

# CHAPTER - I

## INTRODUCTION

### 1.1 Background of the study

Capital formation affects the economy of any nation. Capital is an important constituent to accelerate the economic growth of the country. For the establishment, operation, growth and existence, corporations need massive amount of capital. And the problem of underdeveloped country like Nepal is rareness of capital. Nepal where saving capacity is very remains very low and thus investment, capital formation is a big blow to the economic growth. In this situation the financial institution like bank and capital market can be the best medium to collect the scattered saving and utilize it in a productive manner .Financial intermediation between borrowers and savers is done by Commercial banks. This credit market enables debt financing for investments. An alternative method of intermediation is through equity financing (Tuladhar,1996).

Stock market is a destination where investor can make investment in different sectors as s/he desires. Investor seeks secured and profitable sector and firm where s/he could make relatively the best benefit. Therefore, a rational investor watches out for better and the best firm to invest in the stock market. Firms and organizations therefore should have fine financial position to attract the potential investors and the other stakeholders. Financial performance can be defined as the heart of financial decision. The achievement and development of a firm is fully affected by the financial performance. As a part of financial management it is the main indicator of success and failure of a firm. Financial conditions of a firm should be sound from view points of shareholders, debenture holders and other stakeholders of the firm.

“Financial performance analysis is the process of indentifying the financial strengths and weakness of the firm by properly established relationship between the items of the balance sheet and the profit and loss account”, (Pandey,1996) Thus, financial analysis is the main qualitative judgment process of identifying the financial strengths and weakness of the firm by properly established relationship between the items of balance sheet & Profit & Loss account.” So financial performance analysis of a firm consists of different kinds of indicators out of which financial statements analysis, ratio analysis, sources of

uses of fund are the major indicators to measure the strength & weakness of a firm. In financial analysis, ratio analysis is used for evaluating the financial position and performance of the firm. A ratio is defined as the indicated quotient relationship between two or more figures. In this study it is mainly focus on the ratios such as earning per share (EPS), dividend per share (DPS), book value per share (BPS) and market price per share (MPS) of an organization. Where MPS is considered as dependent variable and DPS, BPS and EPS are considered as independent variables as well as financial indicators. The study has performed to find out the functional relationship between the dependent and independent variables of the sample companies individually.

In the capital structure of any firm, the portion of share/equity capital is obviously higher than that of other components. This equity capital is raised from the promoters and the investors. Here the important considerable point is that why investors want to invest in any firm is the very desire of having increased wealth. Therefore, corporation's prime concern is to yield higher return for its investors. For this, corporations must have strong profitability index. The degree of investor's welfare is represented by the price of equity, they hold. Equity price is only the measuring rod, which shows corporation's strength in generating returns over its capital employed. The main issue of this study is to explore the financial determinants of equity price in the context of Nepal stock exchange.

Generally, it is assumed that stock prices move randomly i.e. unidentified movement; however, the basic track that the prices take is due to the performance related indicators of the corporations. Needless to say, earning per share indicates the profitability of the corporations, dividend per share reflects the direct cash benefit to the investors, net worth or book value per share signifies the real value of shares. In fact these variables provide the real way for the stock price movement.

### **Historical development of capital market in Nepal**

The process of stock market development in Nepal started in 1976 when the government established Securities Marketing Centre (SMC) to provide and develop market for securities, both the government bonds and corporate securities. SMC started secondary trading of securities in 1981, which was limited to government bonds. The Securities Exchange Act, 1983 was enacted in 1983 in order to regulate the trading of securities. The Act restricted the exchange of unlisted securities. The SMC was renamed Securities Exchange Centre (SEC) in 1984. The SEC was the only institution at that time managing

and operating primary and secondary markets of long-term government and corporate securities (Thapa, 2011).

The Nepalese security markets got further impetus by the establishment of Securities Board of Nepal (SEBO) in 1993 with a mandate to regulate and develop the securities markets. SEBO started to register securities and grant approval for issuing securities to the public in 1993. However, the significant impact could be seen only after the conversion of SEC into Nepal Stock Exchange Limited (NEPSE) and opening of a full-fledged stock exchange in January 13, 1994.

Nepal's security market is too small and provides less number of investment alternatives; common stocks and government securities are popular alternatives but bond and preferred stocks can rarely be found. There are 227 companies listed in NEPSE under nine industrial categories till fiscal year 2011/12.

## **1.2. Focus of the study**

Investor invests in stock with the hope of getting better return on future. One is ready to pay higher price for a stock on the basis of some expectations which is backed by the corporate performance of the company in the past years. Corporate performance under this study refers the financial performance of a company. Financial performance is the out come of the financial decisions taken by the management of the company. The impact of these decisions is reflected in the profitability of the company. Everyone is interested to invest in those companies, which has better prospect in future. This makes the value of better performing company's stock to increase. On the other hand the stock price of poor performing companies declines. This phenomenon, in Nepalese context, is the primary focus of this study.

The study will mainly focus into the major financial performance indicators such as EPS, DPS and BPS which are generally considered important for the investors. Efforts will be made to analyze the stock price with respect to the change in the indicators.

## **1.3. Statement of the problem**

The capital market has emerged tremendously providing options to various investors after the adoption of liberal economy policy in early nineties. The over subscription in

the market shows people are optimistic about the investment in share capital. Particularly after the establishment of Nepal stock exchange the capital market has grown rapidly with in a short span of time. However the attitude, thoughts and knowledge of most of investors has not changed. Most of the investors are not seemed to be aware of financial position of the companies in terms of financial indicators in which they are going to invest their fund through capital market. On the other hand theory explains that the stock price is guided by the financial performance of the company. If the company does very well the value of its common stock will increase and vice versa (Weston & Copeland, 1992). A financial sound and better performing company should lead the price and trade volume in the market. Further theory states that in an efficient market condition stock price reflects all the information. In other words, in an efficient market, since the buyers and sellers are fully aware of facts and figures of the company, stock price equal to its intrinsic value but here the case is different.

The common characteristics of imperfections like lack of public awareness towards the market, unavailability of timely information, lack of transparency, lack of market experts does exist in the Nepalese capital market. This reveals that the Nepalese capital market is not a perfect market. This makes the market rumour oriented. Where the price rises and falls without sufficient reason to support. The mismatch between the share price and the net worth of the company may prevail which can be very unhealthy for the shareholders, as few people can easily manipulate the whole trading. Thus, the statement of the problem of the study can be stated as under:

Does the market price of the stock represent the financial performance of the company?  
Is the increase in price change an outcome of performance?  
How DPS, BPS & EPS are correlated with MPS?

#### **1.4. Objective of the Study**

The primary objective of the study is to study the behavior of the stock price of the company with respect to its financial performances. The following attempts will be made with a view to fulfill the primary objective:

- ) To explore the major financial indicators that influence market price of the share on the secondary market (NEPSE).
- ) To examine and evaluate the relationship of financial indicators with the market price of the share.

## 1.5. Hypothesis

In testing of hypothesis, an assumption is made about the population parameter. Simply, a quantitative statement about the population parameter is called hypothesis. It is one of the important application of statistical inference is test of hypothesis. To test whether the assumption or hypothesis is right or not or the hypothesized value or test is significantly difference or indifference. Smaller the difference, the sample mean is close to the hypothesized value and larger the difference, the hypothesized value has low chance to be correct. The objective of the hypothesis testing is not to question about the computed value of sample statistic, but the difference between the sample statistic and population parameter.

### Null Hypothesis:

In the decision making procedure, first of all the Null hypothesis is stated which is denoted by  $H_0$ . The null hypothesis means hypothesis of no difference. It is usually set for the express purpose of being rejected. In this study, Null hypothesis is set as

Null Hypothesis ( $H_0$ ):  $\rho = 0$  i.e. There is no significant correlation between the variables.

In this study we have the following null hypothesis

1. Null Hypothesis ( $H_0$ ) :  $\rho = 0$  (There is no significant correlation between MPS and DPS.)
2. Null Hypothesis ( $H_0$ ) :  $\rho = 0$  (There is no significant correlation between MPS and BPS.)
3. Null Hypothesis ( $H_0$ ) :  $\rho = 0$  (There is no significant correlation between MPS and EPS.)

### Alternative Hypothesis

The researchers also have to specify a hypothesis that will be accepted if null hypothesis is rejected. Such hypothesis is called alternative hypothesis. It is denoted by  $H_1$  or  $H_A$ . It should be noted that alternative hypothesis is a mutually exclusive and complementary statement of null hypothesis. In this study, Alternative hypothesis is set as

Alternative Hypothesis ( $H_1$ ):  $\rho \neq 0$  i.e. there is significant correlation between the variables.

In this study we have the following Alternative hypothesis

1. Alternative Hypothesis ( $H_1$ ):  $\rho \neq 0$  (There is significant correlation between MPS and DPS.)

2. Alternative Hypothesis ( $H_0$ ):  $\rho \neq 0$  (There is significant correlation between MPS and BPS.)
3. Alternative Hypothesis ( $H_0$ ):  $\rho \neq 0$  (There is significant correlation between MPS and EPS.)

### **Level of significance**

After setting the null and alternative hypothesis, next step is decide the criteria to decide whether to accept or reject the null hypothesis. The objective of hypothesis testing is not to question about the computed value of sample statistic, but the difference between the sample statistic and population parameter. Furthermore, it is the test to find out the difference between sample statistic and population is insignificant or significant. It determines the difference lies within the limit and null hypothesis is accepted and vice versa. It is also the percentage of sample means that is outside certain limit (confidence limit) when the hypothesis is correct. The region beyond the acceptance region is called the rejection region because the difference lies above or below the confidence limit and it is considered as significant and the null hypothesis is rejected and alternative hypothesis is accepted. The 5% rejection region on both sides is defined as the probability of rejection the null hypothesis when it is true (Type I error) and accepting the null hypothesis when it is wrong (type II error). In addition to that, if there are two possibilities to reject the null hypothesis, when it lies below region as well as upper limit called tailed test. If there is only one chance to reject the null hypothesis either it lies below region or upper limit.

### **1.6. Significance of the study**

Rational investor always makes his/her investment on the basis of the study on financial performances of the companies in which they are going to invest. Moreover the relationship between the financial performance and stock prices helps to understand the trend in the market, which is of immense importance to those who are interested to invest in the securities. Therefore, this study will be helpful to all kinds of investor to make rational investment decision. It will put some light on the consideration of financial performances of the companies before purchasing and selling the securities and avoid the trend of trial and error method. It is expected that this study on 'Impact on financial performances on stock price' will be able to serve valuable information to

- ) Potential Investors, Investors, policy makers, corporate bodies, shareholders and academics.
- ) Future researcher by providing important information and output in this field.

### **1.7. Limitations of the Study:**

Each study is conducted under some constraints and limitations. The present study also can not remain free from limitations. Some of the limitations of the present study are as follows:

- I. This study is mainly concerned with banking and finance sectors, which are listed in NEPSE.
- II. Among various financial indicators, only three most popular financial indicators are taken under consideration to assess their combined effect on stock price.
- III. The study is mainly based on secondary data. It will be guided by the secondary data available from official WebPages of NEPSE, SEBON, SEBON Library, annual reports of SEBON and NEPSE.
- IV. This study covers only selected companies stocks listed in NEPSE.
- V. The study covers only the last six fiscal years data of the selected companies.

### **1.8. Organization of the study**

The entire study has been divided into five chapters and is presented below:

#### **Chapter I: Introduction**

The first chapter is an introductory chapter, which comprises of general background shedding lights on Nepal's security market and its history. This is followed by statement of the problem, focus, objectives, significance, limitations and organization of the study.

#### **Chapter II: Review of Literature**

Review of literature forms the second chapter of the study. This chapter is devoted to the theoretical analysis and brief review of related and pertinent literature available. Thus, it includes a discussion on the conceptual framework and review of some empirical studies.

### **Chapter III: Research Methodology**

Research Methodology forms chapter three. This chapter describes the research design, population and sample, sources of data and tools used to analyze the data.

### **Chapter IV: Data Presentation and Analysis**

Fourth chapter is related to the proposed title. It comprises of the presentation, analysis and interpretation of data pertinent to the subject matter of the study following the definite courses of research methodology. This chapter also outlines the major findings of the study.

### **Chapter V: Summary, Conclusions and Recommendations**

Summary, conclusions and recommendations of the study have been placed in the fifth chapter. It comprises the summary of the study following with the conclusion drawn from the findings. Recommendation has been presented for consideration.



## CHAPTER - II

### REVIEW OF LITERATURE

For the purpose of review of literature, the various books, articles and thesis are reviewed. The relevant articles of Pettit and Mitchell & Mulherin have been adopted, similarly the relevant thesis from 2004 to 2011 are reviewed to develop some expertise in one area, to see what new contribution can be done and to enlighten in research issue.

#### 2.1 Financial performance

Financial performance is the result of the financial decisions taken by the management of the firm. In modern time the financial manager's objectives is to maximize the shareholders wealth. To achieve this objective financial managers involve in decision making regarding the investment activities, financing activities and dividend policy of any firm (pandey,1999). The outcome of the execution of these decisions is reflected in the financial statement of the company.

Understanding of financial performance of a company requires financial performance analysis. Financial performance analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account (Pandey,1995) The information contained in these statements is useful for investors to form expectation about the future earnings, dividends and about the riskiness of the expected values.

Ratio analysis is commonly used tool to evaluate the financial performance of a firm. A ratio is the relationship between the variables. Analysis and interpretation of the various ratios provides meaningful understanding of the financial position of a firm. Hence, financial analysis largely depends upon the use of ratios as one of the convenient tool among the various tools available.

Financial performance analysis is undertaken by all the stakeholders-management, creditors, owners and potential investors. They concentrate on various aspects to be evaluated for their own purpose. Shareholders and potential investors who are going to invest their money on share capital of a firm are concerned primarily with the firm's profitability index. Specifically they are concerned on present and future earnings, distribution of earnings, value per unit of share, growth and risk associated.

#### 2.2 Common Stock

Common stock represents an ownership position. The holders of common stock are the owners of the firm, have the voting power that among other things, elects the board of directors, and have a right to the earnings of the firm after all expenses and obligations have been paid; but they also run the risk of receiving nothing if earnings are insufficient

to cover all obligations (Fisher & Jordan, 2000) In addition to voting rights, common shareholders sometimes enjoy what are called "preemptive rights." Preemptive rights allow common shareholders to maintain their proportional ownership in the company in the event that the company issues another offering of stock. Although common stock entitles its holders to a number of different rights and privileges, it does have one major drawback: common shareholders are the last in line to receive the company's assets either in receiving dividend or in the event of liquidation.

Stockholders hope to receive a return based on two sources i.e. dividends and capital gains. Dividends are received only if the company earns sufficient money and capital gains arise from an advance in the market price of the common stock, which generally associated with a growth in per-share earnings.

### 2.3 Market Price Per Share

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

The market price of share gives the value of shares, ad the value of the organization. The market price of shares is that price in which share is traded or the amount which is paid by the buyer to the seller to purchase the stock of company. The market price of shares varies from one company to other. Since, the common stock holders as the owner of the organization and have least priority to claim in liquidation, the share price is highly volatile and very sensible to environmental factors. An organization has two types of environment, i.e. internal and external. The environment within the organization is called internal environment and is somehow in control of the organization. So the organization tries to maintain the favorable environment to maximize the share price in stock market. On the other hand, external environmental factors are not within the control of the organization, but such forces highly affect the market price of share. So, the firm tries to adjust themselves according to the changing environmental forces, and such adjustments are indented to maximize the share price of the value of the firm.

Since the market price of shares is very much sensitive to the environmental forces, the shares price increases if there is favorable environment and vice versa. This increase in share price is based on the market mechanism, or market forces i.e. demand and supply. If the earning and divided of an organization increases, then the investors have positive perception towards the organization and they like to buy the shares of the organization,

as a result demand increases. On the other hand, the supplier likes to hold the shares and supply decreases, and there is gap between demand and supply, so, the market price of the shares increase. Since different person analyze the same situation differently with their level of knowledge. The investors determine the share price they would like to pay for the shares of an organization where as the sellers determine the price they would like to receive by selling shares based on their assumptions and expectations vary from individual to individual.

## 2.4 Financial Performance indicators

Technicians and fundamentalists analyze numerous factors to trace out the track of share price. Along with their conclusions, one emerging concept regarding the stock price is “Random walk theory”. The basic theme of random walk theory is that Market forces determine equity share price. The interaction of demand and supply forces ultimately yield share price if the theory is adopted, the real determinants may be the whole factors, which primarily influence demand and supply. Nevertheless, technical analysis, fundamental analysis and efficient market hypothesis jointly supports to project share price more precisely. It is ideal to follow these three approaches jointly.

However, this study tries to explore the inherent strength from which the share price takes its initial shape. Stocks price fluctuate remarkably on the passage of time. Thousands of factor influence during the trading. It is impossible to cover these all. Therefore, well-known equity related financial indicators are taken under consideration to achieve the objective of this study. It is in practice that firms and companies report some financial indicators as a basic or a measuring rod of their financial health. The popular financial indicators are EPS, DPS and BPS. These financial indicators are tested on the basis of correlation coefficient and regression analysis. If there are proper relationships between the market price of stock and selected financial indicators, these indicators are assumed as the determinants of the share price. Obviously, EPS, DPS and BPS have good relationship (either positive or negative) with MPS. Various theories and model also prove this fact. Therefore, EPS, DPS and BPS are the real determinants of share price.

### 2.4.1 Earning Per Share

It is the most popular financial indicator. It gives close insight about the earning power of the firm. In fact, it is the net profit, represented in terms of per share. Equity shareholder shall receive cash dividend from this EPS. If EPS is not sufficient, shareholders entitle no any cash benefit. Therefore, EPS is assumed as the source of benefit to existing shareholders. It is directly connected with the profitability of the firm.

It reflects the financial performance because higher the amount of net profit more will be the EPS. Investors invest their funds in equity share for future benefit. That is, their prime desire is to achieve higher cash dividend annually. Here notable point is that cash dividend is the product of EPS. Stocks having EPS is more marketable than the stocks having lower EPS. Therefore, EPS is regarded as the root determinant of MPS. EPS always influence MPS positively. It is seen that firms, having zero or negative EPS, have market value below than par. If cash dividend is not distributed form EPS, or the firm retains profit, this also benefits investors because it pushes up the amount of price appreciation. Therefore, EPS is must for every organization to have higher market value of their common stock.

Corporation put their full efforts to maximize the shareholder wealth. One of the most important ways of maximizing the shareholders wealth is to generate higher EPS, which will be sufficient to distribute cash benefit, and to retain for plough back. Cash benefit is the short-term attraction where as retained earnings is long term attraction because it supports to increase net worth per share.

Because of this reasons, EPS, the most popular financial indicator, is taken as the most important determinant of share price.

#### 2.4.2 Dividend per Share

Common stock or share represents the ownership position in a company and the holders of common stocks are the owners who share all the profit and losses of the corporation. In this ground, investor forgoes opportunity in the expectation of receiving handsome of annual return with increased in value of their holdings.

Dividend refers the portion of firm's net earning which are paid out to the shareholders. After the successful completion of business operation, every corporation in each fiscal year reports their financial statement from which new information about the corporation can be gathered. One of the mostly valuable information is net profit. This net profit will be appropriated among various stakeholders i.e. some of its part will be distributed to the stockholders as a cash dividend and some portion will be retained for investment. When cash benefit is distributed, it is direct benefit to the common stockholders and retained earning will benefit them in future by way of having appreciated price of the stock from which investors will be able to achieve capital gain. Therefore, the amount of cash

dividend is highly influenced by corporate profit and the management's decision regarding the distribution of cash dividend.

“When the board of director of a corporation declares a cash dividend, it specifies a date of record. At the close of business that day, lists of stock holder on the list are entitled to the dividend”, (Horne, 2000)

The division of a earning of a company between dividend payout and retention of earning affects the market price of shares or not, is an important question. The prime objective of corporate management is to maximize the value of the company and the market price of shares of the company is considered as a competent variable to indicate the value of the company. However, behavior of market price of share fails to show simple relationship of this nature. The precise effect of dividend policy on market value of share is not at all clear.

