,Chitawan	1294.5
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar,Morang	1311.5
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1627.2
16	Kumari Bank Limited	2001/04/03	Kathmandu	1306.0
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1613.5
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	1561.0
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1473.4
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	1207.0
21	Prime Commercial Bank Ltd	2007/09/24	Kathmandu	1210.0
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1625.0
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1500.0
24	DCBL Bank Ltd.	2008/05/25	Kamaladi, Kathmandu	1920.9
25	NMB Bank Ltd.	2008/06/05	Babarmahal, Kathmandu	1651.6
26	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu	2000.0
27	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Kathmandu	1400.0
28	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	1631.0
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu	1400.0
30	Civil Bank Ltd.	2010/11/26	Kathmandu	1200.0
31	Century Bank Ltd.	2011/01/23	Kathmandu	1120.0

S.N. Name

1. Bank of Kathmandu Ltd.
2. Everest Bank Ltd.
3. Nabil Bank Ltd.
4. Siddhartha Bank Ltd.
5. Standard Chartered Bank Ltd.

3.3 Sources and Nature of Data

The study is based on secondary data as well as primary data. To show the relationship between the different variables (share price- earnings, share Price book value, share price dividend, share price-debt ratio, share price-liquidity ratio, share price-turnover, share price retained earnings) secondary data used but to determine the factors, which affect the stock price, primary data are collected from the respondents through research questionnaire. The sources of the secondary data are AGM reports of related banks, SEBON, NEPSE, financial statistics reports, bulletins publications of different authorities, researches, journals, unpublished thesis reports, newspapers, Internet Websites.

3.4 Data Collection Techniques

The research consists of both primary as well as secondary data. Since the nature of these two types of data is different, the data collection procedure also varies. To collect the secondary data, published materials are viewed in various spots like books by different authors, unpublished thesis reports, journals, internet web sites, online library, and AGM reports of listed companies. NEPSE, SEBON, etc. to collect these secondary data, the researchers visited campus library of SDC, TU central library, SEBON library. On the other hand, primary data collected through scheduled questionnaire.

3.5 Data Processing

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Further, they need to be verified and simplified for the purpose of analysis. Moreover, data and information so gathered are to be 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 tabular form in the understandable way and unnecessary data excluded. It is attempted to find out the conclusion from the available data, with the help of various financial as well as statistical tools. An advanced computerized statistical program, Microsoft excel 2007 version has been widely used to provide efficiency in calculation of statistical information.

3.6 Data Analysis Tools

The primary and secondary data collected from various sources leads to the logical conclusion, only if the appropriate tools and techniques are adapted for analysis of such data. The collected data has no meaning. If such data are not analyzed various statistical and financial tools have been used to analyze the data in this study, the different tools used in the study are as follows:

I. Average (Mean)

Mean is the value, which represents the group of values and gives an idea about the concentration of values in the central part of the distribution. An average gives us a point, which is most representative of the data. It depicts the characteristics of the whole group. The value of arithmetic mean lies in between the two extreme observations of the entire data. It is an envoy of the mass homogeneous data. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically arithmetic Mean (AM) is given by,

$$\bar{X} = \frac{\sum X}{n}$$

Where,

\bar{X} = Arithmetic Mean

X = Sum of all the values of the variable X

n = Number of observations

II. Standard Deviation

The standard Deviation () measures the absolute dispersion. The greater the standard deviation, greater will be magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

Mathematically,

$$\sigma = \frac{\sqrt{\sum (x - \bar{x})^2}}{n}$$

III. Coefficient of Variation

Coefficient of Variation (C.V.) is a relative measure. To compare the variability between two or more series, C.V. is more appropriate statistical tool.

Mathematically,

$$C.V. = \frac{\sigma}{\bar{x}}$$

IV. Correlation Coefficient (r)

When the relationship is of quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it, in a brief formula is known as correlation. If the value of the variables is directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation coefficient always remains within the limit of +1 to -1. By Karl Pearson, the simple correlation coefficient (between two variables, say X and Y) is given by,

$$r_{XY} = \frac{cov_{XY}}{\sigma_X \sigma_Y}$$

Where,

r_{xy} is the correlation between two variables X and Y,

r lies always between +1 and -1

When, $r = +1$, there is perfect positive correlation.

When, $r = -1$, there is perfect negative correlation.

When, $r = 0$, there is no correlation.

When, r lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

When, r lies between 0.5 and 0.699, there is a moderate degree of correlation.

When, r is less than 0.5, there is low degree of correlation.

v. Coefficient of Determination

The coefficient of determination is the way to measure the contribution of independent variables in predicting the dependent variables. It is more appropriate while verifying the results than the correlation coefficient and computed by square of the correlation coefficient as mentioned above.

$$r^2 = r \times r$$

Where, r^2 = coefficient of determination

vi. Regression Analysis

Regression is the statistical tool, with the help of which we can predict the unknown value of one variable from known value of any other variable. Assuming that the two variables are closely related, we can estimate the value of one variable from the value of another. The variable, whose value is given, is called independent variable and the variable whose value is to be predicted is called “dependent variable”. Hence, regression determines the average probable change in one variable based on a certain amount of change in another. It is a statistical tool for determining relationship between the variables by the establishment of an approximate functional relationship between them. It is used to determine that whether the dependent variable is influenced by the

given independent variable or not. Regression analysis is a branch of statistical theory that is widely used in almost all the scientific disciplines. One of the most frequently used techniques in economics and business research, to find a relation between two or more variables that are related casually is regression analysis. The regression analysis can be classified as follows:

a. Simple Regression Analysis

The analysis used to describe the average relationship between two variables is called “simple linear regression analysis”. It is considered as a useful tool for determining the strength of relationship between two (variables in simple regression) or more variables in multiple regression. Specially, regression is used to estimate or predict the most probable value of dependent variables based on one or more independent variables. In this study, the following simple regression has been analyzed.

$$MPS = a + b \text{ EPS} \dots\dots\dots (i)$$

$$MPS = a + b \text{ DPS} \dots\dots\dots (ii)$$

$$MPS = a + b \text{ BVPS} \dots\dots\dots (iii)$$

b. Multiple Regression Analysis

Multiple regression analysis is a logical extension of the simple linear regression analysis. Instead of single independent variable, two or more independent variables are used to estimate the unknown values of a dependent variable. However the fundamental; concept in the analysis remains the same. Multiple regression is defined as statistical device which is used to estimate (or predicts) the most probable value of dependent variable on the basis of known value of two or more independent variables. The following multiple regression equation is analyzed.

$$MPS = a + b_1 \text{ EPS} + b_2 \text{ DPS} + b_3 \text{ BVPS}$$

Where, MPS is dependent variable and EPS, DPS and BVPS are independent variables.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter is the main body part of this study. The data, both primary and secondary, are collected in unprocessed form. Such collected data are presented in systematic formats and analyzed using different appropriate tools and techniques, has been used in this chapter. The secondary as well as primary data, collected from different sources, are presented in an understandable presentation and analyzed separately using both qualitative and quantitative measure whichever are appropriate.

4.1 Analysis of Financial Indicators

Table No. 4.1
Analysis of Mean, S.D. & C.V. of MPS, EPS, DPS and BVPS

Banks		MPS	EPS	DPS	BVPS
BOKL	Mean	1,448.00	48.98	37.50	199.90
	S.D.	511.60	6.67	10.00	23.89
	C.V.	0.35	0.14	0.27	0.12
EBL	Mean	2,205.20	86.63	47.00	299.50
	S.D.	560.56	12.83	11.60	40.20
	C.V.	0.25	0.15	0.25	0.13
NIBL	Mean	3,969.60	111.99	96.00	348.40
	S.D.	1,326.08	16.92	19.20	43.12
	C.V.	0.33	0.15	0.20	0.12
SBL	Mean	734.40	18.31	11.16	147.24
	S.D.	265.92	3.30	5.56	24.23
	C.V.	0.36	0.18	0.50	0.16
SCBNL	Mean	5,158.80	132.55	114.00	390.07
	S.D.	1,305.44	31.24	23.20	84.66
	C.V.	0.25	0.24	0.20	0.22
OVER ALL	Mean	2,703.20	79.69	61.13	277.02
	S.D.	1,585.70	38.55	35.10	91.36
	C.V.	0.59	0.48	0.57	0.33

Source: Appendix 1

During the study period, under the study of BOKL, the average MPS is Rs. 1448.00. The standard deviation is 511.60 and the coefficient of variation is 35%. It indicates that there is moderate fluctuation in MPS of this bank. The average EPS is Rs. 48.98 and the standard deviation is 6.67. The coefficient of variation is 14%. The CV of EPS indicates that there is not high risk involved in earning capacity of BOKL. The average DPS of the bank is Rs. 37.50 with standard deviation of 10. The coefficient of variation is 27%. The CV of DPS indicates that there is less fluctuation in DPS of this bank. The average BVPS is Rs. 199.90 with standard deviation of 23.89. The coefficient of variation is 12%, which indicates that there is light fluctuation in BVPS during the study period. The market price per share is moderately volatile with CV of 35%. The industry average of CV (overall CV) of MPS, EPS DPS and BVPS are 59%, 48%, 57% and 33% respectively. This shows that all the financial indicators MPS, EPS, DPS and BVPS have low degree of CV than that of industry average. This means they are moderate volatile, which in fact shoe the more consistent in bank's financial performance.

Under the study of EBL, the mean MPS of analysis period is Rs. 2205.20. The standard deviation is 560.56 and the coefficient of variation is 0.25. The 25% CV of MPS explains that there is moderate risk involved in market price of share for the investor and shareholders of the bank. The average EPS earned by this bank during the study period is 86.63. The standard deviation is 12.83 and the coefficient of variation is 0.15. The 15% CV of EPS explains that there is low risk in earning capacity of EBL. The average DPS is Rs.47 with standard deviation of 11.60. The coefficient of variation is 25%, which indicates that there is low fluctuation of DPS during the study period. The BVPS is Rs. 299.50 with standard deviation of 40.20. The coefficient of variation is 13%, which indicates that there is not as much of fluctuation in BVPS during the study period. The industry average CV (overall CV) of MPS, EPS, DPS and BVPS are 59%, 48%, 57% and 33% respectively. This shows that all the

financial indicators MPS, EPS, DPS and BVPS of EBL have low degree of CV than that of industry average. Less volatility in these indicators of this bank indicates consistency in the financial performance.

Under the study of NIBL the average MPS is Rs. 3969.60. The standard deviation is Rs. 1326.08 and the coefficient of variation is 0.33 during the study period. It indicates that there is moderate risk involved in market price of share for the investor and shareholders of this bank. The average EPS earned by this bank during the study period is Rs. 111.99. The standard deviation is 16.92 and the coefficient of variation is 0.15. This shows that there is diminutive risk involved in earning capacity of NIBL. The average DPS is Rs.96 with standard deviation of 19.20. The coefficient of variation is 0.20, which indicates that there is moderate fluctuation in DPS of NIBL During the study period. The average BVPS is Rs. 348.40 and standard deviation is 43.12. The coefficient of variation is 0.12, which indicates that there is less fluctuation in DPS of NIBL during the study period. The industry average of CV (overall CV) of MPS, EPS, DPS and BVPS are 59%, 48%, 57% and 33% respectively. This shows that all the financial indicators MPS, EPS, DPS and BVPS of NIBL have low degree of CV than that of industry average. It means it is less volatile than other banks, which in fact show the more consistent in bank's financial performance.

Under the study of SBL, the mean MPS of analysis period is Rs. 734.40. The standard deviation is 265.92 and the coefficient of variation is 0.36. The 36% CV of MPS explain that there is moderate risk involved in market price of share for the investor and shareholders of this bank. The average EPS earned by this bank during the study period is Rs.18.31. The standard deviation is 3.30 and the coefficient of variation is 0.18. The average DPS is Rs. 11.16 with standard deviation of 5.56. The coefficient of variation is 50%, which indicates that there is moderate fluctuation in DPS during the study period. The average

BVPS is Rs 147.24 with standard deviation of 24.23. The coefficient of variation is 16%, which indicates that there is less fluctuation in BVPS during the study period. The industry average CV (overall CV) of MPS, EPS, DPS and BVPS are 59%, 48%, 57% and 33% respectively.

During the study period, the mean of SCBNL is Rs. 5158.80. The standard deviation of SCBNL is 1305.44 and the coefficient of variation is 0.25. The 25% CV of MPS indicates that there is light fluctuation in MPS of SCBNL. The average EPS earned by SCBNL during the study period is 132.55. The standard deviation of EPS is 31.24. The coefficient of variation is 0.24, which shows that there is no high risk involved in earning capacity of SCBNL. The average DPS of this bank is Rs. 114 with the standard deviation of 23.20. The coefficient of variation is 0.20 i.e. 20% which indicates that there is less fluctuation in DPS during the study period. The average BVPS is Rs.390.07 and standard deviation is 84.66. The coefficient of variation is 0.22 i.e. 22% which shows there is less fluctuation in BVPS. SCBNL is distributing its dividend each year over the period. The industry average of CV (overall CV) of MPS, EPS, DPS, and BVPS are 59%, 48%, 57% and 33% respectively. This shows that all the financial indicators MPS, EPS, DPS and BVPS of SCBNL have low degree of CV than that of industry average. It means they are less volatile than other banks, which in fact show the more consistent in Bank's financial performance.

Thus, the above analysis shows the CV of MPS in BOKL and SBL are high among the sampled banks, which indicates that there is high risk involved in market price of share for the investors and shareholders of this bank. The CV of MPS in SCBNL is low which indicates that there is low risk involved in market price of share for the investors and shareholders of this bank. The CV of EPS in SCBNL is the highest, which mean that SCBNL's common stocks are riskier as compared to other banks. The CV of BOKL is lower comparing

with others and it is less risky among all. The CV of DPS of SBL is the highest and SCBNL has the lowest. The least CV of SCBNL indicates that SCBNL has the highest consistency in paying dividend. The CV of SCBNL indicates that the common stock is riskier as compared to other sampled banks. The SCBNL has the highest and EBL has the lowest CV of BVPS respectively. The CV of SCBNL shows that there is high fluctuation in BVPS and CV of EBL and BOKL show lower fluctuation among the sampled banks.

4.2 Correlation Analysis

The correlation analysis overall data is done to find out the relationship of different variables with MPS.