In conclusion, DPS influences equity price of short-term basis. Though many theories have suggested that DPS never influence MPS, it reduces fund, which can be plough, backed if not distributed. However, investors are generally tempted to annual cash benefit. The basic reason behind investment in equity shares is to get instant cash benefit. Nevertheless, in our stock market, DPS plays significant role in forming equity price. DPS promotes trading of securities. High trading precisely fixes equity price.

#### 2.4.3 Book Value per Share

Book value per share is also called Net worth per share. It is one of the most popular indicators among numerous financial indicators. BPS indicates the shareholder's wealth in terms of per share. It is the core value of equity. In other words, BPS is shareholders capital, which includes equity contributed by shareholders along with undistributed profit. More precisely, it includes paid up capital, share premium, general reserve, special reserve, capital reserve, sinking fund and any undistributed profit appearing in balance sheet. However, fictitious assets must be deducted while computing shareholder capital.

By definition, there is always positive relationship between market price and BPS. Higher the amount of BPS more will be the amount of MPS. BPS is the net worth of shares out standing. It is a good measuring rod of financial health of any corporation. If net worth per share is less than paid up capital per share, such companies share are less tradable and reliable in the security market. Investors hesitate to buy and sell of such securities. Considering this fact, our study has taken BPS as a principal determinant of equity price.

Financial goal of a firm is to maximize the shareholders wealth. It means that shareholders always prefer increased value of their holding. If net worth is significantly

higher than paid up capital of par value of share, it brings positive information about the company which eventually affects security market. Due to the positive information, security market reports sizable closing price at the day end. Therefore analysts or prospective investors must consider BPS before taking decision regarding the investment in share.

## 2.5 Doctrine of Efficient Market Hypothesis

Professor Eugene Fama profound the three levels of market efficiency after studying the rates of price change in stock price. His study was designed to measure the degree of randomness with which stock price fluctuated.

### The weakly efficient market hypothesis

The weakly efficient market hypothesis stipulates that historical and volume data for securities contain no information which can be used to earn a trading profit above what could be attained with a naive buy-and–hold investment strategy (Francis, 1998).

Weakly efficient markets were defined as markets where past prices provide no information that would allow a trader to earn a return above what could be attained with naive buy- and – hold strategy. This definition means that while traders and speculators may earn positive rates of return, they will not beat a naïve buy-and-hold strategy with information obtained from historical data (Francis, 1998).

### The Semi strong efficient market hypothesis

The Semi strong efficient market hypothesis specifies that markets are efficient enough for prices to reflect all publicly available information. Consequently, only those insiders who have access to valuable information could earn a profit larger than what could be earned by a naive buy-and-hold strategy in a semi strong efficient market (Francis, 1998).

### The Strong efficient market hypothesis

The Strong efficient market hypothesis claims that no one can earn a profit larger than what could be earned with a naive buy-and-hold strategy by trading on short-term security price movements. Security markets can be strongly efficient if the rates of stock price changes are independent random variables and none of the market participants use inside information (Francis, 1998). It suggests that all information, public or not, is fully reflected in security prices.

In the real world, the strong form of efficient market does not exist. The stock markets in most of the developed countries appear in the semi-strong form while the stock markets in the developing countries seem to be in the weak form of efficient market.

## 2.6 Technical analysis

Technical analysis is based on the widely accepted premise that security prices are determined by the supply of, and the demand for, securities. The tools of technical analysis are therefore designed to measure certain aspects of supply and demand. Typically, technical analysts record historical financial data on charts, study these charts in search of patterns to predict future prices. Some charts are used to predict the movements of a single security, others are used to predict the movements of market index, and, still others are used to predict the action of both individual assets and the market. Some of these same charts are also used to predict the fluctuation in the price of a commodity, a foreign exchange or a rate of interest.

A classic book by Edwards and Magee articulated at basic assumptions underlying technical analysis are as follows:

- I. Market value is determined by the interaction of supply and demand.
  - II. Supply and demand are governed by numerous factors, both rational and irrational.
  - III. Securities prices trend to move in trends that persist for an appreciable length of time, despite minor fluctuation in the market.
  - IV. Changes in a trend are caused by the shifts in supply and demand.
  - V. Shifts in supply and demand, no matter why they occur, can be detected sooner or later in charts of market transactions.
  - VI. Some chart patterns trend to repeat themselves.
- (Francis,1998).

## 2.7 Fundamental Analysis theory

Fundamental analysis approach involves working to analyze different factors such as economic influences, industry factors, government action, firm's financial statement, its competitor and pertinent company information like product demand, earnings, dividends and management in order to calculate an intrinsic value for firm's securities. It claims that at any point of time an individual stock has an intrinsic value, which is equal to the present value of future cash flows from the security discounted at appropriate risk adjusted discount rate. "The value of the common stock is simply the present value of all the future income which the owner of the share will receive", (Francis,1986).

The analyst who believes on fundamental facts to determine the intrinsic value of stock is popularly known as fundamentalist.

The objective of fundamental security analysis is to appraise the intrinsic value of a security. The intrinsic value is the true economic work of financial asset. The actual price of security is considered to be a function of a set of anticipation. Price changes as anticipation changes which in turn change, as a result of new information.

Though fundamental analysis approach is used by many security analyst or prospective investors to make a judgment of the stock's value with a risk return framework based upon earning power and the economic environment, it is hard and time consuming work.

## 2.8 Determinants of securities prices

This part explains a security valuation process that quickly absorbs sensational events of the security reported in newspapers and other means. These valuation process shows when the investors take long and short positions in hopes of earning gains for themselves, they become part of the economic force that moves securities prices towards their values. After delving into hedging and arbitrage, we will see that these activities also help align prices and values- they support what economists call the "law of one price". We will see that the decision to take many of these investment positions can be traced to security analyst's value estimates. Value estimates provide the focal point toward which natural economic forces push securities prices

### 2.8.1 The venerable present value model

The process used to find the value of a security varies with the type of security. But the following present value formula the basic economic model that can be employed to value any security (with varying degrees of success).

$$\text{Present value}_0 = \frac{\text{cash flow}_1}{(1+K)^1} + \frac{\text{cash flow}_2}{(1+K)^2} + \dots + \frac{\text{cash flow}_t}{(1+K)^t}$$

The present value model shown above says that the present value at time t= 0 equals the discounted present value of all the investment's future cash flows at times t=1,2,3.....t, where t is the terminal (or final) period in the investment's life. The convention K represents a risk-adjusted discounted rate(or, synonymously, cost of capital, or capitalization rate or equilibrium rate of return).the cash flows could be cash dividends from a common stock, coupon interest from a bond, rent from a piece of real estate, and/or the price at which the asset is finally sold. (Thapa, 2010)

### 2.8.2 The buy-sell decision rules

A security's value determines its price. But, not all the millions of investors in the United States know that fact; they are the amateur investors who are most likely to misunderstand why securities prices change. The professional investors follow the more scientific procedure of forming estimates of a security's value before they make a



decision to buy or sell the security. To see how these value estimates determine security process, consider the following buy-sell decision rules.

The buy rule: If a security's price is below its value, it is underpriced and should be bought and held in order to profit from price gains that should occur in the future.

The don't trade rule: if a security's price equals its economic value, then the price is in equilibrium and is not expected to change. The asset is correctly priced and there is no profit likely to be made from buying or selling it.

The sell rule: If the security's market price is above the security's value, the security is overpriced; sell the security if it is owned in order to avoid losses when its price falls down to the level of its value. (Thapa, 2010)

### 2.8.3 Long and short positions

Investor may assume either or both of two basic positions in a market asset. A long position means simply buying and holding the assets. This is the only position that many investors understand. The short position is more complicated. It occurs when one person sells a second person an asset borrowed from a third person. Because they expect its price to fall and they want to profit from the expected price fall. So a short seller sells a borrowed asset to a second party, who buys a long position in that asset. (Thapa, 2010)

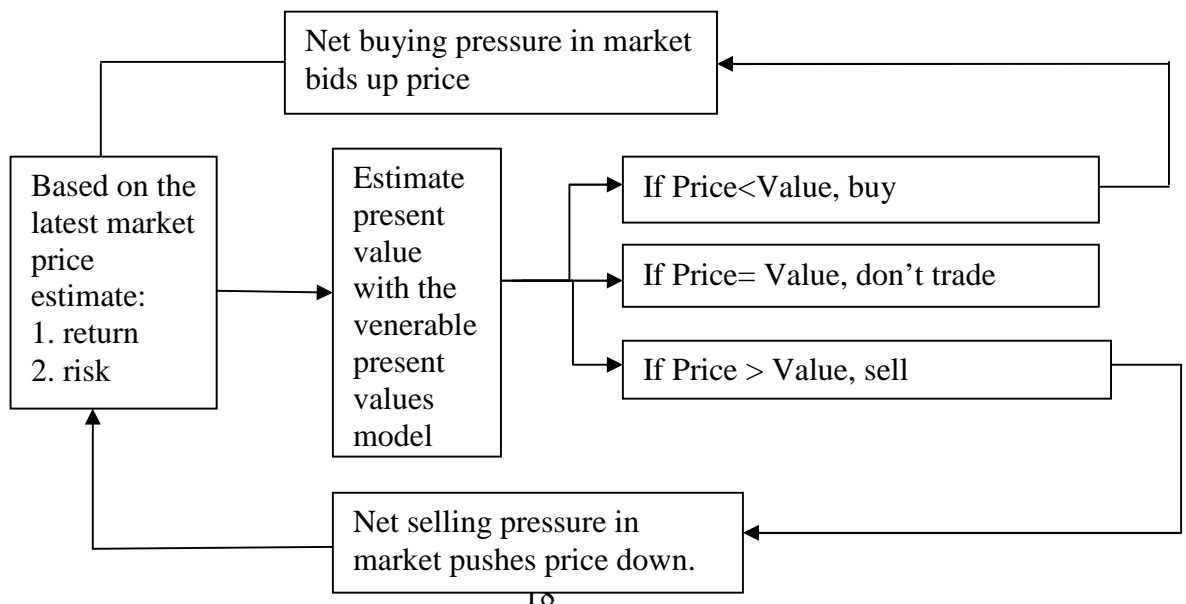
### 2.8.4 Valuation and Investment Procedure

The valuation processes actually is more complex than what it is suggested by the venerable present value model equation and buy-sell rules. One problem encountered in practice is determining how much confidence to give a securities analyst's value estimate. Value estimates are rarely in the form of a specific price; instead, the estimate includes a margin for error. Therefore, securities analysts must continually reevaluate the securities that they follow. The valuation process is more realistically represented by the dynamic interactions flowchart illustrated below. It is a never ending loop of reconsidering the value, comparing the price and the value, and then reconsidering the buy-sell decision based on the latest value estimates. Every time a new piece of information about a security is obtained, that security's value may change. Since new information arrives continuously, the value estimates change continuously. And the buying and selling pressures in the market place keep market prices in continuous motion as they pursue the continuously changing values. This is what makes being a securities analyst a fast, exciting job that plays princely incomes to those who are proficient at it and quickly wipes out those who are not. (Thapa, 2010)

### 2.8.5 A Price-Value interaction Model

Securities prices can be viewed as a series of constrained random fluctuations around their intrinsic value. Let's consider two hypothetical groups of investors who influence securities prices. The first group can be referred to as the liquidity traders-that is, those who have access only to the public news media for their information and may not even know how to interpret that news. Some liquidity traders are impetuous speculators who trade on 'hot tips.' Others base their investment timing decisions upon the arrival of an income tax refund, an inheritance, lottery winnings, or other random good fortunes. Likewise, they might sell their investments when they need to pay a medical bill, buy a new furnace for their house, or finance a firth in the family. Liquidity traders seldom recognize divergences of prices from intrinsic values. Essentially, they buy and sell at random times without regard to the stage of the business cycle. Moreover, they often do not investigate before they invest.

The second group of investors is the information traders, those who have the resources to discover new information and revise their estimates of intrinsic value before most liquidity traders even get the news. As a result, the information traders will recognize significant deviations from intrinsic value and then buy and/or sell in a manner that tends to align the market price with the intrinsic value. The price value interaction model also can be shown by figure below where the investors have three alternatives to invest in market. The first, when the price is less than its intrinsic value, it is best opportunity to buy. The second, when the price is equal to the intrinsic value, this is no opportunity to trade. The third, when the price is more than its intrinsic value, this is the best opportunity to sell.



## Process of price value interaction model

(Thapa, 2010)

### 2.8.6 Samuelson's Continuous Equilibrium

The Nobel Price-winning economist, Paul Samuelson, for example, has theorized about how securities prices would behave if securities markets were what economists call "perfectly competitive" or "perfectly efficient."

Samuelson suggests that a security with perfectly efficient prices would be in "continuous equilibrium". This continuous equilibrium will not be static through time, however. Every time a new piece of news is released the security's intrinsic value will change and the security's market price will adjust toward the new value. It is the speed of this price adjustment process which gauges the efficiency of a price. A perfectly efficient security price is in a continuous equilibrium such that the intrinsic value of the security vibrates randomly and the market price equals the fluctuating intrinsic value at every instant in time. If any disequilibrium (of even a temporary nature) exists, then the security's price is less than perfectly efficient. Of course, actual market prices are not perfectly efficient because different securities analysts typically assign different value estimates to any given security. (Thapa, 2010)

### 2.8.7 Passive versus Aggressive Investment Management

The passive investors reasoned that if many investors are highly informed and some degree of consensus exists about most securities intrinsic values, then doing securities analysis and trading aggressively is too much trouble and involves too many risks. As a result, many of these investors invest in special portfolios called index funds. Index funds buy most of the same stocks that are in some securities market index they select. On the contrary, the aggressive investors analyze the securities finding undervalued and overvalued securities to make profit on trading. (Thapa, 2010)

### 2.8.8 Hedging and Arbitrage

Hedging means arranging for two different positions, such that potential losses from one position will be more or less offset by profits from the other position. Alternatively, hedging can be defined as the establishment of offsetting long and short positions in order to diminish the risk that the portfolio could be hurt by an adverse price movement.

When the profits and the losses from these two positions sum up to zero at any value of the market price then the hedger is called as perfectly hedged. Hedges will be imperfect if the dollar commitments to the long and the short positions are not perfectly balanced or if the short sale price is not equal to the purchase price for the long position. An arbitrage position may be defined as an imperfect hedge. (Thapa, 2010)

### 2.8.9 Arbitrage

Arbitrage employs imperfect hedges to good advantage. Arbitrage involves simultaneously, or almost simultaneously, buying long and selling shorts the same assets, or different but related assets, in an effort to profit from unrealistic price differentials.

## 2.9 The relevant theories and approaches

### 2.9.1 The Basic stock Valuation Equation

The value of share of common stock is equal to the present value of all future dividends it is expected to provide over an infinite time horizon. Although a stockholder can earn capital gains by selling stock at a price above that originally paid, what is really sold is the right to all future dividends. What about stocks that are not expected to pay dividends in the foreseeable future? Such stocks have a value attributable to a distant dividend expected to result from sale of the company liquidation of its assets. Therefore, from a valuation viewpoint, only dividends are relevant, (Gitman, L.J., 2001).

$$P_0 = \frac{D_1}{(1+K_s)^1} + \frac{D_2}{(1+K_s)^2} + \dots + \frac{D_n}{(1+K_s)^n}$$

Where,

$P_0$  = value of common stock.

$D_t$  = dividend per share expected at the end of year t.

$K_s$  = required return on common stock.

#### 2.9.1.1 Zero growth

The simplest approach to dividend valuation, the zero-growth model, assumes a constant, non growing dividend stream. In terms of the notation already introduced,

$$D_1 = D_2 = \dots = D \alpha$$

$$P_0 = D_1 \times \sum_{t=1}^{\infty} \frac{1}{(1+K_s)^t} = D_1 \times (PVIFA_{K_s, \infty}) = D_1 \times \frac{1}{K_s} = \frac{D_1}{K_s}$$

(Weston & Brigham, 1982)

### 2.9.1.2 Constant growth

The most widely cited dividend valuation approach, the constant-growth model, assumes that dividends will grow at a constant rate,  $g$  that is less than the required return,  $k_s$ . The assumption that  $k_s > g$  is a necessary mathematical condition for deriving this model. By letting  $D_0$  represent the most recent dividend, above equation under constant growth can be written as follows:

$$P_0 = \frac{D_0 \times (1+g)^1}{(1+k_s)^1} + \frac{D_0 \times (1+g)^2}{(1+k_s)^2} + \dots + \frac{D_0 \times (1+g)^n}{(1+k_s)^n}$$

$$P_0 = \frac{D_1}{(k_s - g)}$$

The constant-growth model in equation is commonly called the Gordon model. A common name for the constant model is widely cited in dividend valuation (Gitman, 2001).

### 2.9.1.3 Variable Growth

The zero and constant growth common stock models do not allow for any shift in expected growth rates. Because future growth rates might shift up or down due to changing expectations, it is useful to consider a variables-growth model that allows for a change in the dividend growth rate. Let  $g_1$  equal the initial growth rate and  $g_2$  equal the subsequent growth rate and assuming a single shift in growth rates occurs at the end of year  $N$ , we can use the following four step procedure to determine the value of a share of stock.

Step 1: find the value of the cash dividends at the end of each year,  $D_t$  during initial growth period-years 1 through  $N$ . this step may require adjusting the most recent dividend,  $D_0$ , using the initial growth rate, to calculate the dividend amount for each year. Therefore, for the first  $N$  years:

$$D_t = D_0 \times (1+g)^t = D_0 \times PVIF_{g,t}$$

Step 2: Find the present value of the dividends expected during the initial growth period. By using the notation presented earlier, this value can be given as

$$\sum_{t=1}^N \frac{D_0 \times (1+g_1)^t}{(1+k_s)^t} = \sum_{t=1}^N \frac{D_t}{(1+k_s)^t} = \sum_{t=1}^N (D \times PVIF_{k_s,t})$$

Step 3: find the value of the stock at the end of the initial growth period,  $P_N = (D_{N+1}) / (K_S - g_2)$  which is the present value of all dividends expected from year N+1 to infinity assuming constant dividends growth rate,  $g_2$ . This value is found by applying the constant-growth model to the dividends expected from year N+1 to infinity. The present value of  $P_N$  would represent the value today of all dividends that are expected to be received from year N+1 to infinity. This value can be represented by

$$\frac{1}{(1+K_S)^N} \times \frac{D_{N+1}}{K_S - g_2} = PVIF_{K_S, N} \times P_N$$

Step 4: add the present value components found in step 2 and 3 to find the value of the stock,  $P_0$ , given in the following equation:

$$P_0 = \sum_{t=1}^N \frac{D_0 \times (1+g_1)^t}{(1+K_S)^t} + \left[ \frac{1}{(1+K_S)^N} \times \frac{D_{N+1}}{K_S - g_2} \right]$$

(Present value of Dividends during Initial growth period) + (Present value of price of price of stock at the end of initial growth period)

(Gitman, 2001)

### 2.9.2 Actual/realized rate of return

It is calculated by obtaining annual dividend yield and capital gain yield. The sum of dividend yield and capital gain yield is the annual realized return. Dividend is the direct cash benefit to the investors whereas capital gain occurs due to the price appreciation and it is receivable when investors sell their holdings. High actual realized return attracts investors, which eventually pushes demand of stocks. Investors invest their funds in the expectation of high monetary benefit. They primarily concern to that rate of return, which must commensurate their required rate of return.

Actual realized rate of return ( $\bar{R}$ ) = dividend yield + capital gain yield.

$$\bar{R} = \frac{\text{dividend}}{\text{Closing MPS}} + \frac{\text{Closing MPS} - \text{Opening MPS}}{\text{Closing MPS}}$$

Thus, actual realized rate of return is total rate of return from a stock consists of a dividend yield plus a capital gains yield.

### 2.9.3 Required rate of return

It is the return, which a particular security must provide. In other words, it is the expected return on an individual security or productive investment, represented by the risk free rate of interest plus a risk premium. According to capital market theory, the risk

premium is to be equal to the market premium, weighted by the index of the systematic risk of the individual security or productive investment. Thus the return required for any security is equal to the risk free rate plus the market risk premium times the security's beta.

Symbolically,

Required return = Risk free rate + Risk Premium

$$E(R_j) = R_f + (R_m - R_f) \times \beta_j$$

Where,

$E(R_j)$  = Required rate of return. If it were less than expected rate of return, investors would not purchase this stock or would sell it. On the contrary, if required return were greater than expected return, investors would not buy the stock and they would be indifferent if required rate of return equals to expected return.

$R_f$  = Risk free rate of return.

$\beta_j$  = Beta coefficient of the stock.

$R_m$  = Required rate of return on a portfolio consisting of all stocks, which is the market portfolio.

$R_m - R_f$  = Market risk Premium. This is the additional return over the risk free rate required to compensate an average investor for assuming an average amount of risk.

#### 2.9.4 Beta coefficient ( $\beta$ )

Beta coefficient for an individual security reflects industry characteristics and management policies that determine how returns fluctuate in relation to variations in overall market returns. If the general economic environment is stable, if industry characteristics remain unchanged and management policies have continuity, the measure of beta will be relatively stable when calculated for different time periods. However, if these conditions of stability do not exist, the value of beta will vary.

The tendency of a stock to move with the market is reflected in its beta coefficient, which is a measure of the stock's volatility relative to that of an average stock. Thus, the stock's beta coefficient  $\beta$ , is a measure of the stock's market risk/beta measures the extent to which the stock's returns move with the market. It is a theoretically correct measure of the stock's riskiness.

By definition, the beta of an average stock is  $\beta_A=1$ . To test the stock's relative volatility, individual stock's beta should be compared with average stock's beta. Some benchmark betas are

$\beta=0.5$ ; Stock is only half as volatile, or risky, as the average stock.

$\beta=1$ ; stock is of average risk.

$\beta=2$ ; Stock is twice as risky as the average stock.

The status of the pricing of the stocks of particular company is calculated by comparing the required rate of return and actual rate of return. If required rate of return is more than actual rate of return then the stock is called over priced and if actual return exceeds required return, the such stocks are typically known as under priced. Similarly, if required rate of return equals to actual rate of return then that stock is called equilibrium priced. In the same way, if stock's beta is less than 1, then such stock is called defensive stock. If beta is more than 1, such stock is called aggressive stock. If stock's beta equals to 1 then it is called average stock.

#### 2.9.5 Price Earning Ratio (P/E Ratio)

Some ratios evaluate the enterprise's relationship with its stockholders. The often quoted price/earnings ratio is equal to the market price per share of stock divided by the earnings per share or it is the reciprocal of the earning yield. A high P/E multiple is good because it indicates that the investing public considers the company in a favorable light. Thus,

$$\text{P/E Ratio} = \frac{\text{market price per share (MPS)}}{\text{earnings per share (EPS)}}$$

The P/E ratio is widely used by the security analyst to value the firm's performance as expected by investors. It indicates investor's judgment or expectations about the firm's performance.

#### 2.10 Review of the Journals and Articles

Articles, journals and bulletins are of great significances for thesis writing. In order to make this study more comprehensive some articles, books etc related stock price are consulted and reviewed.

Mitchell and Mulherin (1994) held a study on "*The impact of public information on the stock market*" and study and relation between the number of news announcement reported daily by Dow Jones and company and aggregate measures of securities market activity including trading volume and market returns. They have a belief that much of disagreement regarding the news-market relation is due to the different emphasis of the various studies. Thus they have tried to contribute to the debate by relating aggregate measures of market activity such as trading volume and market returns to the broad sample of macroeconomics and firm specific news announcement released by Dow Jones and company. They found that the number of news, stories and market activity is directly related and share common-day-of-the-week patterns. They also noted that the relation between news and market activity remain significant in regression that control for the



day of the week. The result was also robust even after the inclusion of non-information source of market activity.

G.C. and Neupane (2006), examine “*The existence of causality relationship between stock market and economic growth in Nepal*” based on the time series data for the year 1988 to 2005, employing Granger causality test and using an equally weighted single indicator of three stock market development indicators; the average of ratios of market capitalization to GDP, annual turnover to GDP and the annual turnover to market capitalization. The study finds the long-run integration and causality of macroeconomic variables and stock market indicators even in a small capital market of Nepal, implying that the stock market plays significant role in determining economic growth and vice versa.

*Neupane (2006), “Stock Market and Economic Development: a Causality Test”.*

An attempt has been made in this paper to examine the existence of causality relationship between stock market and economic growth based on the time series data for the year 1988 to 2005 using Granger causality test. The study finds the empirical evidence of long-run integration and causality of macroeconomic variables and stock market indicators even in a small capital market of Nepal. The causality has been observed only in real terms but not in nominal variables. In econometric sense, it depicts that the stock market plays significant role in determining economic growth and vice versa. Interestingly, the causation is evident with a lag of 3 to 4 years. Also, the paper reveals the importance of stock market development for fostering economic development.

*G.C. (2008), “Volatility of Nepalese Stock Market”.* Modeling and forecasting volatility of capital markets has been important area of inquiry and research in financial economics with the recognition of time-varying volatility, volatility clustering, and asymmetric response of volatility to market movements. Given the anticipated growth of the Nepalese stock market and increasing interest of investors towards investment in Nepalese stock market, it is important to understand the pattern of stock market volatility. In the paper, the volatility of the Nepalese stock market is modeled using daily return series consisting of 1297 observations from July 2003 to Feb 2009 and different classes of estimators and volatility models. The results indicate that the most appropriate model for volatility modeling in Nepalese market, where no significant asymmetry in the conditional volatility of returns was captured, is GARCH (1,1). The study revealed strong evidence of time-varying volatility, a tendency of the periods of high and low volatility to cluster and a high persistence and predictability of volatility in the Nepalese stock market.

Joshi (2010), examines “*The relation between stock market development and economic growth in Nepal*” for period of mid July 1994 to mid July 2008 by using Karl Pearson correlation. The study finds that stock market development is not significantly associated with economic growth during mid July 1994 to mid July 2000 while there is a positive relation between stock market development and economic growth during mid July 2000 to mid July 2008. The findings indicate that stock market has positive contribution to economic growth in Nepal.

Regmi (2012), has published article titled “*Stock Market Development and Economic Growth: Empirical Evidence from Nepal*”. This article examines causal relationship between stock market development and economic growth in Nepal for the period 1994-2011, using unit root test, co-integration, and vector error correction models and developing NEPSE composite index as an indicator of stock market development. The finding suggests that stock market development has significantly contributed to the economic growth in Nepal. In this perspective, a refined policy measures should be adopted to strengthen and improve the role of stock market in order to expedite and maintain the strong growth of the economy.

#### 2.11 Review of the previous thesis

Under this section various master’s level dissertation related to this study have been reviewed.

Dhakal (2008), conducted study entitled ‘*Impact of performances on Stock price*’. The researcher had used 5 years data of 18 sample companies of various industries which are listed in NEPSE. The main target of the research was to find out the answers of the questions such as what are the implications of the performance on the stock price, and does good financial performance always appreciate market price per share. The study showed that market price of share of sampled companies were seemed to be influenced by the financial variables such as EPS, DPS, R/E, NWPS etc. however, these alone were not sufficient to influence the stock price. In the case of Banking, Trading and Hotels, earning and dividend have negative relationship with market price of share. From this result it was revealed that good financial performance may not always appreciate stock price.

Neupane(2009), conducted a research on ‘*Study on determinants of stock Price in Nepal*’. It is related with the financial and non financial determinant factors of stock price. The major objective of this study was to identify and evaluate the major determining factors of share price in Nepalese capital market. The focus was given to

examine the opinions of the respondents-stock brokers regarding the basic principle of share market and existing practices in NEPSE.

The relationships between the quantitative factors of variables such as EPS, BPS and DPS were identified and analyzed by correlation and regression analysis of secondary data of the listed twelve sampled companies. And to evaluate the qualitative factors that affects on the market price of shares, the study concentrated in collecting the opinions through the research questionnaire from the stock brokers.

Based on the correlation and regression analysis of secondary data, no consistent performance in the relationship of MPS with DPS, BPS and EPS were found in twelve sampled companies. On the other hand from the primary data collected from the stock brokers through research questionnaire, the identification and analysis of affecting variables to the market price were attempted. From the primary data he found the following opinions in conclusion.

The factors related with internal performance of the company are dividend, book value, earnings, organization growth and retention ratio which may affect MPS significantly in their opinion. In their opinion, regarding the factors related to economy, the national economy and demand and supply affects significantly to the share price in market, where as in the contrary the interest rate, tax rate and market liquidity position of the nation do not affect the share prices. The factors related to environmental forces and system like instability of government, strike demonstration and communication and information technology, rumors and whims, seriousness of listed companies towards shareholders interest have significant affect on the market price of share but an open-cry system does not affect significantly to discourage the brokers. At last categorization, the other factors related to the MPS like seasons (winter and summer), days of the week (Monday and Friday) and odd lot do not affect the MPS in NEPSE trading floor.

Shrestha(2009), conducted a study on '*Determinants and pricing behavior of equity price*'. The researcher had used 14 sample companies from commercial banks, finance companies, and insurance companies in which 6 years data from 2003 to 2008 are analyzed. The objectives of the study were to identify the major financial indicators, which affect on determining the equity prices; to examine and evaluate the relationship of MPS with various financial indicators like, EPS, DPS, NWPS and price appreciation; To identify whether stocks of the sampled companies are overpriced, under-priced or equilibrium priced; and to provide suggestions on the basis of findings. He found that the major financial indicators were EPS, DPS, NWPS and capital gain which heavily determined the equity price. Beside this other extraneous factors also caused equity price to fluctuate. The stocks price of the companies was not equilibrium price.

Rajbhandari (2010), conducted study entitled '*Relationship between Corporate Performance and stock Prices*'. The researcher had used 5 years data of 11 sample companies of various financial industries which are listed in NEPSE. The main objective of the study was to probe into the corporate financial performance indicators and their effects on share price. Other than that, he had following objectives:-

- To present and study the financial performance indicators of sample companies.
- To examine the relationship between performance and stock prices.
- To identify whether stocks of the sampled companies are over priced, under priced or equilibrium priced.

To provide some meaningful suggestions on the basis of the findings of the study. The researcher had taken four commercial banks, three finance companies, two insurance and two other companies as sample. Study is based on secondary data from the fiscal year 2002/03 to 2008/09. He has taken market price per share (MPS) as dependent variable and earning per share (EPS), book value per share (BPS) and dividend per share (DPS) as independent variables in the study. From the study he found that the Net profit of the entire bank taken under study was good in figure where as net profit of the entire finance taken under study was not so good in figure. Similarly the Net profit of the sampled insurance and manufacturing companies taken under study were also good in figure. From the correlation analysis between MPS with EPS, BPS & DPS, there was correlation seen in the relation. Most of the variables of the sample companies were positively correlated. From the pricing status analysis of the stocks of sampled companies four sample companies were found under priced and seven remaining companies were found over priced during the study period. However, the relationship between MPS and EPS is found significant at 0.05 level of significant only on two samples. The relationship between MPS and BPS is significant on four samples at 0.05 level of significant. Similarly relationship between MPS and DPS is shown significant on one sample at 0.05 level of significant.

Shah (2010), conducted a research on "*Determinants of stock price of listed companies in Nepal stock exchange*". the researcher has used twelve samples, three commercial banks, three finance companies, three insurance companies and three manufacturing companies to analyze the financial performance and their effect on stock price .on the basis of primary data analysis, it can be concluded that the investors are interested in stock dividend than other factors like interest rate, retention rate cost of equity etc. beside, stock dividend the external environment of the nation like political, economic and environmental instability significantly affects the share price, where as the global environment has nothing to do with the price change. Also the exchange rate, seasonal

factors, change in management have insignificant impact on share price. However, the size of the company, rumors and whims, demand and supply significantly affects the share price. Eventually, on the basis of primary data, it can be concluded that capital market is not well developed in Nepal, listed companies are not serious about shareholders interest and NEPSE and SEBON are not able to protect share holders interest.

Kunwar (2011), conducted a research on “*Financial Performance Indicators and Market Price of Common Stock*” (Study of HBL, BOK, KBL and LBL). The researcher has used four commercial banks as sample to analyze the financial performance and their effect on stock price. MPS of these banks have been analytically tested here to compare with other financial indicators. MPS of the sampled commercial bank do show the impact caused by their financial performance indicators. However, the extent of such impact is not to the mark and the analysis is not exactly reflected in the share price. The investing in shares of commercial bank is risky in the sense that the fluctuation is seen in the dividend and the MPS of the shares of the sampled commercial bank.

Khanal (2011), in the thesis “*Financial performance indicator and share price movement*” in his study he has used two commercial banks and two insurance company as sample to analyze the financial performance and their effect on stock price. From the analysis it is found that common stock of sample banks are dependent mainly on the financial performance. However, the analysis is not exactly reflected in the share price. This may be due to lack of analysis in the movement and relationship of the MPS with reference to various variables. The investors are still investing in the shares based on the rumor rather than financing on a realistic picture. It can be concluded that the share investors here in Nepal do not care much about the dividend yield. They mainly focus on capital gain yield. The result of this study shows investment in common stock of sample commercial bank lack analytical ability and the assessment of the financial performance is yet short in the investors. Efficient market hypothesis and true analysis are some of the key areas that Nepalese investors are to think about.

## 2.12 Research Gap

In the above researches, the researchers have conducted the study on the influence of financial and non-financial factors on their stock price. The researchers have not tested by hypothesis as well and the result most of them are statistically insignificant. Though the results are statistically insignificant, most of them concluded that there is influence of

financial parameters on stock price of banks, finance companies and insurance companies listed in NEPSE. To explore more about it in the present environment, this study has been conducted with six years data of 5 commercial banks and 5 financial companies. The primary data analysis has also been carried out to compare with the result of the secondary data analysis. So it has been believed that this study will be different and comprehensive as compare to previous research and study.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

To achieve the objective of this study, descriptive and causal research design has been used. For the purpose of collection of secondary data the related annual reports and web pages has been concerned. Similarly to collect primary data, the questionnaires are prepared and send to the respondent. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to determine the relation between financial performances and stock price of listed companies in the NEPSE.

#### **3.2. Nature and sources of data**

This study is based on the primary and secondary data covering six years period i.e. from F/Y 2006/07 to F/Y 2011/11 The main sources of data are:-

- I. Annual reports of Securities Board, Nepal (SEBON)
- II. Annual reports of Sample Banks and Companies.
- III. [www.nepalstock.com](http://www.nepalstock.com) (homepage of NEPSE) and
- IV. [www.sebon.gov.np](http://www.sebon.gov.np) (homepage of SEBON)

#### **3.3. Data collection procedure**

Information and data are not available in readymade format. The required information is re-casted according to the need of the study. At first, needed data are assessed. Secondly, the probable source of data has been worked out. For actual collection, the NEPSE and SEBON have been approached. Information collected from different sources were systematized, arranged in order, and analyzed to identify the impact of financial performance on stock price.

#### **3.4. Population and sample**

This study has been totally confined to the institutions listed in the Nepal Stock exchange. Total numbers of company listed are 227 until the fiscal year 2011/12. The listed companies are categorized in to nine different sectors. They are commercial bank, development bank, finance company, insurance company, hotel, manufacturing & processing company, hydropower, trading company and other company. The study has been conducted only on two sectors. They are commercial bank and finance company.

Table No: - 3.1. Table showing population and sample figure

<b>Sector</b>	<b>No. of Sample Companies</b>	<b>No. of population Companies</b>	<b>Proportion</b>
Commercial Bank	5	31	16.13%
Finance company	5	79	6.33%

### **3.5. Methods of Data Presentation**

The different kinds of analytical and descriptive tools and technique in logical manner have been applied to present the collected information/data. Most commonly, the collected data were presented in the simple spreadsheets produced form Excel which would be easily understandable. It was assumed that tables, figures, chart, diagram to represent the information of study could be more effective and informative to understand.

### **3.6. Tools of data analysis**

To analyze and interpret relevant data some statistical tools and financial tools are used. These statistical tools help us to represent facts from numerical figures in a definite form, to provide methods for making comparison, to help in predicting future trends, to draw valid conclusions and to determine relationship between different phenomena.

#### **3.6.1. Statistical tools**



### 3.6.1.1. Arithmetic Mean (AM)

Arithmetic mean is a given set of observation is their sum divided by the number of observations. In general, if  $x_1, x_2, \dots, x_n$  are the given 'n' observations then their arithmetic mean, usually denoted by  $\bar{X}$  is given by,

$$\bar{X} = \frac{\sum x}{N}$$

Where,

$\sum x$  = Sum of observation

N = No. of observation

To calculate average MPS, DPS, BPS and EPS of different companies as well as over all market, the arithmetic mean has been employed.

### 3.6.1.2. Standard deviation (S.D)

It measures the dispersion of returns around the mean. Its advantage is that the uncertainty of returns can be summarized into a single easily calculated number. The standard deviation of a distribution is the square root of the variance of returns around the mean.

$$S.D(\sigma) = \sqrt{\frac{\sum (r_j - \bar{r}_j)^2}{n - 1}}$$

Where,

$r_j$  = return on asset j.

$\bar{r}_j$  = expected return on assets j.

The square of standard deviation is known as variance of the asset's return from the average return.

### 3.6.1.3. Coefficient of Variation (CV)

The coefficient of variation (CV) indicates the volatility of the variables during the period of time. It is calculated as

$$CV = \frac{\text{standard deviation}}{\text{Arithmetic mean}} \times 100$$

### 3.6.1.4. Karl Pearson's correlation Coefficient

It is a statistical tool for measuring the intensity or magnitude of linear relationship between the two variables series. Karl Pearson's measure, known as Pearsonian correlation coefficient between two variables (series) X and Y, usually denoted by 'r(X,Y)' or 'r<sub>xy</sub>' or simply 'r' can be expressed as:-

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

Table No.: 3.2.

### Interpretation of correlation coefficient

Degree	Direction	
	Positive	Negative
Perfect	+1	-1
Significant(very high)	+0.75 to +1	-0.75 to -1
High	+0.50 to +0.75	-0.50 to -0.75
Low	+0.25 to +0.50	-0.25 to -0.50
Insignificant (very low)	0 to +0.25	0 to -0.25
Absent	0	0

Source: Sthapit, Azaya B.(2004)

### 3.6.1.5. Coefficient of determination

The coefficient of determination gives the percentage variation in the dependant variable that is accounted for by the dependant variable/s. In other words, the coefficient of determination gives the ratio of explained variance to the total variance. The coefficient of determination is given by the square of the correlation coefficient, i.e.  $r^2$

$$\text{Coefficient of Determination } (r^2) = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

### **3.6.1.6. Regression analysis**

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation or prediction of one variable of on the basis of the other variables. It means, assuming the two variables are closely related and we can estimate the value of the one variable from the given value of another. Prediction or estimation is one of the major problems in almost cases.

#### **Simple regression analysis**

The analysis used to describe the average mathematical relationship between two variables is called simple linear regression analysis. Here, simple means only one independent variable and linear, because the relationship between the independent and dependent variable is assumed to be a linear.

#### **Regression Line and Equation**

The regression line is a line which gives the best estimate of one variable for any given value of the other variable. In case of two variables X and Y, we will have two regression lines i.e. regression line of Y on X and X on Y. An algebraic expression of the regression lines is called the regression equations and also estimating equations. Since there are two regression lines, there are two regression equations.

The regression equation of Y on X is expressed as

$$Y = a + bX \dots \dots \dots (1)$$

X and Y are the independent and dependent variables respectively.

a= Numerical constants measures the distance of the fitted line directly above or below the origin or Y-intercept.

b = numerical constant which measures the changes in Y per unit change in X or slope of the line. Note that ‘a’ and ‘b’ are also called parameters of the line.

The distance of scatter points from the estimated line is computed by taking parallel to Y axis, hence the regression line Y on X. The following two normal equations are solved simultaneously to find out the values of ‘a’ and ‘b’.

$$\sum Y = Na + b \sum X \dots\dots\dots(2)$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots(3)$$

Where, N= Number of pairs of observations.