Table No. 4.2
Analysis of Relationship of MPS with EPS, DPS & BVPS

Banks		MPS & EPS	MPS & DPS	MPS & BVPS
BOKL	r	0.94	0.24	0.29
	r ²	0.89	0.06	0.08
EBL	r	0.40	0.36	0.53
	r ²	0.16	0.13	0.28
NIBL	r	0.29	0.63	0.38
	r ²	0.09	0.40	0.15
SBL	r	0.28	0.88	0.42
	r ²	0.08	0.78	0.18
SCBNL	r	0.19	0.41	0.34
	r ²	0.04	0.41	0.12
OVER ALL	r	0.81	0.88	0.80
	r ²	0.65	0.78	0.63

Source: Appendix 2

The correlation between MPS and EPS is 0.81. It indicates that when EPS increases MPS also increases and vice-versa. The coefficient of determination is 0.65, which indicates that nearly 65% of the total change in MPS is due to the effect of EPS and rest 35% change in MPS is due to other factors. The correlation between MPS and DPS is 0.88. It reveals that MPS is significantly highly positively correlated than EPS with DPS. It indicates that when DPS

increases MPS also increases and vice versa. The coefficient of determination 0.78 explains that nearly 78% of the total change in MPS is due to the effect of DPS and remaining 22% change in MPS is due to other factors. The correlation of MPS with BVPS is 0.80. Correlation between MPS and BVPS shows that there is also positive relationship. The coefficient of determination between MPS and BVPS is 0.63 that means nearly 63% variation in MPS is explained by BVPS. Rest 37% is explained by other factors. The correlations of individual factors with MPS have very high degree of association with MPS than industry average. We cannot conclude that any of single factors play more vital role to fix the price of MPS. All the factors have almost equal significance in the price determination of share.

4.3 Regression Analysis

The regression analysis is carried out to determine whether the dependent variable is influenced by the given independent variables or not.

4.3.1 Simple Regression Analysis

1. MPS on EPS

Where, MPS is dependent and EPS is independent.

Table No. 4.3
Analysis of Simple Regression Coefficient
MPS = a + b EPS

Bank	Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
BOKL	-2,379.33	78.15	0.89
EBL	664.44	17.78	0.16
NIBL	1,785.52	19.50	0.09
SBL	314.92	22.91	0.08
SCBNL	4,179.18	7.39	0.04
OVER ALL	54.92	33.23	0.65

Source: Appendix 3

Table 4.3 shows the simple regression analysis between MPS and EPS of selected commercial banks. The correlation of MPS and EPS of all banks are

positive. The regression coefficient of BOKL, EBL, NIBL, SBL and SCBNL are 78.15, 17.78, 19.50, 22.91 and 7.39 respectively. It indicates that holding other variable constant one-rupee increase in EPS leads to variation of about Rs. 78.15, 17.78, 19.50, 22.91 and 7.39 increases in stock price of BOKL, EBL, NIBL, SBL and SCBNL respectively. The coefficient of multiple determinations is 0.89, 0.16, 0.09, 0.08 and 0.04 of BOKL, EBL, NIBL, SBL and SCBNL respectively. The R^2 of SCBNL is lowest among other banks. It indicates that 4% or there is no variation in MPS is explained by EPS. This value is highest in case of BOKL, which indicates that 89% variation in MPS is explained due to change in EPS of the bank. Similarly, 16%, 8% and 9% variation in MPS is explained due to change in EPS of EBL, NIBL and SBL respectively. It can be concluded that the MPS of these bank is highly affected by EPS except than SCBNL. The value of constant (a) is -2379.33, 664.44, 1785.52, 314.92 and 4179.18 of BOKL, EBL, NIBL, SBL and SCBNL respectively. The value of constant of SCBNL, EBL, NIBL and SBL has positive. This shows that MPS of these banks are highly affected by other factor besides the EPS of the bank. But in contrary, negative constant of BOKL show that the MPS of respective banks are deeply depends on the EPS or earning behavior of the stocks of respective banks.

2. MPS on DPS

Where, MPS is dependent variable and DPS is independent variable.

Table No. 4.4
Analysis of Simple Regression Coefficient
MPS = a + b DPS

Bank	Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
BOKL	976.45	29.98	0.06
EBL	1,395.89	17.22	0.13
NIBL	531.43	35.81	0.40
SBL	276.86	41.01	0.78
SCBNL	2,637.96	22.11	0.17
OVER ALL	279.29	39.65	0.78

Source: Appendix 3

Table 4.4 shows the simple regression MPS on DPS of selected commercial banks. The correlations of all the banks are positive and regression coefficient of BOKL, EBL, NIBL, SBL and SCBNL are 29.98, 17.22, 35.81, 41.01 and 22.11 respectively. It indicates that holding other variable constant one-rupee increases in DPS leads to variation of about Rs. 29.98, 17.22, 35.81, 41.01 and 22.11 increases in stock prices of BOKL, EBL, NIBL, SBL and SCBNL respectively. The regression constant (a) of all the selected banks are positive. The regression constant of BOKL, EBL, NIBL, SBL and SCBNL are 976.45, 1395.89, 531.43, 276.86 and 2637.96 respectively. The regression constant of selected banks (positive constant) shows that the MPS of all banks are highly affected by other factors besides DPS. The coefficient of determination R^2 of BOKL, EBL, NIBL, SBL and SCBNL are 0.06, 0.13, 0.40, 0.78 and 0.17 respectively. This means that 6%, 13%, 40%, 78% and 17% variation in MPS of BOKL, EBL, NIBL, SBL and SCBNL respectively are explained by the change in DPS of the respective banks.

3. MPS on BVPS

Where, MPS is dependent variable and BVPS is independent.

Table No. 4.5
Analysis of Simple Regression Coefficient
 $MPS = a + b BVPS$

Bank	Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
BOKL	139.59	6.55	0.08
EBL	53.57	7.18	0.28
NIBL	645.18	10.06	0.15
SBL	162.66	3.88	0.18
SCBNL	3,273.45	4.83	0.12
OVER ALL	-1,203.61	14.10	0.63

Source: Appendix 3

Table 4.5 shows the simple regression analysis between MPS and BVPS of selected commercial banks. The correlation of MPS and BVPS of all banks are positive. The regression coefficient of BOKL, EBL, NIBL, SBL and SCBNL

are positive. It means the correlation between MPS and BVPS of those banks are positive. The regression coefficient of BOKL, EBL, NIBL, SBL and SCBNL are 6.55, 7.18, 10.06, 3.88 and 4.83 respectively.

It indicates that holding other variable constant one-rupee increase in BVPS leads to variation of about Rs. 6.55, 7.18, 10.06, 3.88 and 4.83 increases in MPS. The coefficient of multiple determinations R^2 of BOKL, EBL, NIBL, SBL and SCBNL are 0.08, 0.28, 0.15, 0.18 and 0.12 respectively. The R^2 of SCBNL is lowest and EBL has the highest among the sample banks. It indicates that the variation in MPS of 8%, 28%, 15%, 18% and 12% are explain by the variation in BVPS of respective banks. The value of constant (a) is 139.59, 53.57, 645.18, 162.66 and 3273.45 of BOKL, EBL, NIBL, SBL and SCBNL respectively. The values of constant of SCBNL show that MPS of respective bank is highly affected by other factor besides BVPS of the bank. The overall results show that there is positive relationship between MPS and EPS, MPS and DPS, MPS and BVPS. So it is concluded that MPS is affected by EPS, DPS and BVPS.