Solving the two normal equations (1) and (2)

We get,

$$a = \bar{Y} - b\bar{X}$$

$$b = \frac{N \sum XY - \sum X \sum Y}{N \sum X^2 - (\sum X)^2} \dots\dots\dots(4)$$

The constant ‘b’ is called regression coefficient of Y on X and also denoted by  $b_{xy}$  and the estimates the change in Y corresponding to unit change in X.

### 3.6.1.7. Confidence Level

While making the interval estimation it needs to determine the level of confidence, the percentage of population mean lying within the interval which is called confidence level. Setting the confidence level as 95% means its interval includes 95% of the true population mean. For large sample, the sampling distribution follow normal distribution, the value of Z at 95% confidence level is 1.96. The confidence level can be taken as 90%, 95%, or any other values depending upon the need of the problem.

### **3.6.1.8. Small sample test (t-distribution)**

If the sample size is less than 30, then the sampling distribution of the sample mean follows student's t- distribution. William S. Gosset used to write under pseudonym of student's in the beginning of 20<sup>th</sup> century. It was first published as student's distribution and later it was extended by R. A. Fisher. Therefore, the sample distribution is called 'student distribution or the t-distribution'. The t-distribution is similar to normal distribution but is not exactly normal. The curve of t-distribution is little bit flatter. As the sample size increases more than 30 the t-curve becomes more and more normal curve.

The t-distribution also tests the significance of an observed correlation coefficient. If the observed correlation coefficient of population has to be tested as significant or insignificant (zero or uncorrelated), the following formula is applied.

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

When n is the number of pairs of observation and r is the simple correlation coefficient.

The t- statistic, in this case, is based on (n-2) degree of freedom at  $\alpha\%$  level of significance. If the calculated vale is less than or equal to tabulated value at alpha % and (n-2) degree, null hypothesis is accepted or correlation coefficient r is insignificant. If t is greater than tabulated value null hypothesis is rejected or is significant.

### **3.6.2. Financial tools**

To conclude the findings, some financial tools have been used in this study. The majors are as follows:-

#### **3.6.2.1. Earning Per Share (EPS)**

The earning per share is the share of a stock on the earning of the company during the period.

Mathematically,

$$EPS = \frac{\text{Total Earning of a company}}{\text{No. of Shares Outstanding}}$$

### 3.6.2.2. Dividend Per Share (DPS)

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

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

### 3.6.2.3. Market Price per Share (MPS)

The market price is the amount in which a share of the stock is traded in the market.

Mathematically,

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

### 3.6.2.4. Book Value per Share (BPS)

The book value per share represents the real net worth per share. It is simply the ratio of net worth (share capital plus retained earnings i.e. ownership capital) and the number of existing shares.

Mathematically,

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

### **3.6. 3. Application of computer software:**

This study has covered six years data of 5 banks and 5 finance companies. To carry out the correlation analysis with four independent variables, the most popular statistical Excel program has been used. Data will be presented in tabular form. Correlation coefficients will be calculated by the Excel. It is too difficult to carry out such calculations manually therefore this program is used to arrive at concrete conclusion.

### **3.7. Limitation of methodology**

To understand the research more clearly and to find the objective of the research, there have been applied various financial and statistically tools. However, these tools have some limitations, which are not unexpected.

As earlier stated, to have limitations is common phenomena, but those limitations are not so crucial that it can weaken the basic findings of the study, but, nevertheless, limitations prevent explore more in a subject matter.

1. The study is based on financial data obtained from the web site (www.nepalstock.com) for the sample companies. Thus, it possesses all inherent limitations of financial data.
2. The study covers only 6 years period i.e. from 2006/07 to 2011/12. There is no available of latest data for the study.
3. The study attempts to examine and analyze the impact of EPS, DPS and BPS on MPS. But other quantitative variable may influence the equity price which is not included in the study.

## **CHAPTER IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter covers the Performance of MPS, DPS, BPS and EPS of sample banks and finance companies; simple correlation coefficient analysis of sample banks and finance companies; regression equation of sample banks and finance companies; hypothesis testing of an observed sample correlation coefficient, primary data analysis and empirical findings of the secondary data analysis.

#### **4.1. Performance of sample banks**

The performance of sample banks are analyzed on the basis of market price per share, dividend per share, book value per share and earning per share as under to explore the major financial indicators that influence market price of the share on the Secondary market (NEPSE). Performance have been analyzed also to evaluate the relationship of financial indicators with the market price of the share.

##### **4.1.1. Performance of Market price of sample banks**

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.

**The following table shows the market price per share from the year 2006/07 to 2011/12.**



**Table 4.1****Position of MPS**

<b>Yr/Bank</b>	<b>HBL</b>	<b>NIBL</b>	<b>BOK</b>	<b>EBL</b>	<b>NABIL</b>
<b>2006/07</b>	1740	1729	1375	2430	5050
<b>2007/08</b>	1980	2450	2350	3132	5275
<b>2008/09</b>	1760	1388	1825	2455	4899
<b>2009/10</b>	816	705	840	1630	2384
<b>2010/11</b>	575	515	570	1094	1252
<b>2011/12</b>	653	511	628	1033	1355
SUM	7524.00	7298.00	7588.00	11774.00	20215.00
Average	1254.00	1216.33	1264.67	1962.33	3369.17
SD	582.15	714.73	654.77	770.03	1746.79
CV	46.42	58.76	51.77	39.24	51.85

**Source:** Annual report of the listed Banks, NEPSE and SEBON

Table 4.1 shows the market price per share of sample companies from the year 2006/07 to 2011/12. MPS is the dependent variable in this study. Among all, the highest MPS of HBL is RS.1980 in the year 2007/08 and the lowest Rs. 575 in the year 2010/11. Similarly, the highest MPS of NIBL is RS.2450 in the year 2007/08 and the lowest Rs .511 in the year 20011/12. The highest and the lowest MPS of BOK are Rs. 2350 and Rs.570 in the year 2007/08 and 2010/11 respectively. The highest and the lowest MPS of EBL are Rs. 3132 and Rs. 1033 in the year 2007/08 and 2011/12 respectively. Likewise, the highest MPS of NABIL is Rs. 5275 in the year 2007/08 and the lowest Rs. 1252 in

the year 2010/11. MPS of HBL is calculated in the table 4.1. MPS of 6 years in table of mean is given that means Rs. 1254 is the MPS of HBL of 6 year. Similarly, average MPS of NIBL, BOK, EBL and NABIL is Rs. 1216.33, Rs. 1264.67, Rs. 1962.33 and Rs. 3369.17 respectively.

The coefficient of variation (CV) indicates the volatility of the variables during the period of time. Here the volatility of MPS of HBL, NIBL, BOK, EBL and NABIL are 46.42%, 58.76%, 51.77%, 39.24% and 51.85% respectively. The CV of NIBL is the highest of all the sample banks which refers that the MPS of NIBL fluctuates more than that of other sample banks. The MPS of EBL fluctuates less than that of the entire sample banks.

#### **4.1.2. Performance of Dividend Per Share of sample banks**

Dividend refers the portion of firm's net earning which are paid out to the shareholders after the successful completion of business operation.

**The following table shows the dividend per share from the year 2006/07 to 2011/12.**

**Table 4.2**

### Position of DPS

<b>Yr/Bank</b>	<b>HBL</b>	<b>NIBL</b>	<b>BOK</b>	<b>EBL</b>	<b>NABIL</b>
<b>2006/07</b>	40	30	20	40	140
<b>2007/08</b>	45	40.8	42.11	50	100
<b>2008/09</b>	43.56	20	47.37	60	85
<b>2009/10</b>	36.84	25	30	60	70
<b>2010/11</b>	36.84	50	34.75	60	30
<b>2011/12</b>	28.42	30	26.32	31.58	60
SUM	230.66	195.8	200.55	301.58	485
Average	38.44	32.63	33.43	50.26	80.83
SD	5.43	10	9.26	11.1	34.21
CV	14.13	30.65	27.7	22.08	42.32

Source: Annual report of the listed Banks, NEPSE and SEBON

Table 4.2 shows the dividend per share of sample companies from the year 2006/07 to 2011/12. DPS is the independent variable in this study. Among all, the highest DPS of HBL is RS.45 in the year 2007/08 and the lowest Rs. 28.42 in the year 2011/12. Similarly, the highest DPS of NIBL is RS.50 in the year 2010/11 and the lowest Rs.25 in the year of 2009/10. The highest and the lowest DPS of BOK are Rs.47.37 and Rs.20 in the year 2008/09 and 2006/07 respectively. The highest and the lowest DPS of EBL are Rs.60 and Rs.31.58 in the years 2008/09, 2009/10, 2010/11 and 2004/05 respectively. Likewise, the highest DPS of NABIL is RS. 140 in the year 2006/07 and lowest 30 in the year 2010/11. DPS of HBL is calculated in the table 4.2. DPS of 6 years in table of mean is given that means Rs. 38.44 is the DPS of HBL of 6 year. Similarly, average DPS of

NIBL, BOK, EBL and NABIL is Rs. 32.63, Rs. 33.43, Rs. 50.26 and Rs. 80.83 respectively.

The coefficient of variation (CV) indicates the volatility of the variables during the period of time. Here the volatility of DPS of HBL, NIBL, BOK, EBL and NABIL are 14.13%, 30.65%, 27.7%, 22.08% and 42.32% respectively. The CV of NABIL is highest of all the sample banks which refers that the DPS of NABIL fluctuates more than that of other sample banks. The DPS of HBL fluctuates less than that of the entire sample banks.

#### **4.1.3. Performance of Book value Per Share of sample banks**

BPS indicates the shareholder's wealth profit capital which includes equity contributed by shareholders along with undistributed in terms of per share. It is the core value of equity.

**The following table shows the book value per share from the year 2006/07 to 2011/12**

**Table 4.3**

#### **Position of BPS**

<b>Yr/Bank</b>	<b>HBL</b>	<b>NIBL</b>	<b>BOK</b>	<b>EBL</b>	<b>NABIL</b>
<b>2006/07</b>	264.74	234.37	162.81	231.95	418.39
<b>2007/08</b>	246.93	223.17	222.51	231.08	353.62
<b>2008/09</b>	256.52	162.35	206.25	262.71	324.13
<b>2009/10</b>	226.79	190.34	175.40	331.99	265.11
<b>2010/11</b>	199.77	171.00	179.13	263.8	225.00
<b>2011/12</b>	193.00	161.00	168.36	326.18	269.00
SUM	1387.75	1142.23	1114.46	1647.71	1855.25
Average	231.29	190.37	185.74	274.62	309.21
SD	27.33	28.97	21.41	40.67	64.25
CV	11.81	15.22	11.53	14.81	20.78

Source: Annual report of the listed Banks, NEPSE and SEBON

Table 4.3 shows the Book value per share of sample companies from the year 2006/07 to 2011/12. BPS is the independent variable in this study. Among all, the highest BPS of HBL is RS 264.74 in the year 2006/07 and the lowest Rs. 193 in the year 2011/12. Similarly, the highest BPS of NIBL is RS. 234.37 in the year 2006/07 and the lowest Rs. 161 in the year 2011/12. The highest and the lowest BPS of BOK are Rs. 222.51 and Rs. 162.81 in the year 2007/08 and 2006/07 respectively. The highest and the lowest BPS of EBL are Rs. 331.99 and Rs. 231.08 in the year 2009/10 and 2007/08 respectively. Likewise, the highest BPS of NABIL is RS. 418.39 in the year 2007/08 and the lowest Rs. 225.00 in the year 2010/11. BPS of HBL is calculated in the table 4.3. BPS of 6 years in table of mean is given that means Rs. 231.29 is the BPS of HBL of 6 year. Similarly, average BPS of NIBL, BOK, EBL and NABIL is Rs. 190.37, Rs. 185.74, Rs. 274.62 and Rs. 309.21 respectively.

The coefficient of variation (CV) indicates the volatility of the variables during the period of time. Here the volatility of BPS of HBL, NIBL, BOK, EBL and NABIL are 11.81%, 15.22%, 11.53%, 14.81% and 20.78% respectively. The CV of NIBL is highest of all the sample banks which refers that the BPS of NIBL fluctuates more than that of other sample banks. The BPS of HBL fluctuates less than that of the entire sample banks.

#### **4.1.4. Performance of Earning Per Share of sample banks**

EPS is the most popular financial indicator. It gives close insight about the earning power. Shareholder shall receive cash dividend from this EPS of the firm. In fact, it is the net profit, represented in terms of per share equity.

**The following table shows the earning per share from the year 2006/07 to 2011/12**

**Table 4.4**

#### **Position of EPS**

<b>Yr/Bank</b>	<b>HBL</b>	<b>NIBL</b>	<b>BOK</b>	<b>EBL</b>	<b>NABIL</b>
<b>2006/07</b>	60.66	62.57	43.50	57.22	137.08
<b>2007/08</b>	62.74	57.87	59.94	91.82	115.86
<b>2008/09</b>	61.90	37.42	54.68	99.99	113.44
<b>2009/10</b>	31.80	52.55	43.08	100.16	83.81
<b>2010/11</b>	44.66	39.10	44.51	83.18	70.67
<b>2011/12</b>	39.94	27.60	37.88	88.55	83.57
<b>SUM</b>	301.7	277.11	283.59	520.92	604.43
<b>Average</b>	50.28	46.19	47.27	86.82	100.74
<b>SD</b>	12.1	12.37	7.56	14.54	23.08
<b>CV</b>	24.06	26.78	15.99	16.75	22.91

Source: Annual report of the listed Banks, NEPSE and SEBON

Table 4.4 shows the Earning per share of sample companies from the year 2006/07 to 2011/12. EPS is the independent variable in this study. Among all, the highest EPS of HBL is RS. 62.74 in the year 2007/08 and the lowest Rs. 31.80 in the year 2009/10. Similarly, the highest EPS of NIBL is RS. 62.57 in the year 2006/07 and the lowest Rs. 27.60 in the year 2011/12. The highest and the lowest EPS of BOK are Rs. 59.94 and Rs. 37.88 in the year 2007/08 and 2011/12 respectively. The highest and the lowest EPS of EBL are Rs. 100.16 and Rs. 57.22 in the year 2009/10 and 2006/07 respectively. Likewise, the highest EPS of NABIL is RS.137.08 in the year 2006/07 and the lowest Rs. 70.67 in the year 2010/11. EPS of HBL is calculated in the table 4.4. EPS of 6 years in table of mean is given that means Rs. 50.28 is the EPS of HBL of 6 year. Similarly, average EPS of NIBL, BOK, EBL and NABIL is Rs. 46.19, Rs. 47.27, Rs. 86.82 and Rs. 100.74 respectively.

The coefficient of variation (CV) indicates the volatility of the variables during the period of time. Here the volatility of EPS of HBL, NIBL, BOK, EBL and NABIL are 24.06%, 26.78%, 15.99%, 16.75% and 22.91% respectively. The CV of NIBL is highest of all the sample banks which refers that the EPS of NIBL fluctuates more than that of other sample banks. The EPS of BOK fluctuates less than that of the entire sample banks.

#### **4.2. Performance of sample Finance Companies**

The performance of sample finance companies are analyzed on the basis of marker price per share, dividend per share, book value per share and earning per share as under to explore the major financial indicators that influence market price of the share on the Secondary market (NEPSE). Performance have been analyzed also to evaluate the relationship of financial indicators with the market price of the share.

##### **4.2.1 Performance of Market price per share of sample Finance companies**

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.

**The following table shows the market price per share from the year 2006/07 to 2011/12.**

**Table 4.5**

##### **Position of MPS**

<b>Yr/Finance co.</b>	<b>MLFL</b>	<b>NNFL</b>	<b>SFL</b>	<b>OFL</b>	<b>RBFL</b>
<b>2006/07</b>	372	460	242	345	185



<b>2007/08</b>	1191	1050	1360	500	535
<b>2008/09</b>	740	1050	1360	600	550
<b>2009/10</b>	288	241	700	371	265
<b>2010/11</b>	180	150	212	258	169
<b>2011/12</b>	161	132	131	176	107
SUM	2932.00	3083.00	4005.00	2250.00	1811.00
Average	488.67	513.80	667.50	375.00	301.00
SD	368.10	393.79	522.26	141.69	176.34
CV	75.33	76.65	78.24	37.78	58.42

Source: Annual report of the listed finance companies, NEPSE and SEBON

Table 4.5 shows the market price per share of sample finance companies from the year 2007/05 to 2011/12. MPS is the dependent variable in this study. Among all, the highest MPS of MLFL is RS.1191 in the year 2007/08 and the lowest Rs.161 in the year 2011/12. Similarly, the highest MPS of NNFL is RS.1050 in the year 2007/08 & 2008/09 and the lowest Rs.132 in the year 2011/12. The highest and the lowest MPS of SFL are Rs. 1360 and Rs. 212 in the year 2007/08 and 2011/12 respectively. The highest and the lowest MPS of OFL are Rs. 600 and Rs. 176 in the year 2008/09 and 2011/12 respectively. Likewise, the highest MPS of RBFL is RS.550 in the year 2008/09 and the lowest Rs. 107 in the year 2011/12. MPS of MLFL is calculated in the table 4.5. MPS of 6 years in table of mean is given that means Rs. 488.67 is the MPS of MLFL of 6 year. Similarly, average MPS of NNFL, SFL, OFL and RBFL is Rs. 513.80, Rs. 667.50, Rs. 375.00 and Rs. 301.00 respectively.

The coefficient of variation (CV) indicates the volatility of the variables during the period of time. Here the volatility of MPS of MLFL, NNLF, SFL, OFL and RBFL are 75.33%, 76.75%, 78.24%, 37.78% and 58.42% respectively. The CV of SFL is highest

of all the sample finance companies which refers that the MPS of SFL fluctuates more than that of other sample finance companies. The MPS of OFL fluctuates less than that of the entire sample finance companies.

#### **4.2.2. Performance of Dividend per share of sample Finance companies**

Dividend refers the portion of firm's net earning which are paid out to the shareholder after the successful completion of business operation.

The following table shows the dividend per share from the year 2006/2007 to 2011/2012

**Table 4.6**  
**Position of DPS**

<b>Yr/Finance co.</b>	<b>MLFL</b>	<b>NNFL</b>	<b>SFL</b>	<b>OFL</b>	<b>RBFL</b>
<b>2006/07</b>	23.45	5.5	31.58	40	10
<b>2007/08</b>	20	16	29.47	30	12

<b>2008/09</b>	24	13.68	21.05	0	10.53
<b>2009/10</b>	7.75	15.66	26.32	35	15
<b>2010/11</b>	10.9	0	18.95	0	10.53
<b>2011/12</b>	8.42	18.95	18.11	20	0
SUM	94.52	69.79	145.48	125	58.06
Average	15.75	11.63	24.25	20.83	9.68
SD	6.91	6.66	5.19	15.92	4.64
CV	43.87	57.27	21.38	76.43	47.89

Source: Annual report of the listed finance companies, NEPSE and SEBON

Table 4.6 shows dividend per share of sample finance companies from the year 2006/07 to 2011/12. DPS is the dependent variable in this study. Among all, the highest DPS of MLFL is RS. 24 in the year 2008/09 and the lowest dividend is Rs. 8.42 in the year 2011/12. Similarly, the highest DPS of NNFL is 18.95 in the year 2011/12 and lowest the year 2006/07 and dividends were not distributed during the year 2010/11. The highest DPS of SFL is Rs. 31.58 in the year 2006/07 and lowest Rs. 18.11 in the year 2011/12. The highest and the lowest DPS of OFL are Rs. 40 and Rs. 20 in the year 2011/12 and 2011/12 respectively. Likewise, the highest DPS of RBFL is RS. 15 in the year 2009/10 and dividend was not distributed during the year 20011/12. DPS of MLFL is calculated in the table 4.6. DPS of 6 years in table of mean is given that means Rs. 15.75 is the DPS of MLFL of 6 year. Similarly, average DPS of NNFL, SFL, OFL and RBFL is Rs. 11.63, Rs. 24.25, Rs. 20.83 and Rs. 9.68 respectively.

The coefficient of variation (CV) indicates the volatility of the variables during the period of time. Here the volatility of DPS of MLFL, NNFL, SFL, OFL and RBFL are 43.87%, 57.27%, 21.38%, 76.43% and 47.89% respectively. The CV of OFL is highest

of all the sample finance companies which refers that the DPS of OFL fluctuates more than that of other sample finance companies. The DPS of SFL fluctuates less than that of the entire sample finance companies.

#### **4.2.3. Performance of Book value per share of sample Finance companies**

BPS indicates the shareholder's wealth profit capital which includes equity contributed by shareholders along with undistributed in terms of per share. It is the core value of equity.

The following table shows the book value per share from the year 2006/07 to 2011/12.

**Table 4.7.**

#### **Position of BPS**

<b>Yr/Finance co.</b>	<b>MLFL</b>	<b>NNFL</b>	<b>SFL</b>	<b>OFL</b>	<b>RBFL</b>
<b>2006/07</b>	143.12	199.89	155.99	141	135.25
<b>2007/08</b>	140.45	136.03	155.17	166	119
<b>2008/09</b>	138.78	131.75	154.63	144.07	125

<b>2009/10</b>	110.89	132.29	157.72	118.86	126.80
<b>2010/11</b>	114.26	122.86	147.15	117.50	120.70
<b>2011/12</b>	115.76	126.06	124.57	131.88	117.56
SUM	763.26	848.88	895.23	819.31	744.31
Average	127.21	141.48	149.21	136.55	124.05
SD	13.71	26.47	11.51	16.54	5.95
CV	10.78	18.71	7.71	12.11	4.8

Source: Annual report of the listed finance companies, NEPSE and SEBON

Table 4.7 shows Book value per share of sample finance companies from the year 2006/07 to 2011/12. BPS is the dependent variable in this study. Among all, the highest BPS of MLFL is RS.143,12 in the year 2006/07 and the lowest is Rs.110.89 in the year 2009/10. Similarly, the highest BPS of NNFL is RS. 199.89 in the year 2006/07 and the lowest is Rs. 122.86 in the year 2010/11. The highest BPS of SFL is Rs. 157.72 in the year 2009/10 and the lowest is Rs. 124.57 in the year 2011/12. The highest and the lowest BPS of OFL are Rs. 166 and Rs. 17.50 in the year 2007/08 and 2010/11 respectively. Likewise, the highest BPS of RBFL is RS. 135.25 in the year 2006/07 and the lowest is Rs. 117.56 in the year 2011/12. BPS of MLFL is calculated in the table 4.7. BPS of 6 years in table of mean is given that means Rs. 127.21 is the BPS of MLFL of 6 year. Similarly, average BPS of NNFL, SFL, OFL and RBFL is Rs. 141.48, Rs. 149.21, Rs. 136.55 and Rs. 124.05 respectively.

The coefficient of variation (CV) indicates the volatility of the variables during the period of time. Here the volatility of BPS of MLFL, NNFL, SFL, OFL and RBFL are 10.78%, 18.71%, 7.71%, 12.11% and 4.8% respectively. The CV of NNFL is highest of all the sample finance companies which refers that the BPS of NNFL fluctuates more than that of other sample finance companies. The BPS of SFL fluctuates less than that of the entire sample finance companies.

#### 4.2.4. Performance of Earning per share of sample Finance companies

EPS is the most popular financial indicator. It gives close insight about the earning power. Shareholder shall receive cash dividend from this EPS of the firm. In fact, it is the net profit, represented in terms of per share equity.

The following table shows the earning per share from the year 2006/07 to 2011/12

**Table 4.8**  
**Position of EPS**

<b>Yr/Finance co.</b>	<b>MLFL</b>	<b>NNFL</b>	<b>SFL</b>	<b>OFL</b>	<b>RBFL</b>
<b>2006/07</b>	25.37	25.36	24.79	19.55	29.80
<b>2007/08</b>	24.88	14.62	36.69	26.70	29.38
<b>2008/09</b>	29.07	19.44	30.02	24.91	16.30
<b>2009/10</b>	9.81	16.94	28.14	22.94	24.71
<b>2010/11</b>	15.47	12.81	23.64	16.37	15.74

<b>2011/12</b>	8.89	10.50	18.95	22.16	9.36
SUM	113.49	99.67	162.23	132.63	125.29
Average	18.92	16.61	27.04	22.11	20.88
SD	7.91	4.84	5.56	3.39	7.6
CV	41.82	29.12	20.55	15.35	36.40

Source: Annual report of the listed finance companies, NEPSE and SEBON

Table 4.8 shows earning per share of sample finance companies from the year 2006/07 to 2011/12. EPS is the dependent variable in this study. Among all, the highest EPS of MLFL is Rs. 29.07 in the year 2008/09 and the lowest is Rs. 9.81 in the year 2009/10. Similarly, the highest EPS of NNFL is RS. 25.36 in the year 2006/07 and the lowest is Rs. 10.50 in the year 2011/12. The highest EPS of SFL is Rs. 36.69 in the year 2007/08 and the lowest is Rs. 18.95 in the year 2011/12. The highest EPS of SFL is Rs. 26.70 in the years 2008/09 and the lowest is Rs. 196.37 in the year 2010/11. Likewise, the highest EPS of RBFL is RS. 29.80 in the year 2006/07 and the lowest is Rs.9.36 in the year 2011/12. EPS of MLFL is calculated in the table 4.8. EPS of 6 years in table of mean is given that means Rs. 18.92 is the MPS of MLFL of 6 year. Similarly, average EPS of NNFL, SFL, OFL and RBFL is Rs. 16.61, Rs. 27.04, Rs. 22.11 and Rs. 20.88 respectively.

The coefficient of variation (CV) indicates the volatility of the variables during the period of time. Here the volatility of EPS of MLFL, NNFL, SFL, OFL and RBFL are 41.82%, 29.12%, 20.55%, 15.35% and 36.40% respectively. The CV of MLFL is highest of all the sample finance companies which refers that the EPS of MLFL fluctuates more than that of other sample finance companies. The EPS of OFL fluctuates less than that of the entire sample finance companies.

#### **4.3. Simple Correlation Coefficient Analysis of Sample banks.**

The simple correlation coefficient ( $r$ ) shows the relationship between independent variable and dependent variable. Here, MPS is dependent variable and DPS, BPS & EPS are independent variables. The coefficient of determination ( $r^2$ ) indicates what percentage of total variance is explained by the measure of simple correlation coefficient.

#### 4.3.1. Simple Correlation between MPS and DPS

The following table shows the correlation between MPS and DPS during the period 2006/07 to 2011/12 of sample banks where MPS is dependent variable and DPS is independent variable.

**Table 4.9**  
**Correlation Coefficient analysis between MPS & DPS**

S. N.	Name Of Company	Correlation Coefficient( $r$ )	Coefficient of determination( $r^2$ )
1	<b>HBL</b>	0.8387	0.7034
2	<b>NIBL</b>	0.0032	0.00001
3	<b>BOK</b>	0.5724	0.3276
4	<b>EBL</b>	0.1046	0.0109
5	<b>NABIL</b>	0.8441	0.7125

Source: Appendix II

In the table 4.9 MPS is positively correlated with DPS in all the banks. The correlation coefficients of HBL and NABIL are significant i.e. they lie in between 0.75 to 1.



Here, it shows that 70.34% of the change in MPS is explained by DPS in HBL. Similarly, 0.001% of the change in MPS is explained by DPS in NIBL. In the same way, 32.76% of the change in MPS is explained by DPS in BOK. 1.09% of the change in MPS is explained by DPS in EBL where as 71.25% of the change in MPS is explained by DPS in NABIL.

#### 4.3. 2. Simple Correlation between MPS and BPS

The following table shows the correlation between MPS and BPS during the study period of 2006/07 to 2011/12 for sample banks where MPS is dependent variable and EPS is independent variable.

**Table 4.10**

**Correlation Coefficient analysis between MPS & BPS**

<b>S. N.</b>	<b>Name Of Company</b>	<b>Correlation Coefficient(r)</b>	<b>Coefficient of determination(<math>r^2</math>)</b>
1	<b>HBL</b>	0.9091	0.8264
2	<b>NIBL</b>	0.7448	0.5547
3	<b>BOK</b>	0.8192	0.6711
4	<b>EBL</b>	-0.7149	0.5111
5	<b>NABIL</b>	0.8817	0.7774

Source: Appendix II

In the table 4.10., MPS is positively correlated with BPS in HBL, NIBL, BOK and NABIL whereas it is negative in EBL. The correlation coefficients of HBL, NIBL, BOK

and NABIL are significant i.e. they lies in between 0.75 to 1. The correlation coefficient of HBL is highly correlated. The correlation coefficient of EBL is highly negative.

Here, it shows that 82.64% of the change in MPS is explained by BPS in HBL. Similarly, 155.47% of the change in MPS is explained by BPS in NIBL. In the same way, 67.11% of the change in MPS is explained by BPS in BOK. 51.11% of the change in MPS is explained by BPS in EBL and 77.74% of the change in MPS is explained by BPS in NABIL.

### 4.3. 3. Simple Correlation between MPS and EPS

The following table shows the correlation between MPS and EPS during the study period 2006/007 to 2011/12 of sample banks where MPS is dependent variable and EPS is independent variable.

**Table 4.11**

**Correlation Coefficient analysis between MPS & EPS**

<b>S. N.</b>	<b>Name Of Company</b>	<b>Correlation Coefficient(r)</b>	<b>Coefficient of determination(<math>r^2</math>)</b>
1	<b>HBL</b>	0.9015	0.8127
2	<b>NIBL</b>	0.6812	0.4640
3	<b>BOK</b>	0.9145	0.8363
4	<b>EBL</b>	-0.0653	0.0043
5	<b>NABIL</b>	0.9271	0.8595

Source : Appendix II

In the table 4.11 MPS is positively correlated with EPS in all the sample banks except in EBL which is negatively correlated. The correlation coefficients of HBL, BOK and NABIL are significant i.e. they lies in between 0.75 to 1 and also there is perfect positive

correlation. The correlation coefficient of NABIL is highly correlated. The correlation coefficient of NIBL is low.

Here, it shows that 81.27% of the change in MPS is explained by BPS in HBL. Similarly, 46.40% of the change in MPS is explained by BPS in NIBL. In the same way, 83.63% of the change in MPS is explained by BPS in BOK. 0.43% of the change in MPS is explained by BPS in EBL and 85.95% of the change in MPS is explained by BPS in NABIL.

#### **4.4. Simple Correlation Coefficient Analysis of Sample Finance companies.**

The simple correlation coefficient ( $r$ ) shows the relationship between independent variable and dependent variable. Here, MPS is dependent variable and DPS, BPS & EPS are independent variables. The coefficient of determination ( $r^2$ ) indicates what percentage of total variance is explained by the measure of simple correlation coefficient.

##### **4.4.1. Simple Correlation between MPS and DPS**

The following table shows the correlation between MPS and DPS during the study period of 2006/07 to 2011/12 of sample finance companies where MPS is dependent variable and DPS is independent variable.

**Table 4.12**

**Correlation Coefficient analysis between MPS & DPS**

<b>S. N.</b>	<b>Name Of Company</b>	<b>Correlation Coefficient(<math>r</math>)</b>	<b>Coefficient of determination(<math>r^2</math>)</b>
1	MLFL	0.6331	0.4008

2	NNFL	0.2612	0.0682
3	SFL	0.2496	0.0623
4	OFL	-0.1160	0.0135
5	RBFL	0.4673	0.2184

Source: Appendix II

In the table 4.12, MPS is positively correlated with DPS of MLFL, NNFL, SFL and RBFL where as it is negatively correlated with DPS in OFL. The correlation coefficient of SFL is low.

Here, it shows that 40.08% of the change in MPS is explained by DPS in MLFL. Similarly, 6.82% of the change in MPS is explained by DPS in NNFL. In the same way, 6.23% of the change in MPS is explained by DPS in SFL. 1.35% of the change in MPS is explained by DPS in OFL and 21.84% of the change in MPS is explained by DPS in RBFL.

#### 4.4.2. Simple Correlation between MPS and BPS

The following table shows the correlation between MPS and BPS during the study period 2006/07 to 2011/12 of sample finance companies where MPS is dependent variable and BPS is independent variable.

**Table 4.13**

#### **Correlation Coefficient analysis between MPS & BPS**

<b>S. N.</b>	<b>Name Of Company</b>	<b>Correlation Coefficient(r)</b>	<b>Coefficient of determination(<math>r^2</math>)</b>
1	MLFL	0.7060	0.4984
2	NNFL	0.0621	0.0039

3	SFL	0.5388	0.2903
4	OFL	0.6023	0.3628
5	RBFL	-0.1019	0.0104

Source: Appendix II

In the table 4.13, MPS is positively correlated with BPS in all the sample finance companies except in the RBFL. The correlation coefficient of MLFL between MPS and BPS is more than other finance companies. The correlation coefficient of NNFL is lowest. And the correlation coefficient of RBFL is negatively correlated.

Here, it shows that 49.84% of the change in MPS is explained by BPS in MLFL. Similarly, 0.39% of the change in MPS is explained by BPS in NNFL. In the same way, 29.03% of the change in MPS is explained by BPS in SFL. 36.28% of the change in MPS is explained by BPS in OFL and 1.04% of the change in MPS is explained by BPS in RBFL.

#### 4.4.3. Simple Correlation between MPS and EPS

The following table shows the correlation between MPS and EPS during the study period 2006/07 to 2011/12 of sample companies where MPS is dependent variable and EPS is independent variable.

**Table 4.14**  
**Correlation Coefficient analysis between MPS & EPS**

S. N.	Name Of Company	Correlation Coefficient(r)	Coefficient of determination( $r^2$ )
1	MLFL	0.6961	0.4846
2	NNFL	0.3154	0.0995
3	SFL	0.8975	0.8055

4	OFL	0.6720	0.4516
5	RBFL	0.3220	0.1037

Source: Appendix II

In the table 4.14, MPS is positively correlated with EPS in all sample finance companies. The correlation coefficient of SFL is significant. The correlation coefficient is lowest of NNFL.

Here, it shows that 48.46% of the change in MPS is explained by EPS in MLFL. In the same way, 9.95% of the change in MPS is explained by EPS in NNFL. 80.55% of the change in MPS is explained by EPS in SFL and 45.16% of the change in MPS is explained by EPS in OFL. Similarly, 10.37% change in MPS is explained by EPS in the RBFL.

#### 4.5. Regression analysis of sample banks

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation or prediction of one variable on the basis of the other variables. Here, MPS is the dependent variable to be found out on the basis of independent variable DPS, BPS and EPS.

##### 4.5.1. Regression Equation of MPS on DPS

The following regression equation shows the relation between MPS and DPS where MPS is dependent variable and DPS is independent variable.

The regression equation of MPS on DPS is given as:

$$\text{MPS} = a + b \text{ DPS}$$

**Table 4.15**  
**Regression Equation of MPS on DPS of sample banks**

S. N.	Name of bank	constant(a)	Slope(b)
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1	<b>HBL</b>	-1840.1	89.84
2	<b>NIBL</b>	1208.55	0.2282
3	<b>BOK</b>	88.91	40.49
4	<b>EBL</b>	1597.62	7.26
5	<b>NABIL</b>	-114.73	43.1

Source : Appendix II

Table 4.15 shows the constant(a) and Slope(b) of sample banks during the period of six years for MPS being dependent on DPS.

In the case of HBL, the regression constant (a) -1840.1 implies that when DPS is nil, MPS is -1840. The coefficient of DPS is 89.84, implies that when DPS increases by Re.1, MPS increases by Rs. 89.84 and vice versa.

In the case of NIBL, the regression constant (a) 1208.55 implies that when DPS is nil, MPS is 1208.55. The coefficient of DPS is 0.2282, implies that when DPS increases by Re. 1, MPS increases by Rs.0.2282 and vice versa.

In the case of BOK, the regression constant (a) 88.91 implies that when DPS is nil, MPS is 88.91 .The coefficient of DPS is 40.49, implies that when DPS increases by Re. 1, MPS increases by Rs. 40.49 and vice versa.

In the case of EBL, the regression constant (a) 1597.62 implies that when DPS is nil, MPS is 1597.62. The coefficient of DPS is 7.26, implies that when DPS increases by Re. 1, MPS increases by Rs. 7.26 and vice versa.

In the case of NABIL, the regression constant (a) -114.73 implies that when DPS is nil, MPS is -114.73. The coefficient of DPS is 43.1, implies that when DPS increases by Re. 1, MPS increases by Rs. 43.1 and vice versa.

#### **4.5.2. Regression Equation of MPS on BPS**

The following regression equation shows the relation between MPS and BPS where MPS is dependent variable and BPS is independent variable.

The regression equation of MPS on EPS is given as:

$$\text{MPS} = a + b \text{ BPS}$$

**Table 4.16**  
**Regression Equation of MPS on BPS of sample banks**

S. N.	Name of bank	constant(a)	Slope(b)
1	HBL	-3226.09	19.37
2	NIBL	-2282.67	18.38
3	BOK	-3388.79	25.05
4	EBL	5451.38	-12.71
5	NABIL	-4042.69	23.97

Source : Appendix II

Table 4.16 shows the Constant(a) and Slope(b) of sample banks during the period of six years for MPS being dependent on BPS.

In the case of HBL, the regression constant (a) -3226.09 implies that when BPS is nil, MPS is -3226.09. The coefficient of BPS is 19.37, implies that when BPS increases by Re. 1, MPS increases by Rs. 19.37 and vice versa.

In the case of NIBL, the regression constant (a) -2282.67 implies that when BPS is nil, MPS is -2282.67. The coefficient of BPS is 18.38, implies that when BPS increases by Re. 1, MPS increases by Rs. 18.38 and vice versa.



In the case of BOK, the regression constant (a) -3388.79 implies that when BPS is nil, MPS is -3388.79. The coefficient of BPS is 25.05, implies that when BPS increases by Re. 1, MPS increases by Rs. 25.05 and vice versa.

In the case of EBL, the regression constant (a) 5451.38 implies that when BPS is nil, MPS is 5451.38. The coefficient of BPS is -12.71, implies that when BPS increases by Re. 1, MPS decreases by Rs. 12.71 and vice versa.

In the case of NABIL, the regression constant (a) -4042.69 implies that when BPS is nil, MPS is -4042.69. The coefficient of BPS is 23.97, implies that when BPS increases by Re. 1, MPS increases by Rs. 23.97 and vice versa.

#### 4.5.3. Regression Equation of MPS on EPS

The following regression equation shows the relation between MPS and EPS of sample banks during the study of period where MPS is dependent variable and EPS is independent variable.

The regression equation of MPS on EPS is given as:

$$\text{MPS} = a + b \text{EPS}$$

**Table 4.17**  
**Regression Equation of MPS on EPS of sample banks**

S. N.	Name of bank	constant(a)	Slope(b)
1	<b>HBL</b>	-927.47	43.39
2	<b>NIBL</b>	1034.51	3.94
3	<b>BOK</b>	-2478.77	79.19
4	<b>EBL</b>	2262.73	-3.46
5	<b>NABIL</b>	-3698.75	70.16

Source : Appendix II

Table 4.17 shows Constant(a) and Slope(b) of sample banks during the study period for MPS being dependent on EPS.

In the case of HBL, the regression constant (a) -927.47 implies that when EPS is nil, MPS is -927.47. The coefficient of EPS is 43.39, implies that when EPS increases by Re.1, MPS increases by Rs. 43.39 and vice versa.

In the case of NIBL, the regression constant (a) 1034.51 implies that when EPS is nil, MPS is 1034.51. The coefficient of EPS is 3.94, implies that when EPS increases by Re.1, MPS decreases by Rs. 3.94 and vice versa.

In the case of BOK, the regression constant (a)-2478.77 implies that when EPS is nil, MPS is -2478.77. The coefficient of EPS is 79.19, implies that when EPS increases by Re.1, MPS increases by Rs. 79.19 and vice versa.

In the case of EBL, the regression constant (a) 2262.73 implies that when EPS is nil, MPS is 2262.73. The coefficient of EPS is -3.46, implies that when EPS increases by Re.1, MPS decreases by Rs. 3.46 and vice versa.