4.3.2 Multiple Regression Analysis

Multiple regression analysis is done to find out the relationship of MPS on EPS, DPS, and BVPS.

Where, MPS is dependent variable and EPS, DPS and BVPS are independent variables.

Table No. 4.6
Analysis of Multiple Regression Coefficients
MPS = a+ b₁EPS+b₂DPS+b₃BVPS

Banks	Constant Coefficien t (a)	Variable Coefficien t (b ₁)	Variable Coefficien t (b ₂)	Variable Coefficien t (b ₃)	Coefficient of Determinatio n (r ²)
BOKL	-2,788.82	90.53	-24.61	3.63	0.97
EBL	-9,239.81	41.11	-253.49	66.10	1.00
NIBL	1,149.86	- 49.41	47.80	10.81	0.47
SBL	372.13	-30.96	41.90	3.13	0.83
SCBNL	119.86	-151.59	93.54	37.09	0.83
OVER ALL	343.05	- 8.06	46.70	0.53	0.78

Source: Appendix 4

The table 4.6 shows the result of multiple regression analysis of selected commercial banks that MPS depends on EPS, DPS and BVPS. As far as regression coefficient is concerned the beta coefficient b₁ for EPS, b₂ for DPS, b₃ and for BVPS. Under the study of BOKL, the regression coefficient of EPS, DPS and BVPS denoted by b₁, b₂, and b₃ are 90.53, -24.61 and 3.63 respectively. It means that Rs. 1 increase in EPS and BVPS leads to Rs. 90.53 and Rs. 3.63 increase in MPS respectively. Moreover, Rs. 1 increase in DPS leads to Rs. 24.61 decrease in MPS. The regression constant 'a' is that MPS on EPS, DPS and BVPS is Rs. -2788.82. The multiple coefficients of determinations between MPS, EPS, DPS and BVPS is 0.97. It indicates that nearly 97% variation in MPS is due to the joint effect of EPS, DPS and BVPS and remaining 3% change in MPS is due to the effect of other factors. In case of EBL, the regression coefficient of EPS, DPS and BVPS denoted by b₁, b₂, and b₃ are 41.11, -253.49 and 66.10 respectively. It means that Rs 1 increase in EPS and BVPS leads to Rs. 41.11 and 66.10 increases in MPS respectively. And Rs. 1 increase in DPS leads to Rs. 253.49 decrease in MPS. The regression constant 'a' in multiple regressions is -9239.81. The coefficient of multiple determinations between MPS, EPS, DPS and BVPS is 1. It indicates that 100% variation in MPS is due to the joint effect of EPS, DPS and BVPS.

In NIBL, the regression coefficient of EPS, DPS and BVPS denoted by b_1 , b_2 and b_3 are -49.41, 47.80 and 10.81 respectively. It means that Rs. 1 increase in DPS and BVPS leads to Rs.47.80, and Rs. 10.81 increase in MPS respectively. Moreover, Rs. 1 increase in EPS leads to Rs. 49.41 decrease in MPS. The regression constant 'a' is that MPS on EPS, DPS, and BVPS is 1149.86. The coefficient of multiple determinations between MPS, EPS, DPS and BVPS is 0.47. It indicates that nearly 47% variation in MPS is due to the joint effect of EPS, DPS, and BVPS and remaining 53% change in MPS is due to the effect of other factors.

Under the study of SBL, the regression coefficient of EPS, DPS and BVPS denoted by b_1 , b_2 and b_3 are -30.96, 41.90 and 3.13 respectively. It means that Rs. 1 increase in DPS and BVPS leads to Rs. 41.90 and Rs 3.13 increases in MPS respectively and Rs. 1 increase in EPS leads to Rs.30.96 decreases in MPS. The regression constant 'a' is that MPS on EPS, DPS and BVPS is Rs. 372.13. The coefficient of multiple determinations between MPS, EPS, DPS and BVPS is 0.47. It indicates that 83% variation in MPS is due to the joint effect of EPS, DPS and BVPS and remaining 17% change in MPS is due to the effect of other factors. It means MPS is highly positively correlated with EPS, DPS and BVPS. In case of SCBNL, the regression coefficient of EPS, DPS and BVPS is denoted by b_1 , b_2 and b_3 are -151.59, 93.54 and 37.09 respectively. It means that Rs. 1 increase in DPS and BVPS leads to Rs.93.54, and Rs. 37.09 increase in MPS respectively. Moreover, Rs. 1 increase in EPS leads to Rs. 151.59 decrease in MPS. The regression constant 'a' is 119.86. The coefficient of multiple determinations between MPS, EPS, DPS and BVPS is 0.47. It indicates that 83% variation in MPS is due to the joint effect of EPS, DPS and BVPS and remaining 17% change in MPS is due to the effect of other factors. It means MPS is highly positively correlated with EPS, DPS and BVPS.

4.4 Primary Data Analysis and Presentation

Another measure applied to gather information relevant to the topic is questionnaire method. For collecting primary data a questionnaire having a set of 23 questions were prepared and presented to 50 respondents. The respondents were selected randomly from the group of share- known personalities especially form the share buyer/ purchasers in broker's office and college students. The questions contained variety in types. The questions from 1 to 4 were of multiple choice types in which the respondent were asked to choose the best alternative from the list. Remaining question No. 5 (under 1 to 19), the degree of agreement over the statement was asked to mention and according to their degree of agreement, the score was provided.

4.4.1 Classification of Respondents

A total of 50 respondents were surveyed randomly to conclude the determinants of share price of Nepalese Commercial Banks. Among these, 25 respondents were professional investors of share investment, 20 were potential investors who are willing or invest in share but have not invested yet and rests 5 were market analyzer. A number of questions were put by means of copies of questionnaire.

1. Publication of Financial Reports Changes a Company's Share Price.

The first question asked the respondents that publication of financial reports changes a company's share price. Table No. 4.7 shows the result of the responses.

Table No.4.7
Publication of Financial Reports Changes a Company's Share Price

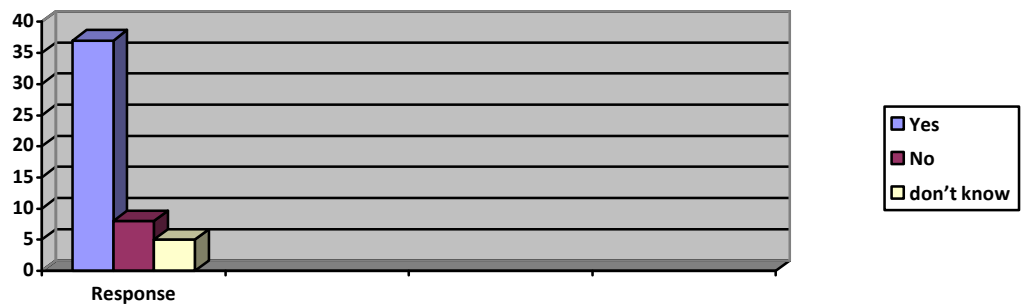
S.N.	Responses	No. of respondents	Percentage
1	Yes	37	74
2	No	8	16
3	Don't know	5	10
Total		50	100

Source: Appendix 5

The above table shows the number of respondents and their percentage relating the changes a company's share price due to publication of financial reports. The majority of respondents had said i.e. 74% yes to the statement that means a company's share price is changed due to the publication of financial reports. It has been shown in following chart.

Figure No. 4.1

Publication of Financial Reports Changes a Company's Share Price



2. Financial Reports are Useful in Identifying Over or Under Valued Securities.

3. Financial reports of companies listed on stock exchange are only the publicly available information useful in identifying over or undervalued securities. The following table (Table No.4.8) shows the responses against the statement that financial reports of companies listed on stock exchange are publicly available information useful in identifying over or undervalued securities.

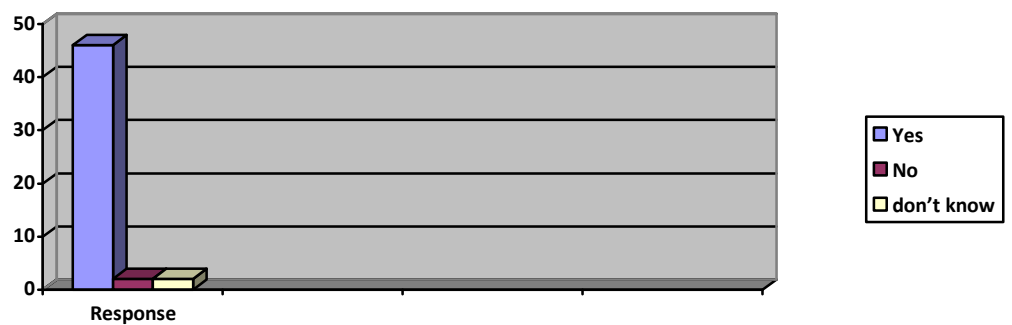
Table No. 4.8
Financial Reports are Useful in Identifying Over or Under Valued Securities.

S.N.	Responses	No. of respondents	Percentage
1	Yes	46	92
2	No	2	4
3	Don't know	2	4
Total		50	100

Source: Appendix 5

Over or undervaluation of securities are identified by financial reports of companies listed on stock exchange. 92% of the respondents said yes, 4% said no and rest 4% respondents said do not know to this statement. This shows that financial reports of listed companies are one type of publicly available information useful in identifying over or undervalued securities. It has been shown in following chart.

Figure No. 4.2
Financial Reports are Useful in Identifying Over or Under Valued Securities.



4. Public Listed Companies are not serious towards Shareholders Interests. Public listed companies are not serious towards shareholders interests. The responses of the respondents regarding the seriousness of public listed companies towards shareholders interest are summarized and presented in Table No.4.9.

Table No. 4.9
Public Listed Companies are not serious towards Shareholders Interests

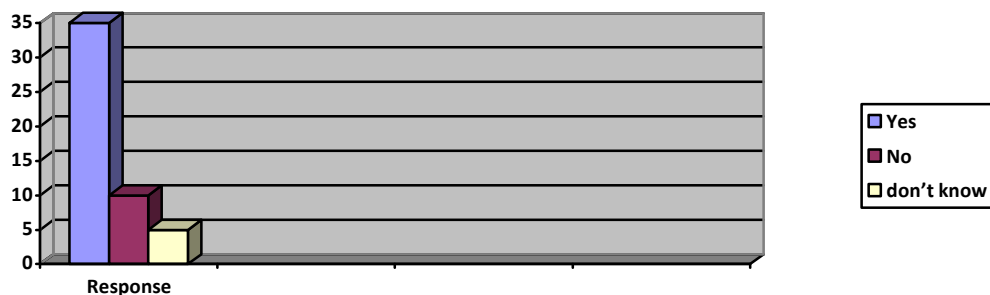
S.N.	Responses	No. of respondents	Percentage
1	Yes	35	70
2	No	10	20
3	Don't know	5	10
Total		50	100

Source: Appendix 5

Out of total respondents, 70 % of the respondents (Professionals) said yes, 20% said no and rest 10% respondents said do not know to this statement. The

response shows that public/ listed companies are not serious towards shareholders interests. It has been shown in following chart.

Figure No. 4.3
Public Listed Companies are not serious towards Shareholders Interests



5. NEPSE and Securities Board are Able to Protect Investor's Interest Effectively.

NEPSE and Securities Board are able to protect investor's interest effectively. The following table (table No.4.10) shows the responses against the statement that NEPSE and Securities board are able to protect investor's interest effectively.

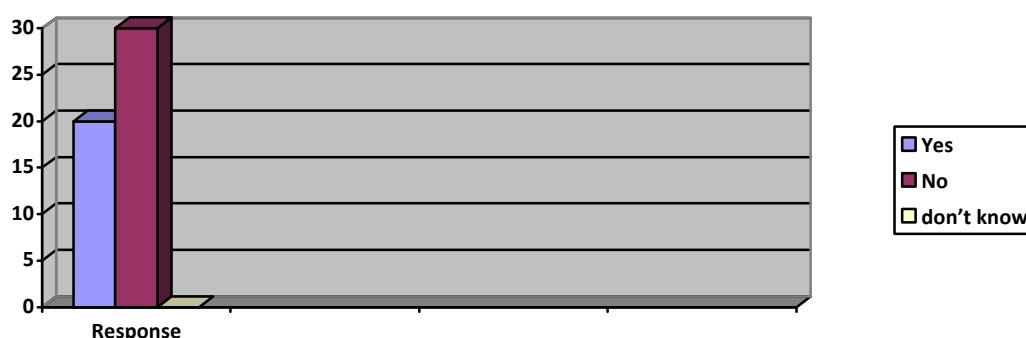
Table No. 4.10
NEPSE and Securities Board are Able to Protect Investor's Interest Effectively

S.N.	Responses	No. of respondents	Percentage
1	Yes	20	40
2	No	30	60
3	Don't know	0	0
Total		50	100

Source: Appendix 5

Only minority of the respondents agreed to the statement and the majority did not agreed. It means that NEPSE and Securities Board are not able to protect investor's interest effectively. It has been shown in following chart.

Figure No. 4.4
NEPSE and Securities Board are Able to Protect Investor's Interest Effectively



6. Future Price Changes of a given Share can be predicted from Historical Price Changes.

The mean value of the questionnaire of the total respondents is presented below:

S.N.	Statement	Mean Value
1	Higher the EPS, higher would be the share price.	4.58
2	Higher the DPS/cash dividend, higher would be the share price.	4.48
3	Lower the growth rate (g) of the company, higher would be the share price.	2.78
4	Higher the retention ratio, better the market price of share.	3.32
5	Higher the cost of equity (K_e) reduces the share price.	4.06
6	If interest/reinvestment rate (r) increases, share price also increases.	3.48
7	Larger companies have higher share price.	2.58
8	Dividends have stronger effect in market price of share.	4.06
9	Higher the book value per share, higher would be the share price.	2.86
10	Higher the risk associated with a company, higher would be the share price.	3.22
11	Share price also affected by the instability of the government.	4.06
12	Information on favorable future prospect would increase market price of share.	3.20
13	Share price decreases with the increase in liquidity in market.	2.68
14	Share price reacts positively/ negatively with the change in	4.22

	management.	
15	Better capital structure results higher share price.	2.82
16	Annual general Meeting and the election of board of director influence the share price.	2.60
17	Rumors and whims affects share price.	3.84
18	The share price is also affected by right issue	2.58
19	NRB regulation and monitoring steps affects the share price.	4.14

Source: Appendix 5

From the above primary questionnaire asked to the investors, researchers and management students. Among them average respondents gave following response, which is presented below:

The strongly agreed statement is as follows:

I	Higher the DPS/ cash dividend, higher would be the share price.
II	Higher the cost of equity (K_e) reduces the share price.
III	Share price also affected by the instability of the government.
IV	If interest/reinvestment rate(r) increases, share price also increases.
V	Information on favorable future prospect would increase market price of share.
VI	Regulation and monitoring steps of NRB influence the share price.
VII	Higher the retention ratio, better the market price of share.
VII I	Share price reacts positively/ negatively with the change in management.
IX	Annual general Meeting and the election of board of director influence the share price
X	Rumors and whims affects share price
XI	NRB regulation and monitoring steps affects the share price.