In the case of NABIL, the regression constant (a) -3698.75 implies that when EPS is nil, MPS is -3698.75. The coefficient of EPS is 70.16, implies that when EPS increases by Re.1, MPS increases by Rs. 70.16 and vice versa.

#### **4.6. Regression analysis of sample Finance companies.**

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation or prediction of one variable on the basis of the other variables. Here, MPS is the dependent variable to be found out on the basis of independent variable DPS, BPS and EPS.

##### **4.6.1. Regression Equation of MPS on DPS**

The following regression equation shows the relation between MPS and DPS where MPS is dependent variable and DPS is independent variable.

The regression equation of MPS on DPS is given as:

$$\text{MPS} = a + b \text{ DPS}$$

**Table 4.18**

**Regression Equation of MPS on DPS of sample finance companies**

S. N.	Name of finance companies	constant(a)	Slope(b)
1	MLFL	-42.31	33.71
2	NNFL	334.12	15.43
3	SFL	57.72	25.15
4	OFL	396.5	-1.03
5	RBFL	129.78	17.77

Source : Appendix II

Table 4.18 shows Constant(a) and Slope(b) of sample finance companies during the study period for MPS being dependent on DPS.

In the case of MLFL, the regression constant (a) -42.31 implies that when DPS is nil, MPS is -42.31. The coefficient of DPS is 33.71, implies that when DPS increases by Re.1, MPS increases by Rs. 33.71 and vice versa.

In the case of NNFL, the regression constant (a) 334.12 implies that when DPS is nil, MPS is 334.12. The coefficient of DPS is 15.43, implies that when DPS increases by Re.1, MPS increases by Rs. 37.51 and vice versa.

In the case of SFL, the regression constant (a) 57.74 implies that when DPS is nil, MPS is 57.74. The coefficient of DPS is 25.15, implies that when DPS increases by Re.1, MPS increases by Rs. 25.15 and vice versa.

In the case of OFL, the regression constant (a) 396.5 implies that when DPS is nil, MPS is 396.5. The coefficient of DPS is -1.03, implies that when DPS increases by Re.1, MPS decreases by Rs. 1.03 and vice versa.

In the case of RBFL, the regression constant (a) 129.78 implies that when DPS is nil, MPS is 129.78. The coefficient of DPS is 17.77, implies that when DPS increases by Re.1, MPS increases by Rs. 17.77 and vice versa.

#### 4.6.2. Regression Equation of MPS on BPS

The following regression equation shows the relation between MPS and BPS where MPS is dependent variable and BPS is independent variable.

The regression equation of MPS on BPS is given as:

$$\text{MPS} = a + b \text{ BPS}$$

**Table 4.19**

**Regression Equation of MPS on BPS of sample finance companies**

S. N.	Name of finance companies	constant(a)	Slope(b)
1	MLFL	-1923.23	18.96
2	NNFL	383.04	0.9242
3	SFL	-2980.69	24.45
4	OFL	-329.62	5.16
5	RBFL	72.58	-3.02

Source : Appendix II

Table 4.19 shows Constant(a) and Slope(b) of sample finance companies during the study period for MPS being dependent on BPS.

In the case of MLFL, the regression constant (a) -1923.23 implies that when BPS is nil, MPS is -1923.23. The coefficient of BPS is 18.96, implies that when BPS increases by Re.1, MPS increases by Rs. 18.96 and vice versa.

In the case of NNFL, the regression constant (a) 383.04 implies that when BPS is nil, MPS is 383.04. The coefficient of BPS is 0.9242, implies that when BPS increases by Re.1, MPS increases by Rs. 0.9242 and vice versa.

In the case of SFL, the regression constant (a) -2980.69 implies that when BPS is nil, MPS is -2980.69. The coefficient of BPS is 24.45, implies that when BPS increases by Re.1, MPS increases by Rs. 24.45 and vice versa.

In the case of OFL the regression constant (a) -329.62 implies that when BPS is nil, MPS is -329.62. The coefficient of BPS is 5.16, implies that when BPS increases by Re.1, MPS increases by Rs. 5.16 and vice versa.

In the case of RBFL the regression constant (a) 72.58 implies that when BPS is nil, MPS is 72.58. The coefficient of BPS is -3.02, implies that when BPS increases by Re.1, MPS decrease by Rs. 3.02 and vice versa.

#### **4.6.3. Regression Equation of MPS on EPS**

The following regression equation shows the relation between MPS and EPS where MPS is dependent variable and EPS is independent variable.

The regression equation of MPS on EPS is given as:

$$\text{MPS} = a + b \text{ EPS}$$

**Table 4.20**

**Regression Equation of MPS on EPS of sample finance companies**

<b>S. N.</b>	<b>Name of finance companies</b>	<b>constant(a)</b>	<b>Slope(b)</b>
1	MLFL	-123.96	32.38
2	NNFL	87.34	25.68
3	SFL	-1613.31	84.35
4	OFL	245.35	28.06
5	RBFL	145.86	7.47

Source : Appendix II

Table 4.20 shows Constant(a) and Slope(b) of sample finance companies during the study period for MPS being dependent on EPS.

In the case of MLFL the regression constant (a) -123.96 implies that when EPS is nil, MPS is -123.96. The coefficient of EPS is 32.38, implies that when EPS increases by Re.1, MPS increases by Rs 32.38 and vice versa.

In the case of NNFL the regression constant (a) 87.34 implies that when EPS is nil, MPS is 87.34. The coefficient of EPS is 25.68, implies that when EPS increases by Re.1, MPS increases by Rs. 25.68 and vice versa.

In the case of SFL the regression constant (a) -1613.31 implies that when EPS is nil, MPS is -1613.31. The coefficient of EPS is 84.35, implies that when EPS increases by Re.1, MPS increases by Rs. 84.35 and vice versa.

In the case of OFL the regression constant (a) 245.35 implies that when EPS is nil, MPS is 245.35. The coefficient of EPS is 28.06, implies that when EPS increases by Re.1, MPS increases by Rs. 28.06 and vice versa.

In the case of RBFL the regression constant (a) 145.86 implies that when EPS is nil, MPS is 145.86. The coefficient of EPS is 7.47, implies that when EPS increases by Re.1, MPS increases by Rs. 7.47 and vice versa.

#### **4.7. Hypothesis testing**

In this study, hypothesis testing has been conducted by using t- test for significance of an observed sample correlation coefficient of MPS & DPS, MPS & BPS and MPS & EPS.

##### **4.7.1. Hypothesis I:**

Testing of hypothesis by using t- test for significance of an observed sample correlation coefficient between MPS and DPS of the study period.

Alternative Hypothesis ( $H_1$ ):  $\rho \neq 0$  (There is significant correlation between MPS and DPS.)

**Table 4.21**

**Calculated value and tabulated value of sample companies and sectors**

<b>S. No.</b>	<b>Name of Company/Sector</b>	<b>Correlation (r)</b>	<b>Calculated value (t<sub>c</sub>)</b>	<b>Tabulated value (t<sub>t</sub>)</b>	<b>Decision</b>
<b>A.</b>	<b>Banking</b>				
1.	HBL	0.8386	3.0810	2.776	Significant
2.	NIBL	0.0032	0.0064	2.776	Insignificant
3.	BOK	0.5724	1.3961	2.776	Significant
4.	EBL	0.1046	0.2103	2.776	Significant
5.	NABIL	0.8441	3.1485	2.776	Significant
<b>B.</b>	<b>Finance</b>				
1.	MLFL	0.6331	1.6357	2.776	Insignificant
2.	NNFL	0.2612	0.5412	2.776	Insignificant
3.	SFL	0.2496	0.5155	2.776	Insignificant
4.	OFL	-0.1160	0.2336	2.776	Insignificant
5.	RBFL	0.4673	1.0570	2.776	Insignificant

Source: Appendix II

**Critical value:**

The tabulated value of t at 5% level of significance for two tail test at  $6 - 2 = 4$  degree of freedom is 2.776.



**Decision:**

Since calculated value ( $t_c$ ) is greater than the critical or tabulated value for 5% level of significance for two tail test at 4 degree of freedom, in the cases of HBL and NABIL the alternative hypothesis is accepted in the case of these companies. Thus, there is significant correlation between MPS and DPS in these companies. Similarly, in case of NIBL, BOK, EBL, MLFL, NNFL, SFL, OFL and RBFL the null hypothesis is accepted. Thus there is no significant correlation between MPS and DPS in these companies.

**4.7.2. Hypothesis II:**

Testing of hypothesis by using t- test for significance of an observed sample correlation coefficient between MPS and BPS of the study period.

Alternative Hypothesis ( $H_1$ ):  $\rho \neq 0$  (There is significant correlation between MPS and BPS.)

**Table 4.22****Calculated value and tabulated value of sample companies and sectors**

<b>S. No.</b>	<b>Name of company/Sector</b>	<b>Correlation</b>	<b>Calculated value (<math>t_c</math>)</b>	<b>Tabulated value (<math>t_t</math>)</b>	<b>Decision</b>
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		(r)			
<b>A.</b>	<b>Banking</b>				
1.	HBL	0.9090	4.3638	2.776	Significant
2.	NIBL	0.7448	2.2323	2.776	Insignificant
3.	BOK	0.8192	2.8569	2.776	Significant
4.	EBL	-0.7149	2.0449	2.776	Insignificant
5.	NABIL	0.8817	3.7376	2.776	Significant
<b>B.</b>	<b>Finance</b>				
1.	MLFL	0.7005	1.9937	2.776	Insignificant
2.	NNFL	0.0621	0.1244	2.776	Insignificant
3.	SFL	0.5388	1.2792	2.776	Insignificant
4.	OFL	0.6023	1.5091	2.776	Insignificant
5.	RBFL	-0.1019	-0.2049	2.776	Insignificant

Source: Appendix II

**Critical value:**

The tabulated value of t at 5% level of significance for two tail test at  $6 - 2 = 4$  degree of freedom is 2.776.

**Decision:**

Since calculated value ( $t_c$ ) is greater than the critical or tabulated value for 5% level of significance for two tail test at 4 degree of freedom, in the cases of HBL and NABIL the alternative hypothesis is accepted in the case of these companies. Thus, there is significant correlation between MPS and BPS in these companies. Similarly, in case of NIBL, BOK, EBL, MLFL, NNFL, SFL, OFL and RBFL the null hypothesis is accepted. Thus there is no significant correlation between MPS and BPS in these companies.

#### 4.7.3. Hypothesis III:

Testing of hypothesis by using t- test for significance of an observed sample correlation coefficient between MPS and EPS of the study period.

Alternative Hypothesis ( $H_1$ ):  $\rho \neq 0$  (There is significant correlation between MPS and EPS.)

**Table 4.23**

**Calculated value and tabulated value of sample companies and sectors**

<b>S. No.</b>	<b>Name of company/Sector</b>	<b>Correlation (r)</b>	<b>Calculated value (<math>t_c</math>)</b>	<b>Tabulated value (<math>t_t</math>)</b>	<b>Decision</b>
---------------	-------------------------------	------------------------	--	---	-----------------

<b>A.</b>	<b>Banking</b>				
1.	HBL	0.9015	4.1661	2.776	Significant
2.	NIBL	0.6811	1.8606	2.776	Insignificant
3.	BOK	0.9145	4.5205	2.776	Significant
4.	EBL	-0.0659	-0.1309	2.776	Insignificant
5.	NABIL	0.9271	4.9467	2.776	Significant
<b>B.</b>	<b>Finance</b>				
1.	MLFL	0.6961	1.9392	2.776	Insignificant
2.	NNFL	0.3154	0.6647	2.776	Insignificant
3.	SFL	0.8975	4.0701	2.776	Significant
4.	OFL	0.9616	1.8149	2.776	Insignificant
5.	RBFL	0.3220	0.6802	2.776	Insignificant

Source: Appendix II

**Critical value:**

The tabulated value of t at 5% level of significance for two tail test at  $6 - 2 = 4$  degree of freedom is 2.776.

**Decision:**

Since calculated value ( $t_c$ ) is greater than the critical or tabulated value for 5% level of significance for two tail test at 4 degree of freedom, in the cases of HBL, BOK, NABIL and SFL the alternative hypothesis is accepted. Thus, there is significant correlation between MPS and EPS in these companies. Similarly, in case of NIBL, EBL, MLF, NNF, OFL and RBFL null hypothesis is accepted. Thus there is no significant correlation between MPS and EPS in these companies.

#### 4.8. Analysis of Primary Data

To find out the investors attitude regarding the impact of financial performance on stock price, different types of questionnaires have been prepared and distributed to different sectors respondents. To collect the relevant data, the questionnaires have been distributed to the respondents on stratified random sampling basis. There are all together 65 sets of questionnaires which are presented in front of the respondents. To get the quick and full response all the questions are objective types. Out of 65 questionnaires 60 are responded.

##### 4.8.1. Objective of purchasing a share

The first question is asked regarding objective of purchasing the shares. There can be different purpose for purchasing shares. Objective for purchasing share can be for dividend receipt, for social status as share gives ownership authority in any of which share is purchased. Some buy shares to gain from the price appreciation. Gain from price appreciation is also called capital gain. And there can be other reasons also for buying shares. Among the 60 respondents 24 respondent or 40% are for dividend, 3 respondent or 5% for social status, 30 respondent or 50% for the price appreciation and 3 respondent or 5% for other purpose.

**Table 4.24**

##### **Objective of purchasing share**

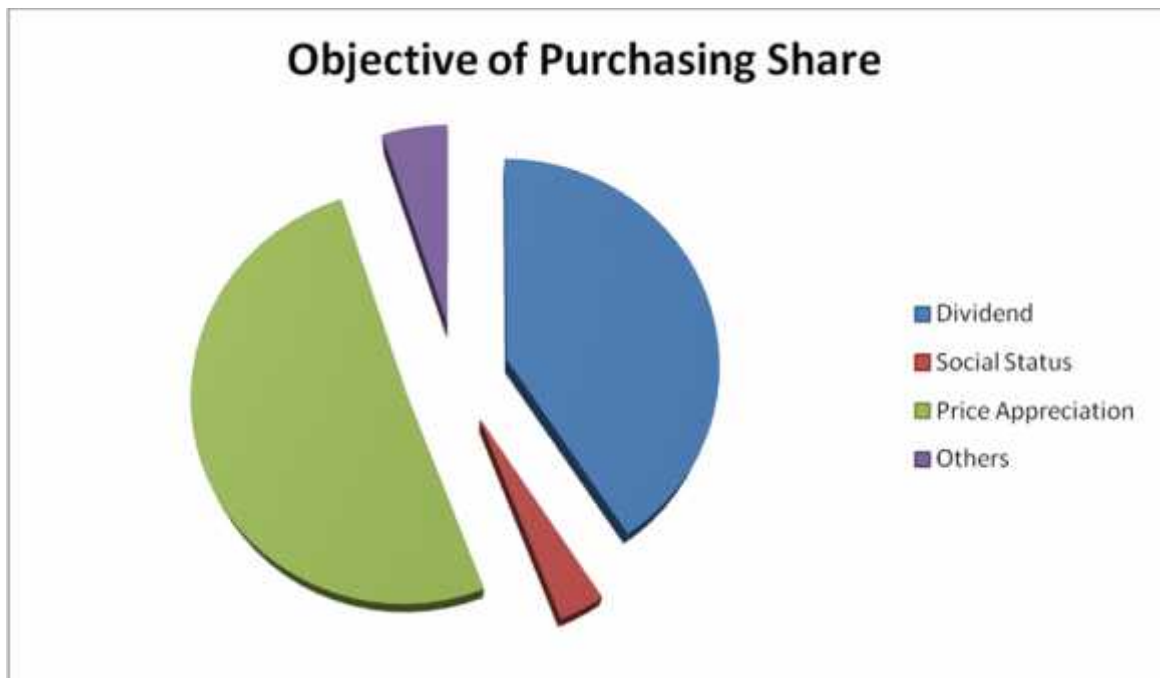
<b>S. No.</b>	<b>Response</b>	<b>No. of Investors</b>	<b>Percentage (%)</b>
<b>1</b>	Dividend	24	40
<b>2</b>	Social Status	3	5
<b>3</b>	Price Appreciation	30	50
<b>4</b>	Others	3	5

<b>Total</b>	<b>60</b>	<b>100</b>
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Source: Field Survey,2012

Above finding can be made more clear from following diagram.

**Fig. 4.1**



#### **4.8.2. Best sector for the Investment**

Shares of many companies from different sectors are traded at NEPSE. Different sectors can be commercial banks, development banks, finance companies, hydropower, hotels, trading companies etc. Investors prefer one sector compare to other sector based on their knowledge, perception and analysis.

The second question is asked regarding the best sector for investment. Among the 60 respondents 27 respondent or 45% are for banking sector, 12 or 20% were for finance sector, 15 respondent or 25% were for hydropower and 6 respondent or 10% were for the other sector.

**Table 4.25**

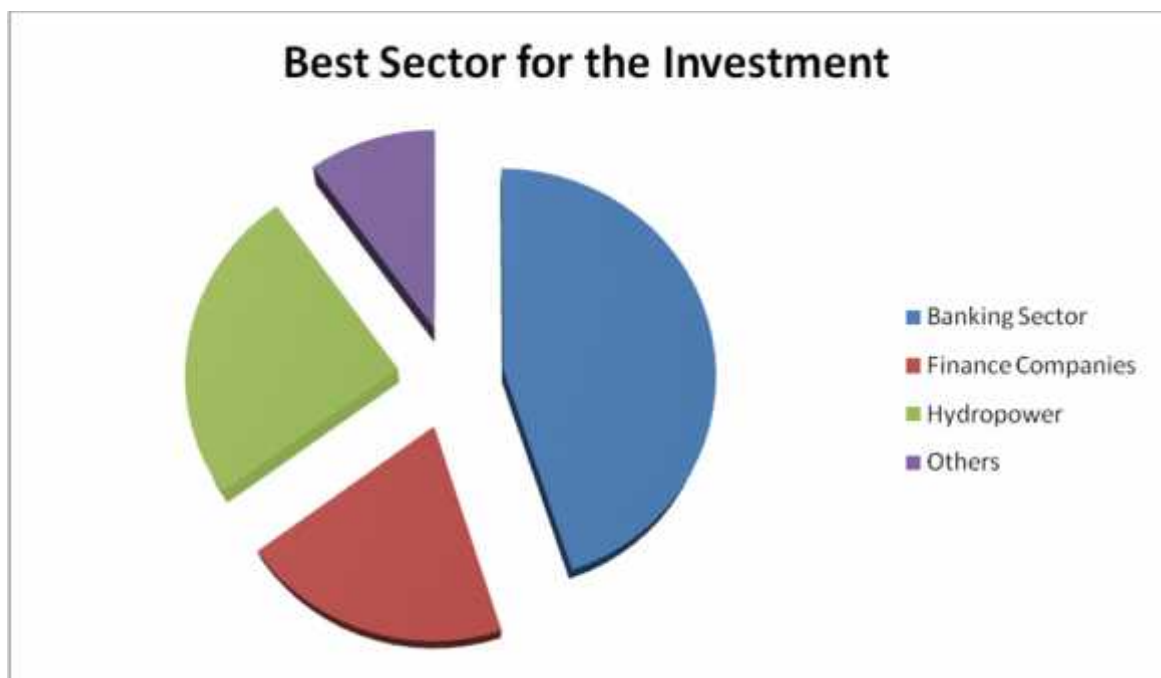
### Best sector for the Investment

S. No.	Response	No. of Investors	Percentage (%)
1	Banking sector	27	45
2	Finance companies	12	20
3	Hydropower	15	25
4	Others	6	10
<b>Total</b>		<b>60</b>	<b>100</b>

Source: Field Survey,2012

Above finding can be made more clear from diagram below.

Fig. 4.2



### 4.8.3. Holding period of the share

The third question was asked regarding the holding period for the share. Holding period after purchase of shares can be short-term of few months or long-term of years. Holding period of shares is affected by different factors. Some investors hold there shares until dividend is received. Some hold shares for little price appreciation while other expect for high price appreciation. In the same way some investors hold for certain period and sell immediately what ever status of share price may be. Holding period of Nepalese investors are usually rumor driven. They hold if they get hear good news and sell if they receive any bad news.