The above statement has just only agreed that higher cash dividend would increase the share price. Increase in interest/ reinvestment rate also effects in share price. The high retention ratio also leads to the better market price. The

respondents also agreed that higher cost of equity (k_e) reduces the share price. Market price of share is strongly affected by dividends than retained earnings. The change or instability of the government also affects the share price. A company's risk also affects the share price and the information on favorable future prospect increases the market price of share. Regulation and monitoring steps of NRB also influence the share price. Share price are mostly affected by rumors and whims. This shows that share price are affected by cash dividend, interest rate, dividends, political instability, company's risk, information regulation and monitoring steps and rumors and whims.

The disagreed statement is as follows:

I	Lower the growth rate (g) of a company, higher would be the share price.
II	Larger companies have higher share price.
III.	Higher the book value per share, higher would be the share price.
IV	Better capital structure results higher share price.
V	The share price is also affected by right issue

The above statement states that the lower growth rate of a company and higher book value does not have higher share price. It also explains that larger companies do not have higher share price. It also explains that better capital structure alone do not results higher price. Thus, lower growth rate, higher book value per share, better capital structure does not affect the share price.

4.5 Major findings of the study

1. The findings from the data are as follows:

Because of the different nature of the data, the major findings of the study are presented separately for the secondary data analysis and primary data analysis.

1. The study shows that the CV of MPS in SBL is high among the selected banks. There is high risk associated in market price of share for the investors and shareholders of this bank. The CV of MPS in EBL and SCBNL is low which indicates that there is low risk involved in market price of share.
2. The CV of EPS in SCBNL is the highest, who mean that SCBNL's common stock, are riskier as compared to other banks. The CV of BOKL is lower comparing with others and it is less risky among all.
3. The CV of DPS in SBL is the highest and EBL and SCBNL have the lowest. Thus, it can be concluded that SBL has higher fluctuation in DPS among all selected banks. The least CV of EBL and SCBNL indicates that EBL and SCBNL have the highest consistency in paying dividend.
4. The SCBNL has the highest and BOKL has the lowest CV of BVPS respectively. The CV of SCBNL shows that there is fluctuation in BVPS and CV of BOKL shows lower fluctuation among the sampled banks.
5. The correlation analysis shows there is high degree of positive relationship of MPS with DPS among all other different variables.
6. The simple regression analysis of MPS on EPS shows that the MPS of BOKL is highly affected by EPS than the other banks and MPS of SCBNL has least affected by EPS.
7. The simple regression analysis of MPS on DPS shows that MPS of SBL is highly affected by DPS than the other banks.
8. The simple regression analysis of MPS on BVPS shows that MPS of EBL is highly affected by BVPS than other banks and MPS of SCBNL is lightly affected by BVPS
9. The coefficient of multiple determinations shows MPS of EBL totally and BOKL is highly influenced by the joint effect of EPS, DPS and BVPS and there is a lesser amount of variation in MPS of NIBL.

2. The findings from the survey are as follows:

1. The primary analysis shows that financial reports of companies listed on stock exchange helps in identifying over or undervalued securities. To change the share price of a company, publication of financial report has greater value. Only minority of the respondents support the future price change of a share can be predicted from historical price changes. The majority of the respondents support the statement that public /listed companies are not serious towards shareholder's interests. Minority of the respondents support that NEPSE and Securities Board are able to protect investor's interest effectively.
2. On the specific opinion about the factors affecting the share price in commercial banks in Nepal, EPS was the most agreed observation. It means that share price is strongly affected by EPS.
3. The responses shows cash dividend, interest rate, political instability, risk of the company, information, rumors and whims, also affect the share price.
4. The responses shows lower the growth rate of company, higher the book value per share, better capital structure and right issue do not have higher share price.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter consists of three sections; first section provides the summary of the study, the second draws the conclusion of the study and the final section proposes recommendation to deal with the problems observed on the basis of findings.

5.1 Summary

The Nepalese capital market is in growing stage. Average citizens and investors have not proper ideas about the capital market, share, book value, par value, market price, pricing mechanism and the factors affecting the market price of shares. They are willing to invest, but are not able to do so due to lack of knowledge, in this subject. In spite of that, the listed companies in the capital market are suffering. The policy and view of every major party who ruled the government have different towards capital market. Hence, policy and priority has also changed with changed in government. Government has not given priority for the development of capital market even though it was in the priority list in the tenth five-year plan and interim 3-year plan also. Government is not able to create implementation, for the capital market development. As a result, there is not adequate transparency in the performances of the listed companies and the capital market due to which the capital market is struggling to become matured. The stock investors have not proper education and information to speculate the share price. The study is focused on the determinants of stock price in commercial banks. The major objectives of the study are to identify factors affecting share price, to analyze correlation among various financial indicators and to identify qualitative factors affecting the stock price listed in NEPSE.

To meet the desired objectives, the correlation of the quantitative factors, EPS, DPS, and BVPS with MPS by correlation analysis is identified. The regression of factors EPS, DPS and BVPS with MPS were employed for the analysis and interpretation of the collected secondary data.

Whereas, to identify the qualitative factors affecting the market price of shares, the primary data has been used that was collected from the research questionnaire. From the secondary data analysis it is known that there is not consistent performance in the relationship of MPS with EPS, DPS and BVPS for the 5 sampled banks. The MPS largely depends on EPS and BVPS. The correlation of MPS shows the positive correlation between all the variables taken in consideration. The simple regression analysis of MPS on EPS shows that regression coefficient (b) is positive for all sample banks. The r^2 of BOKL is highest and is lowest for SCBNL. This means the MPS of BOKL is highly affected by EPS than the other banks. The simple regression analysis of MPS on DPS shows that regression coefficient (b) is positive for all sample banks. The r^2 of SBL is highest which means MPS of SBL is highly affected by DPS than other banks. The r^2 of BOKL shows that MPS of BOKL is least affected by DPS.

The simple regression analysis of MPS on BVPS shows that regression coefficient (b) is positive for all sample banks. The r^2 of EBL is highest which explain that MPS of EBL is highly affected by BVPS than other banks. The r^2 of BOKL is lowest which explains that MPS of BOKL is lightly affected by BVPS. From the primary data analysis, factors affecting the market price of share in NEPSE are identified. Such internal factors affecting the share price are earnings, book value, dividend payment, growth rate, and risk associated with the company. Similarly, there are other environmental factors affecting the market price of share. Such environmental factors affecting the share price are government instability, information, rumors and whims. NEPSE is in primitive

stage and it has not significant effect of interest rate, retention ratio, and cost of equity, market liquidity, and change in management.