Among the 60 respondents 24 respondent or 40% were for until dividend received, 6 respondent or 10% were for sell after a little price appreciation, 24 respondent 40% were for wait for a high price appreciation and 6 respondent 10% were for certain time period.

**Table 4.25**  
**Holding Period of the Share**

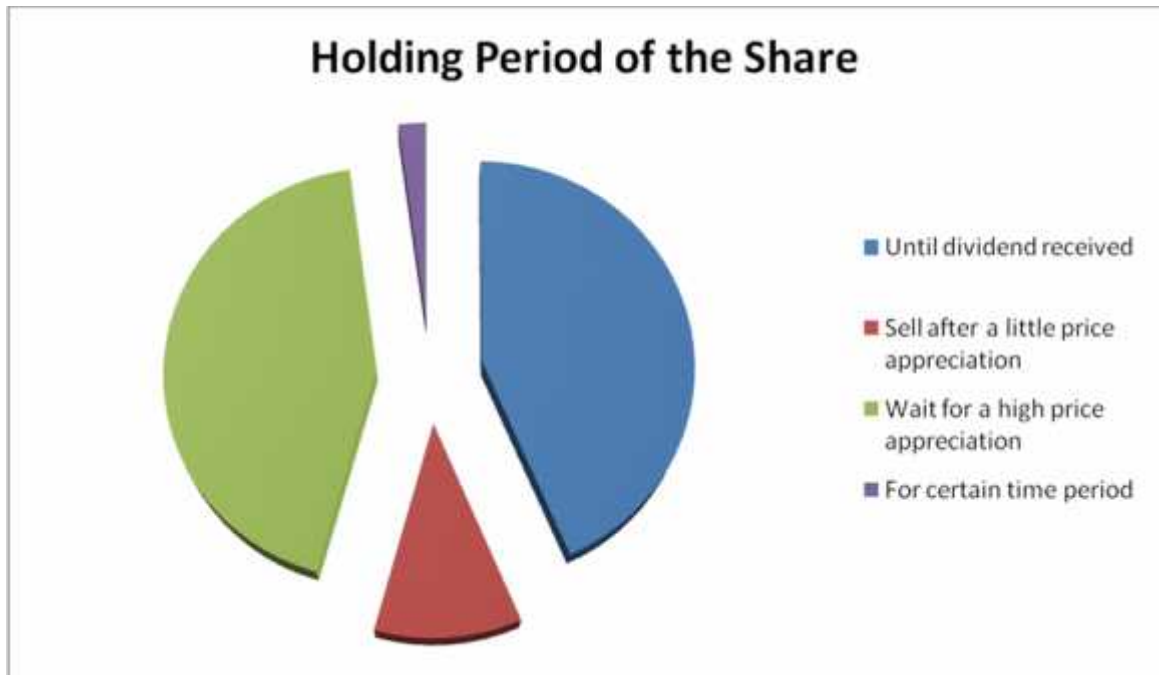
<b>S. No.</b>	<b>Response</b>	<b>No. of Investors</b>	<b>Percentage (%)</b>
<b>1</b>	Until dividend received	24	40
<b>2</b>	Sell after a little price appreciation	6	10
<b>3</b>	Wait for a high price appreciation	24	40
<b>4</b>	For certain time period	6	10
<b>Total</b>		<b>60</b>	<b>100</b>

Source: Field Survey,2012

Above finding can be made more clear from diagram below.

**Fig. 4.3**





#### 4.8.4 Basis of investment decision

Investment in shares is a risky business. Return for share is uncertain. People may gain abundant or turn to loser. Investment in share has not flourished professionally in Nepalese share market as in western countries though there are some professional players also. Share market of Nepal is in its growth phase. Investing requires gathering of information, their analysis and tough decision making as investment involves money. Basis of investment can be by making fundamental analysis, consulting broker, making trend analysis of profit & market price or by taking advice of near and dear ones. Investing by making fundamental analysis requires knowledge, skills, talent and experience. The fourth question is asked regarding the basis of investment decision. Among the 60 respondents 12 make their decision by making fundamental analysis, 6 consults to the broker, 30 of them make their decision by making trend analysis of profit and market price and 12 make their decision on the basis of advice of family, friends and relatives.

**Table 4.26**

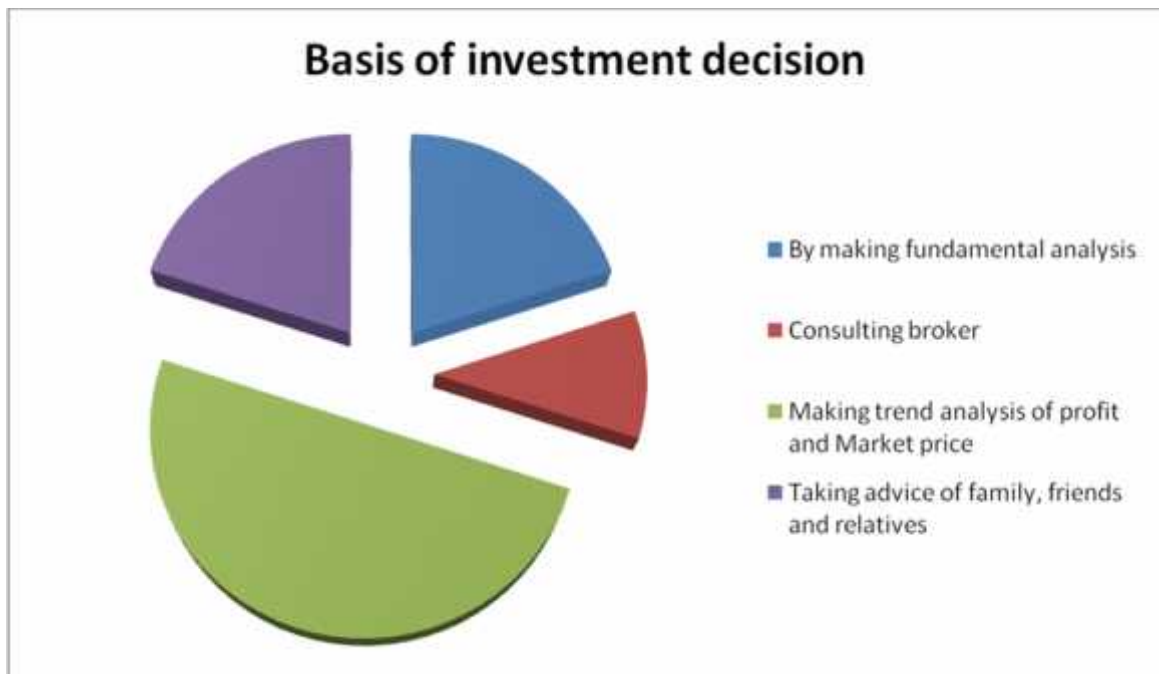
### Basis of investment decision

S. No.	Response	No. of Investors	Percentage (%)
1	By making fundamental analysis	12	20
2	Consulting broker	6	10
3	Making trend analysis of profit and Market price	30	50
4	Taking advice of family, friends and relatives	12	20
<b>Total</b>		<b>60</b>	<b>100</b>

Source: Field Survey,2012

Above finding can be made more clear form diagram below.

**Fig. 4.4**



#### 4.8.5 Major financial factor influencing the stock price

Market Price of Stock is phenomenon of different factors which can be internal or external to the company. Internal factors are related to the internal of company like financial performance whereas external factor are inherent in the external environmental like political, economic factors. Mostly it is presumed that share price is influence by internal factor i. e. financial performance of company. Among them DPS, BPS and EPS are thought to play crucial role.

Question is asked regarding the major financial factor influencing the stock price. Among them 12 or 20 % of the respondents are for Earning per share, 21 or 35 % are for Dividend, 6 respondent or 10% are for Book value and 21 or 54 % respondent are for other financial factor.

**Table 4.27**

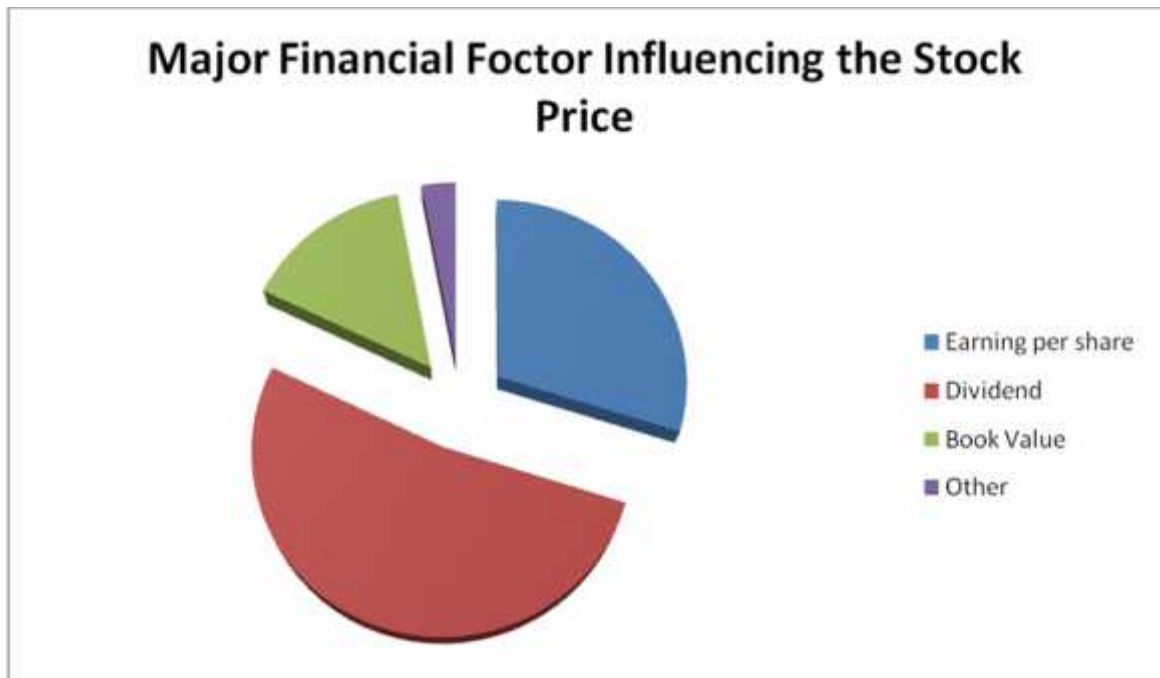
**Major financial factor influencing the stock price**

<b>S. No.</b>	<b>Response</b>	<b>No. of Investors</b>	<b>Percentage (%)</b>
<b>1</b>	Earning per share	12	20
<b>2</b>	Dividend	21	35
<b>3</b>	Book Value	6	10
<b>4</b>	Other	21	35
<b>Total</b>		<b>60</b>	<b>100</b>

Source: Field Survey,2012

Above diagram can be made more clear form diagram below.

**Fig. 4.5**



#### 4.8.6. Major Non-financial factor influencing the stock price

External factors have vital impact on the determination of market price of share. External or non-financial factors are usually uncontrollable. So, companies have to adopt with the external environment to thrive. Non-financial factors can be political factor, government policy, market interest rate and many others. Unskilled investors usually rely on non-financial factor for their investment decision.

The sixth question is asked regarding the major Non-financial factor influencing the stock price. Among them 24 or 40% of the respondents are for Political Factors, 18 or 30% are for Government Policy, 9 or 15% are for Market Interest Rate and 9 or 15 % are for other Non- financial factor.

**Table 4.28**

**Major Non-financial factor influencing the stock price**

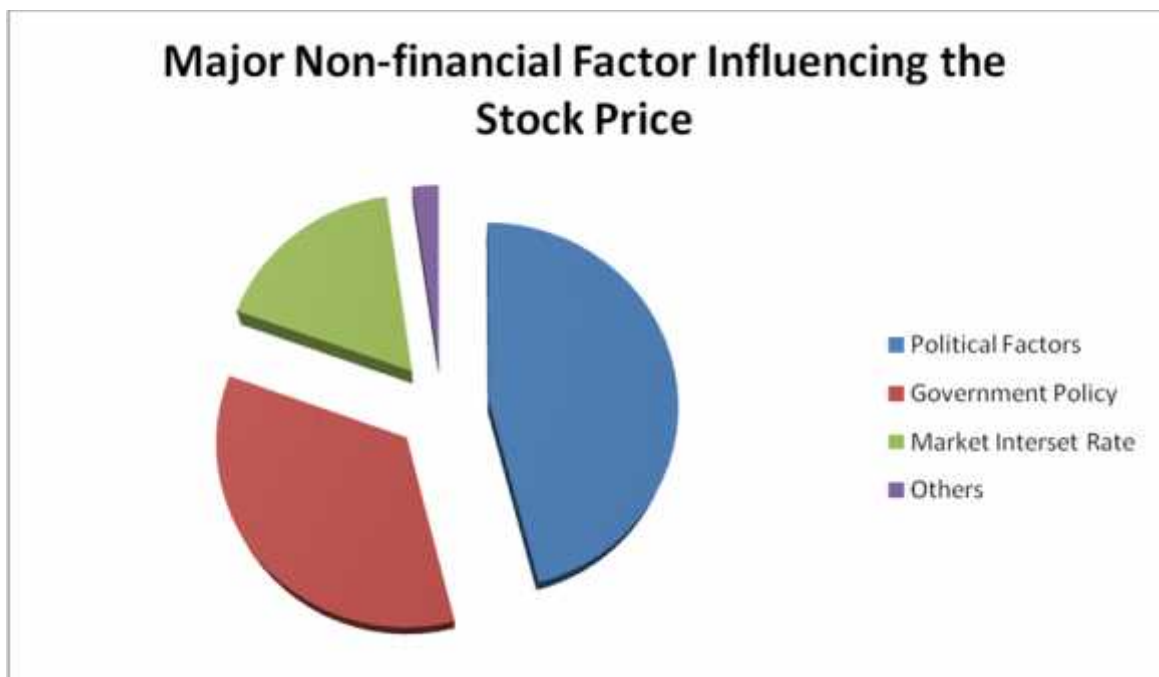
S. No.	Response	No. of Investors	Percentage (%)

<b>1</b>	Political Factors	24	40
<b>2</b>	Government Policy	18	30
<b>3</b>	Market Interest Rate	9	15
<b>4</b>	Others	9	15
<b>Total</b>		<b>60</b>	<b>100</b>

Source: Field Survey,2012

Above finding can be made more clear form the diagram below.

**Fig. 4.6**



#### 4.8.7. Factor influencing the stock price

Both financial and non-financial factors have tremendous impact on determination of share price in the market of share. Only their amount of impact is different according to situation and circumstances. Professional investors make their discretion base on all the factors. More vigorous the study and analysis of factors is more accurate the decision is.

Question is asked regarding the factor influencing the stock price. Among them 24 or 40% of the respondents are for Financial Factors and 36 or 60% are for Non-financial factors.

**Table 4.29**

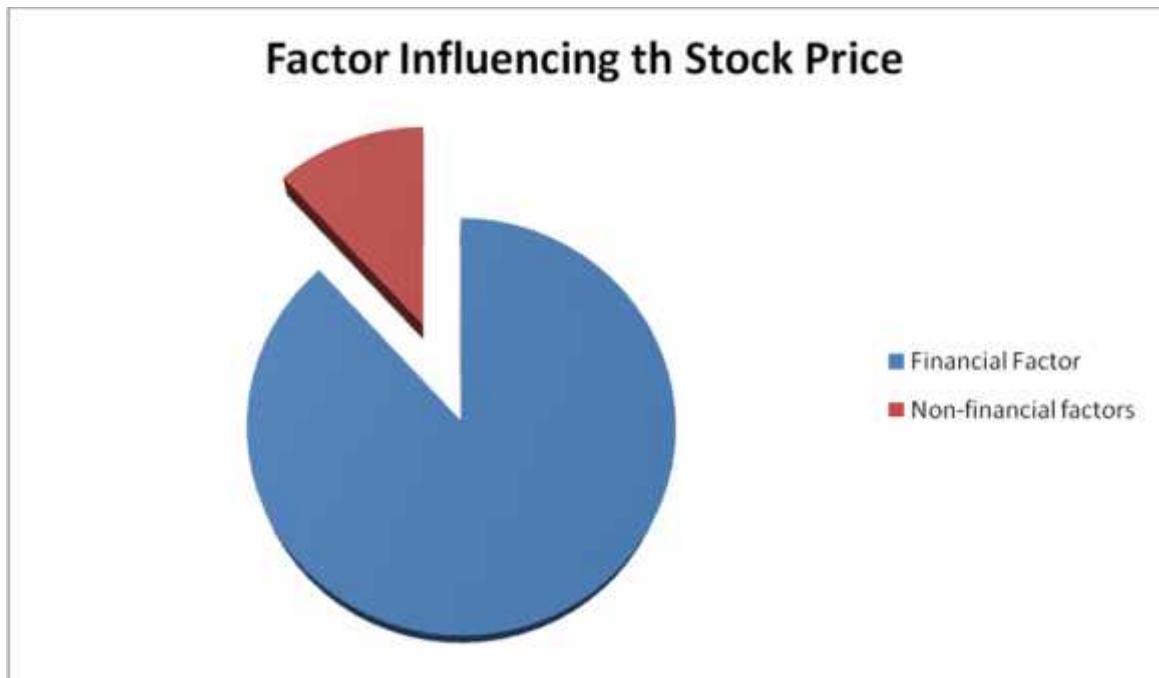
**Factor influencing the stock price**

<b>S. No.</b>	<b>Response</b>	<b>No. of Investors</b>	<b>Percentage (%)</b>
<b>1</b>	Financial Factors	24	40
<b>2</b>	Non-financial factors	36	60
<b>Total</b>		<b>60</b>	<b>100</b>

Source: Field Survey,2012

Above finding can be made more clear form from the diagram below.

**Fig. 4.7**



#### 4.9. Empirical findings of the data analysis

##### Financial Performance

1. The fluctuation of MPS of HBL, NIBL, BOK, EBL and NABIL are 46.42%, 58.76%, 51.77%, 39.24% and 51.85% respectively. Similarly, the fluctuation of MPS of MLFL, NNFL, SFL, OFL and RBFL are 75.33%, 76.65%, 78.24%, 37.78% and 58.42% respectively.
2. The fluctuation of DPS of HBL, NIBL, BOK, EBL and NABIL are 14.13%, 30.65%, 27.70%, 22.08% and 42.32% respectively. Similarly, the fluctuation of DPS of MLFL, NNFL, SFL, OFL and RBFL are 43.87%, 57.27%, 21.38%, 76.43% and 47.89% respectively.
3. The fluctuation of BPS of HBL, NIBL, BOK, EBL and NABIL are 11.81%, 15.22%, 11.53%, 14.81% and 20.78% respectively. Similarly, the fluctuation of BPS of MLFL, NNFL, SFL, OFL and RBFL are 10.78%, 18.71%, 7.71%, 12.11% and 4.8% respectively.

4. The fluctuation of EPS of HBL, NIBL, BOK, EBL and NABIL are 24.06%, 26.78%, 15.99%, 16.75% and 22.91% respectively. Similarly, the fluctuation of EPS of MLFL, NNFL, SFL, OFL and RBFL are 41.82%, 29.12%, 20.55%, 15.35% and 36.40% respectively.

### **Simple Correlation Coefficient Analysis**

1. In the case of banks, the correlation between MPS and DPS of HBL and NABIL are significant i.e. they lie in between 0.75 to 1. The correlation coefficient of NIBL is lowest. The Coefficient of determination is highest of NABIL is 71.25%. And the lowest is 0.001% of NIBL.

In the case of finance companies, the correlation coefficient between MPS and DPS of no finance company is significant. The correlation coefficient of MLFL is highly correlated. And the correlation coefficient of OFL is negative and low.

2. In the case of banks, the correlation between MPS and BPS of all sample banks are significant except that of EBL. The correlation coefficient of all banks are highly correlated. The correlation coefficient of EBL is lowest among other commercial bank. Above 60% of the change in MPS is explained by BPS in HBL, BOK and NABIL, where as in rest it is below 56%.

In the case of finance companies, the correlation coefficient between MPS and BPS of no finance company is significant. The correlation coefficient of MLFL is highly correlated. The correlation coefficient between MPS and BPS of NNFL is very low and the correlation coefficient of RBFL is negative.