5.2 Conclusion

This thesis paper addressed stock price determination in commercial banks in context of Nepal. It shows how share price are affected by different variables. The study is based on 5 sample commercial banks whose stocks are listed in Nepal stock exchange and traded in stock market. The above-mentioned major findings show that the market price per share has high degree of positive relationship with EPS and BVPS in all sample banks. The simple regression analysis shows BOKL is highly affected due to EPS and SCBNL is least affected by EPS besides several other factors. MPS of SBL is highly affected by DPS and BOKL is least affected due to DPS.

MPS of EBL is highly affected by BVPS and BOKL is least affected by BVPS. In most of the cases, EPS and BVPS explain the positive changes in MPS. The multiple regression analysis shows the high degree of closeness in BOKL, EBL, SCBNL and SBL among the sampled banks and variation in MPS is due to the joint effect of change in EPS, DPS and BVPS. NIBLL has least variation in MPS due to the joint effect of change in EPS, DPS, and BVPS. The risk per unit of return for investors and total risk are different in different sample banks, which have been shown by the coefficient of variation and standard deviation respectively. Earnings, book value, dividend payment, growth rate, and risk associated with the company information disclosed, political stability are the major factors affecting the share price in NEPSE, according to the respondents of the survey. Interest rate, retention ratio, cost of equity, market liquidity, change in management do not significantly affect the share price in NEPSE.

5.3 Recommendations

Based on this study, the major recommendations are as follows:

1. The Nepalese stock market (NEPSE, SEBON and NRB) should take some effective initiatives to control random fluctuation of MPS and establish the system of regular monitoring and evaluation of stock market, so that investors would be assured on the NEPSE, SEBON and NRB.
2. People in Nepal have shown the tendency to run after those companies, which have allocated higher bonus, right share, probably at the cost of future growth and opportunities. People invest their hard money on the basis of rumors and hearsay that are spread in financial market rather than intuitive rational financing thinking. Therefore, there is need of credit rating agencies and investment banks to analyze the companies.
3. The companies should provide updated reports to the investors periodically informing actual financial position of the company.
4. There is necessity of separate body to analyze strengths and weakness of public companies, which should disclose right information and suggestions to public investors about investment risk. This will help the investors to take proper investment decision at the right time to avoid or minimize the level of risk. The NEPSE, SEBON and NRB should be able to protect investor's interest effectively.
5. Government should formulate and implement a rigid rules and regulation for further development of share market. A mechanism to take immediate action for the faulty company is to be established.
6. The ultimate objective of any firm is to maximize the wealth position of its investors, which largely depends upon the proper trends of EPS, DPS, BVPS and other dominant variables. This reality should be well imparted to the investors in order to make them rational in the field of investment for which the public companies themselves should frequently launch their well- designed awareness campaigns.
7. The future study can be conducted by using more sample size, advanced, methodology, large no. of observations and by including more respondent's opinion.

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APPENDICES

APPENDIX -1

Calculation of Data

Calculation of Mean, S.D. and CV of selected banks

(Model Summary)

1. Bank of Kathmandu Limited

Year	MPS	EPS	DPS	BVPS
2005/06	850.00	43.67	48.00	230.67
2006/07	1,375.00	43.50	20.00	164.68
2007/08	2,350.00	59.94	42.11	222.51
2008/09	1,825.00	54.68	47.37	206.25
2009/10	840.00	43.08	30.00	175.40
Mean	1,448.00	48.98	37.50	199.90
S.D.	511.60	6.67	10.00	23.89
C.V.	0.35	0.14	0.27	0.12

Source: Bank of Kathmandu Limited (2009/10), Annual Report:

Kathmandu.

2. Everest Bank Limited

Year	MPS	EPS	DPS	BVPS
2005/06	1,379.00	62.78	25.00	217.67
2006/07	2,430.00	78.42	40.00	280.82
2007/08	3,132.00	91.82	50.00	321.77
2008/09	2,455.00	99.99	60.00	345.23
2009/10	1,630.00	100.16	60.00	331.99
Mean	2,205.20	86.63	47.00	299.50
S.D.	560.56	12.83	11.60	40.20
C.V.	0.25	0.15	0.25	0.13

Source: Everest Bank Limited (2009/10), Annual Report: Kathmandu.

3. Nabil Bank Limited

Year	MPS	EPS	DPS	BVPS
2005/06	2,240.00	129.21	85.00	381.00
2006/07	5,050.00	137.08	140.00	418.00
2007/08	5,275.00	108.31	100.00	354.00
2008/09	4,899.00	106.76	85.00	324.00
2009/10	2,384.00	78.61	70.00	265.00
Mean	3,969.60	111.99	96.00	348.40
S.D.	1,326.08	16.92	19.20	43.12
C.V.	0.33	0.15	0.20	0.12

Source: Nabil Bank Limited (2009/10), Annual Report: Kathmandu.

4. Siddhartha Bank Limited

Year	MPS	EPS	DPS	BVPS
2005/06	360.00	13.50	-	120.63
2006/07	778.00	15.88	15.79	132.28
2007/08	1,090.00	17.29	15.79	129.03
2008/09	1,000.00	22.89	15.79	207.81
2009/10	444.00	1.99	8.42	146.44
Mean	734.40	18.31	11.16	147.24
S.D.	265.92	3.30	5.56	24.23
C.V.	0.36	0.18	0.50	0.16

Source: Siddhartha Bank Limited (2009/10), Annual Report:
Kathmandu.

5. Standard Charter Bank Nepal Limited

Year	MPS	EPS	DPS	BVPS
2005/06	3,775.00	175.84	140.00	468.22
2006/07	5,900.00	167.37	130.00	512.12
2007/08	6,830.00	131.92	130.00	401.52
2008/09	6,010.00	109.99	100.00	327.53
Mean	5,158.80	132.55	114.00	390.07
S.D.	1,305.44	31.24	23.20	84.66
C.V.	0.25	0.24	0.20	0.22

Source: Standard Charter Bank Nepal Limited (2009/10), Annual Report: Kathmandu.

6. Over All

	MPS	EPS	DPS	BVPS
Mean	2,703.20	79.69	61.13	277.02
S.D.	1,585.70	38.55	35.10	91.36
C.V.	0.59	0.48	0.57	0.33

Note: The above values are calculated by using Microsoft Excel software.

APPENDIX -2
Correlations Analysis
(Model Summary)

1. Bank of Kathmandu Limited

	MPS		EPS		DPS		BVPS	
	r	r ²	r	r ²	r	r ²	r	r ²
PS	1.00	1.00	0.94	0.89	0.24	0.06	0.29	0.08

2. Everest Bank Limited

	MPS		EPS		DPS		BVPS	
	r	r ²	r	r ²	r	r ²	r	r ²
MPS	1.00	1.00	0.40	0.16	0.36	0.13	0.53	0.28

3. Nabil Bank Limited

	MPS		EPS		DPS		BVPS	
	r	r ²	r	r ²	r	r ²	r	r ²
MPS	1.00	1.00	0.29	0.09	0.63	0.40	0.38	0.15

4. Siddhartha Bank Limited

	MPS		EPS		DPS		BVPS	
	r	r ²	r	r ²	r	r ²	r	r ²
MPS	1.00	1.00	0.28	0.08	0.88	0.78	0.42	0.18

5. Standard Charter Bank Nepal Limited

	MPS		EPS		DPS		BVPS	
	r	r ²	r	r ²	r	r ²	r	r ²
MPS	1.00	1.00	0.81	0.65	0.88	0.78	0.80	0.63

6. Over All

	MPS		EPS		DPS		BVPS	
	r	r ²	r	r ²	r	r ²	r	r ²
MPS	1.00	1.00	0.81	0.65	0.88	0.78	0.80	0.63

Note: The above values are calculated by using Microsoft Excel software.

APPENDIX -3
Simple Regression Analysis
(Model Summary)

1. Bank of Kathmandu Limited

a.) MPS on EPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
- 2,379.33	78.15	0.89

b.) MPS on DPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
976.45	29.98	0.06

c.) MPS on BVPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
139.59	6.55	0.08

2. Everest Bank Limited

a.) MPS on EPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
664.44	17.78	0.16

b.) MPS on DPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
1,395.89	17.22	0.13

c.) MPS on BVPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
53.57	7.18	0.28

3. Nabil Bank Limited

a.) MPS on EPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
1,785.52	19.50	0.09

b.) MPS on DPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
531.43	35.81	0.40

c.) MPS on BVPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
645.18	10.06	0.15

4. Siddhartha Bank Limited

a.) MPS on EPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
314.92	22.91	0.08

b.) MPS on DPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
276.86	41.01	0.78

c.) MPS on BVPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
162.66	3.88	0.18

5. Standard Charter Bank Nepal Limited

a.) MPS on EPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
4,179.18	7.39	0.04

b.) MPS on DPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
2,637.96	22.11	0.17

c.) MPS on BVPS

Constant Coefficient (a)	Variable Coefficient (b)	Coefficient of Determination (r^2)
3,273.45	4.83	0.12

Where;

MPS: Dependent Variable

EPS: Independent Variable

DPS: Independent Variable

BVPS: Independent Variable

Note: The above values are calculated by using Microsoft Excel software.

APPENDIX -4
Multiple Regression Analysis
(Model Summary)

MPS on EPS,DPS & BVPS

Banks	Constant Coefficient (a)	Variable Coefficient (b ₁)	Variable Coefficient (b ₂)	Variable Coefficient (b ₃)	Coefficient of Determination (r ²)
BOKL	-2,788.82	90.53	-24.61	3.63	0.97
EBL	-9,239.81	41.11	-253.49	66.10	1.00
NIBL	1,149.86	-49.41	47.80	10.81	0.47
SBL	372.13	-30.96	41.90	3.13	0.83
SCBNL	119.86	-151.59	93.54	37.09	0.83
OVER ALL	343.05	-8.06	46.70	0.53	0.78

Where;

MPS: Dependent Variable

EPS: Independent Variable

DPS: Independent Variable

BVPS: Independent Variable

Note: The above values are calculated by using Microsoft Excel software.

APPENDIX- 5

Dear respondent it is a partial fulfillment of the requirement for the Degree for Master' of Business studies (M.B.S) so all the answer, whatever you give putting confidently.

Pro- forma of Structured Questionnaire

A survey of share price determinants in Commercial Banks

Name (optional):

Position:

Institution:

1. Publication of Financial reports changes a company's share price.

a) Yes.....b) No.....c) Don't Know.....

2. Financial reports are useful in identifying over or under valued securities.

a) Yes.....b) No.....c) Don't Know

3. Public listed companies are not serious towards shareholders interest.

a) Yes.....b) No.....c) Don't Know

4. NEPSE and Securities Board are able to protect investor's interest effectively.

a) Yes.....b) No.....c) Don't Know

5. Future price changes of a given share can be predicted from historical price changes? How far do you agree/ disagree with the following statements? Please tick- mark at the appropriate number as per following scheme;

1. Strongly Disagree

2. Disagree

3. Don't Know

4. Agree

5. Strongly Agree

S.N	Statement	1	2	3	4	5
1	Higher the EPS, higher would be the share price.					
2	Higher the DPS/cash dividend, higher would be the share price.					
3	Lower the growth rate (g) of the company, higher would be the share price.					
4	Higher the retention ratio, better the market price of share.					
5	Higher the cost of equity (Ke) reduces the share price.					
6	If interest/reinvestment rate (r) increases, share price also increases.					
7	Larger companies have higher share price.					
8	Dividends have stringer effect in market price of share					

9	Higher the book value per share, higher would be the share price.					
10	Higher the risk associated with a company, higher would be the share price.					
11	Share price also affected by the instability of the government.					
12	Information on favorable future prospect would increase market price of share.					
13	Share price decreases with the increase in liquidity in market.					
14	Share price reacts positively/ negatively with the change in management.					
15	Better capital structure results higher share price.					
16	Annual general Meeting and the election of board of director influence the share price.					
17	Rumors and whims affects share price.					
18	The share price is also affected by right issue					
19.	NRB regulation and monitoring steps affects the share price.					

Classification of Respondents

Basis of Classification	Number	Percentage
Professional Investor	25	50
Potential Investors (Management students)	20	40
Market Analyst	5	10
Total	50	100

Response from different respondent

	Response		
	Yes	No	Don't No
Q. N. 1	37	8	5
Q. N. 2	46	2	2
Q. N. 3	35	10	5
Q. N. 4	20	30	0

Source: Field Survey 2011.

Response from different respondent

S.No.	Statement	1	2	3	4	5	Total	Mean Value
1	Higher the EPS, higher would be the share price.	1	1	4	6	38	50	4.58
2	Higher the DPS/cash dividend, higher would be the share price.	1	2	4	8	35	50	4.48
3	Lower the growth rate (g) of the company, higher would be the share price.	6	15	17	8	4	50	2.78
4	Higher the retention ratio, better the market price of share.	4	5	20	13	8	50	3.32
5	Higher the cost of equity (Ke) reduces the share price.	3	5	5	10	27	50	4.06
6	If interest/reinvestment rate (r) increases, share price also increases.	4	6	15	12	13	50	3.48
7	Larger companies have higher share price.	15	10	15	1	9	50	2.58
8	Dividends have stringer effect in market price of share	3	3	4	18	22	50	4.06
9	Higher the book value per share, higher would be the share price.	3	18	18	5	6	50	2.86
10	Higher the risk associated with a company, higher would be the share price.	3	7	19	18	3	50	3.22
11	Share price also affected by the instability of the government.	3	3	7	12	25	50	4.06
12	Information on favorable future prospect would increase market price of share.	6	5	17	17	5	50	3.20
13	Share price decreases with the increase in liquidity in market.	6	17	18	5	4	50	2.68
14	Share price reacts positively/ negatively with the change in management.	3	2	3	15	27	50	4.22
15	Better capital structure results higher share price.	1	20	20	5	4	50	2.82
16	Annual general Meeting and the election of board of director influence the share price.	21	5	9	3	12	50	2.60
17	Rumors and whims affects share price.	4	4	10	10	22	50	3.84
18	The share price is also affected by right issue	8	16	17	7	2	50	2.58
19.	NRB regulation and monitoring steps affects the share price.	3	3	5	12	27	50	4.14

Source: Field Survey 2011.

Where,

$$\text{Mean Value} = \frac{\alpha + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + b_5 x_5}{n}$$

= Constant value (assuming zero)

$b_1, b_2, b_3, b_4, \& b_5$ = Point's values

$x_1, x_2, x_3, x_4, \& x_5$ = Numbers of observed results

n = Total number of observations

The mean value = strongly disagree < 3 < strongly agree.