3. In the case of banks, the correlation between MPS and EPS of HBL, BOK and NABIL are significant. The correlation coefficient of EBL is low and negatively correlated.

In the case of finance companies, the correlation coefficient between MPS and EPS of SFL is significant. The correlation coefficient of SFL is highly correlated. The correlation coefficient between MPS and EPS of NNFL and RBFL is low.



## **Hypothesis analysis**

After performing hypothesis testing by using t-test for significance of an observed sample correlation coefficient between MPS and DPS, the correlation coefficient were found significant on the case of HBL and NABIL of the sample banks where as in other banks it were found insignificant. On the other hand, the correlation coefficient in all sample finance companies was found insignificant.

Similarly, the correlation coefficient between MPS and BPS of the BOK and EBL were found significant among the sample banks and the correlation coefficient of SFL is found significant among the sample finance companies.

Likewise, the correlation coefficient between MPS and EPS of the HBL and BOK were found significant among the sample banks and the correlation coefficient of all the sample finance companies were found insignificant.

## **Finding from Primary Data Analysis**

From first question it is found that most of investor have objective of buying share for dividend and price appreciation. Among the 60 respondents 24 respondent or 40% are for dividend, 3 respondent or 5% for social status, 30 respondent or 50% for the price appreciation and 3 respondent or 5% for other purpose.

The second question is asked regarding the best sector for investment. Among the 60 respondents 27 respondent or 45% are for banking sector, 12 or 20% were for finance sector, 15 respondent or 25% were for hydropower and 6 respondent or 10% were for the other sector.

From third question about holding period of share following result was clear. Among the 60 respondents 24 respondent or 40% were for until dividend received, 6 respondent or 10% were for sell after a little price appreciation, 24

respondent 40% were for wait for a high price appreciation and 6 respondent 10% were for certain time period.

The fourth question is asked regarding the basis of investment decision. Among the 60 respondents 12 make their decision by making fundamental analysis, 6 consults to the broker, 30 of them make their decision by making trend analysis of profit and market price and 12 make their decision on the basis of advice of family, friends and relatives.

Question is asked regarding the major financial factor influencing the stock price. Among them 12 or 20 % of the respondents are for Earning per share, 21 or 35 % are for Dividend, 6 respondent or 10% are for Book value and 21 or 54 % respondent are for other financial factor.

The sixth question is asked regarding the major Non-financial factor influencing the stock price. Among them 24 or 40% of the respondents are for Political Factors, 18 or 30% are for Government Policy, 9 or 15% are for Market Interest Rate and 9 or 15 % are for other Non- financial factor.

Question is asked regarding the factor influencing the stock price. Among them 24 or 40% of the respondents are for Financial Factors and 36 or 60% are for Non-financial factors.

## **CHAPTER-V**

### **Summary, Conclusion & Recommendation**

#### **5.1 Summary**

Nepalese market is in developing stage. Most of the general people i.e. average citizens are still unaware about it. Though share market plays a vital role on the mobilization of capital in national economy, in the case of Nepal, it is still crawling towards the betterment.

The history of security market is not old. It was started with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction company act in 1964, the first issuance of the government bond in 1964 and establishment of securities exchange center ltd in 1976 were other significant developments regarding the capital market.

Investors invest their savings in the common stock of public companies through primary and secondary markets. Generally the investors aimed to maximize their profit from their investment. But due to lack of proper knowledge and poor regulatory performance of Nepalese capital market, the investors may not achieve the returns as expected.

Financial performance analysis is the process of indentifying the financial strengths and weakness of the firm by properly established relationship between the items of the balance sheet and the profit and loss account. In financial analysis, ratio analysis is used for evaluating the financial position and performance of the firm. In this study it is mainly focus on the ratios such as earning per share (EPS), dividend per share (DPS), book value per share (BPS), and market price per share (MPS) of a firm. The financial ratio such as EPS, BPS and DPS are taken as independent variables and MPS as a dependent variable.

This study basically aimed to study the behavior of the stock price of the company with respect to its financial performances. Therefore its specific objectives were to explore the major financial indicators that influence market price of the share on the secondary market (NEPSE); to examine and evaluate the relationship of financial indictors with the market price of the share and to provide suggestions to the stakeholders on the basis of findings.

The study utilized the six years of data from FY 2006/07 to 2011/12 of 10 companies listed in NEPSE. These 10 selected companies out of which five are from banking sector and five from finance sector. The data were obtained from the trading reports and annual reports of NEPSE, annual reports of SEBON and their websites. Additionally, some of the related literatures have been reviewed in order to make the study more practical and meaningful.

In the data presentation analysis, the analysis of MPS, DPS, BPS and EPS of sample banks and sample finance companies were performed. The volatility of the variables was found out with the help of statistical tool Coefficient of variation (CV). The degree of relationship between the dependent variable MPS and independent variables DPS, BPS and EPS are found out with the help of Karl Pearson correlation coefficient (r) for all the sample banks and finance companies individually. Similarly, regression equations such as  $MPS = a + bDPS$ ,  $MPS = a + bBPS$  and  $MPS = a + bEPS$  are developed for all the sample banks and finance companies where “a” is the constant value and “b” is the slope. And the hypothesis testing was performed for the test of significance of observed sample correlation coefficients.

From the study the following results were found

1. In the Sample banks from 39% to 59% of the fluctuation on MPS was observed during the study period. In the same way, from 37% to 79% of the fluctuation on MPS was observed during the study period in the sample finance companies. Likewise, from 14% to 43% of the variation on DPS was seen during the study period in the sample banks and in the sample finance companies variation was range from 21% to 77%. Similarly, the fluctuation on BPS observed in the sample banks range from 11% to 16% and in the finance companies it is in between 7% to 19%. In the Sample banks from 15% to 27% of the fluctuation on EPS was observed during the study period. In the same way, from 15% to 42% of the fluctuation on EPS was observed during the study period in the sample finance companies. The share price of the sample banks and finance companies are on increasing trend until 2008/09, after that all of their share price decreased in significant amount. In the same time, the DPS, BPS and EPS did not decreased in significant amount.

2. In the case of banks, the correlation between MPS and DPS of HBL and NABIL are significant i.e. they lie in between 0.75 to 1. The correlation coefficient of NIBL is lowest among sample banks. The Coefficient of determination is above 70 percent of HBL and NABIL i.e. Above 70% of the change in MPS is explained by DPS in these banks.

In the case of finance companies, the correlation coefficient between MPS and DPS of MLFL is higher than other finance company. The correlation coefficient of NNFL is lowest. And the correlation coefficient of OFL is negative and low. 40% of the change in MPS is explained by DPS in MLFL, in rest of the companies it is less than 22%.

3. In the case of banks, the correlation between MPS and BPS of HBL, NIBL, BOK and NABIL are significant. The correlation coefficient of HBL is highly correlated. The correlation coefficient of EBL is highly negatively. Above 70% of the change in MPS is explained by BPS in all sample banks.

In the case of finance companies, the correlation coefficient between MPS and BPS of MLFL is high. The correlation coefficient of RBFL is negative. The correlation coefficient of all finance companies is insignificant. Above 35% of the change in MPS is explained by BPS in MLFL and RBFL, where as in rest it is below 30%.

4. In the case of banks, the correlation between MPS and EPS of HBL, BOK and NABIL are significant. The correlation coefficient of NABIL is highly correlated. The correlation coefficient of EBL is low and negative. Above 80% of the change in MPS is explained by EPS in HBL, BOK and NABIL, where as in rest it is below 47%.

In the case of finance companies, The correlation coefficient of SFL is significant. Correlation coefficient between MPS and EPS of MLFL and SFL is high. The correlation coefficient of all finance company is positively correlated. . 45% of the change in MPS is explained by EPS in MLFL, SFL and OFL where as in rest it is below 11%.

5. Among 60 respondents, half of the respondent purpose of purchasing share is for the price appreciation. 45% of the respondents think banking sector is the best to make investment. Similarly, 50% of the respondents make their investment decision on the basis of trend analysis of profit and Market price. 35% of the respondents think that dividend is the major financial factor that influence share price. On the other hand, 40% of the respondent think that political factors is the major non financial factor influencing the share price where as 30% think that government policy is the major non financial factor influencing the share price. And finally, when the respondent are asked to give their opinion regarding the factor that influence the share price most, 40% respondent went for Financial factors where as 60% went for the non-financial factors.

## **5.2 CONCLUSION**

In the case of banks, the correlation between MPS and DPS of HBL and NABIL are significant. The correlation coefficient of NIBL of all finance companies is positive. The correlation coefficient of NABIL is NIBL and EBL is low. The Coefficient of determination is highest of NABIL and the lowest is of NIBL. In the case of finance companies, the correlation coefficient between MPS and DPS of no finance company is significant . The correlation coefficient of MLFL is highly correlated. The correlation coefficient of NNFL, SFL and RBFL is positive and low. And the correlation coefficient of OFL is negative and low. In the case of banks, the correlation between MPS and BPS of all sample banks are significant except of EBL which is negative. The correlation coefficient of all sample banks is highly correlated. The correlation coefficient of EBL is lowest among other commercial bank. In the case of finance companies, the correlation coefficient between MPS and BPS of no finance company is significant. The correlation coefficient of MLFL is highly correlated. The correlation coefficient between MPS and BPS of NNFL, and RBFL are very low and the correlation coefficient of RBFL is also negative. In the case of banks, the correlation between MPS and EPS of HBL, BOK and NABIL are significant. The correlation coefficient of EBL is low and negatively correlated. In the case of finance companies, the correlation coefficient between MPS and EPS of SFL is significant. The correlation coefficient of MLFL, SFL and OFL is highly correlated. The correlation coefficient between MPS and EPS of NNFL and RBFL is low.

Beside the above result most of the correlation coefficients were found insignificant. This shows that there is no significant relationship which can influence the MPS of the respective company or bank. In the same way, the primary data analysis also shows that though financial factors are the basis to determine share price but most of the respondents think that non-financial factors have more influence on the share price in NEPSE.

From the study what can be concluded is that the impact of financial performance of the company on its stock price is not realized in considerable amount. And it shows that the stock price of the company is driven by the factors other than the financial performance of the company in most of the cases in the context of NEPSE.

### **5.3 RECOMMENDATION**

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

- The result of the study is somewhat different as the significant impact of financial performance is not observed in most of the cases. This shows that there is lack of education among the investors. So the investors are suggested to get the basic knowledge about the investment and the financial parameters such as DPS, BPS, EPS and others.
- Potential Investors and investors who are not able to analyze the share price are recommended to get the consultancy services form the investment experts before making investment decision.
- The relationship between DPS & MPS, EPS & MPS and MPS & EPS are observed significant in the case of HBL, and NABIL. Therefore, investor can invest in the HBL and NABIL based on the financial indicator DPS and EPS and BPS.
- The investor can invest in the BOK based on the financial indicator DPS, BPS and EPS as the relationship between DPS & MPS, BPS & MPS and EPS & MPS are observed significant or strong in the study.
- The relationship between BPS & MPS and EPS & MPS are observed significant in the case of NIBL. Therefore, investor can invest in the NIBL based on the financial indicator BPS and EPS.
- The investor can invest in the SFL based on the financial indicator EPS since the relationship between EPS & MPS is observed significant in the study.
- Similarly, the investor can invest in the MLFL based on the financial indicator DPS, BPS and EPS. Since the relationship between DPS & MPS, BPS & MPS and EPS & MPS is observed strong in the study.
- The investor should seek their right towards accurate and timely information, as well as for protection. Similarly, investors should be alert to exploit the opportunities through short term speculation. So, they are suggested to raise their voice and complain about the misconduct of relevant company or NEPSE, SEBON as well as of Government. They are encouraged to enrich their level of knowledge and make the investment opportunities fruitful.
- Since SEBON is the concerned agency to regulate the companies listed in the security market therefore it should play the vital role to help investor in making rational investment decision.

Research is an ongoing process. Through this research, the researcher has tried to examine impact of financial performance on share price of banks and finance companies. Since the study is only on banks and finance companies it is more specific. The further researcher can include their study towards other companies and sectors taking more number of observations so that the out come of the research work can be more reliable.

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HBL, Bank, Annual Report (FY 2006/07 to 2011/12)

NIBL, Bank, Annual Report (FY 2006/07 to 2011/12)

BOK, Bank, Annual Report (FY 2006/07 to 2011/12)

EBL, Bank, Annual Report (FY 2006/07 to 2011/12)

NABIL, Bank, Annual Report (FY 2006/07 to 2011/12)

MLFL, Finance, Annual Report (FY 2006/07 to 2011/12)

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## QUESTIONNAIRE SURVEY

I am Roshan B. C., student of Masters of Business Studies (MBS) at Shanker Dev Campus, Putalisadak, Kathmandu, Faculty of Management, Tribhuvan University. I am conducting a thesis in the topic “**Impact of financial Performance on Stock Price**” in partial of the requirement of the Degree of Master of Business Studies (MBS). I would like to request you to answer the following questions related to my study topic which help me to get the research objectives. I assure that your response will be kept strictly confidential.

### Respondent's Profile

Name: .....

Address/ Company: .....

Position: .....

1. Objective to purchase a share?
  - i) For dividend
  - ii) Price increment
  - iii) Social Status
  - iv) Others
  
2. Best Sector to invest?
  - i) Banking
  - ii) Finance companies
  - iii) Hydro power
  - iv) Others
  
3. Holding period of the share?
  - i) Until dividend received
  - ii) Sell after a little price appreciation
  - iii) Wait for a high price appreciation
  - iv) For certain time period
  
4. On what basis would you make decision to purchase shares?
  - i) By making fundamental analysis
  - ii) Consulting broker
  - iii) Making trend analysis of profit and Market price
  - iv) Taking advice of family, friends and relatives
  
5. In your opinion which of the following financial factors is the main influencing factor to contribute to the price change?
  - i) Earning per share
  - ii) Dividend
  - iii) Book Value
  - iv) Other
  
6. In your opinion which of the following non-financial factors is the main influencing factor to contribute to the price change?

- i) Political Factors
- ii) Government Policy
- iii) Market Interest Rate
- iv) Others

7. In your opinion which of the following is the main influencing factor to contribute to the price change?

- i) Financial Factors
- ii) Non-financial factors

## Appendix I

### Calculation of Averages

#### A. Banks

##### 1. Summary of financial performance of HBI

Year	MPS(Y)	DPS(X <sub>1</sub> )	BPS(X <sub>2</sub> )	EPS(X <sub>3</sub> )
2006/07	1740	40	264.74	60.66
2007/08	1980	45	246.93	62.74
2008/09	1760	43.56	256.52	61.90
2009/10	816	36.84	226.79	31.80
2010/11	575	36.84	199.77	44.66
2011/12	653	28.42	193.00	39.94
SUM	7524.00	230.66	1387.75	301.7
Average	1254.00	38.44	231.29	50.28
SD	582.15	5.43	27.33	12.1
CV	46.42	14.13	11.81	24.06

Source: Annual report of the listed Banks, NEPSE and SEBON

#### Calculation of Average, Standard Deviation and Coefficient of Variation for MPS of HBL

Year	MPS(X)	(X- $\bar{X}$ )	(X- $\bar{X}$ ) <sup>2</sup>
2006/07	1740	486	236196
2007/08	1980	726	527076
2008/09	1760	506	256036
2009/10	816	-438	191844
2010/11	575	-679	461041
2011/12	653	-601	361201
N=6	X=7524		(X- $\bar{X}$ ) <sup>2</sup> = 203339

$$\text{Average}(\bar{X}) = \frac{\sum X}{N} = \frac{7524}{6} = 1254$$

Standard Deviation (SD)

$$= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} = \sqrt{\frac{203339}{6}} = \sqrt{33889.83} = 184.12$$

$$\text{Coefficient of Variation (CV)} = \frac{SD}{AM} \times 100 = \frac{184.12}{1254} \times 100 = 14.68$$

Note: Calculation of Average, Standard Deviation and Coefficient of Variation for DPS, BPS and EPS of HBL has been done in same way. Above parameters can be calculated for MPS, DPS, BPS and EPS of remaining sample banks and finance companies in the same way.

## 2. Summary of financial performance of NIBL

Year	MPS(Y)	DPS(X <sub>1</sub> )	BPS(X <sub>2</sub> )	EPS(X <sub>3</sub> )
2006/07	1729	30	234.37	62.57
2007/08	2450	40.8	223.17	57.87
2008/09	1388	20	162.35	37.42
2009/10	705	25	190.34	52.55
2010/11	515	50	171.00	39.10
2011/12	511	30	161.00	27.60
SUM	7298.00	195.8	1142.23	277.11
Average	1216.33	32.63	190.37	46.19
SD	714.73	10	28.97	12.37
CV	58.76	30.65	15.22	26.78

Source: Annual report of the listed Banks, NEPSE and SEBON

### 3. Summary of financial performance of BOK



Year	MPS(Y)	DPS(X <sub>1</sub> )	BPS(X <sub>2</sub> )	EPS(X <sub>3</sub> )
2006/07	1375	20	162.81	43.50
2007/08	2350	42.11	222.51	59.94
2008/09	1825	47.37	206.25	54.68
2009/10	840	30	175.40	43.08
2010/11	570	34.75	179.13	44.51
2011/12	628	26.32	168.36	37.88
SUM	7588.00	200.55	1114.46	283.59
Average	1264.67	33.43	185.74	47.27
SD	654.77	9.26	21.41	7.56
CV	51.77	27.7	11.53	15.99

Source: Annual report of the listed Banks, NEPSE and SEBON

#### 4. Summary of financial performance of EBL

Year	MPS(Y)	DPS(X <sub>1</sub> )	BPS(X <sub>2</sub> )	EPS(X <sub>3</sub> )
2006/07	2430	40	231.95	57.22
2007/08	3132	50	231.08	91.82
2008/09	2455	60	262.71	99.99
2009/10	1630	60	331.99	100.16
2010/11	1094	60	263.8	83.18
2011/12	1033	31.58	326.18	88.55
SUM	11774.00	301.58	1647.71	520.92
Average	1962.33	50.26	274.62	86.82
SD	770.03	11.1	40.67	14.54
CV	39.24	22.08	14.81	16.75

Source: Annual report of the listed Banks, NEPSE and SEBON

## 5. Summary of financial performance of NABIL

Year	MPS(Y)	DPS(X <sub>1</sub> )	BPS(X <sub>2</sub> )	EPS(X <sub>3</sub> )
2006/07	5050	140	418.39	137.08
2007/08	5275	100	353.62	115.86
2008/09	4899	85	324.13	113.44
2009/10	2384	70	265.11	83.81
2010/11	1252	30	225.00	70.67
2011/12	1355	60	269.00	83.57
SUM	20215.00	485	1855.25	604.43
Average	3369.17	80.83	309.21	100.74
SD	1746.79	34.21	64.25	23.08
CV	51.85	42.32	20.78	22.91

Source: Annual report of the listed Banks, NEPSE and SEBON

## B. Finance companies

### 1. Summary of financial performance of Mahalaxmi Finance Ltd.

Year	MPS(Y)	DPS(X <sub>1</sub> )	BPS(X <sub>2</sub> )	EPS(X <sub>3</sub> )
2006/07	372	23.45	143.12	25.37

2007/08	1191	20	140.45	24.88
2008/09	740	24	138.78	29.07
2009/10	288	7.75	110.89	9.81
2010/11	180	10.9	114.26	15.47
2011/12	161	8.42	115.76	8.89
SUM	2932.00	94.52	763.26	113.49
Average	488.67	15.75	127.21	18.92
SD	368.10	6.91	13.71	7.91
CV	75.33	43.87	10.78	41.82

Source: Annual report of the listed listed finance companies, NEPSE and SEBON

## 2. Summary of financial performance of Narayani National Finance Ltd.

Year	MPS(Y)	DPS(X <sub>1</sub> )	BPS(X <sub>2</sub> )	EPS(X <sub>3</sub> )
2006/07	460	5.5	199.89	25.36
2007/08	1050	16	136.03	14.62
2008/09	1050	13.68	131.75	19.44
2009/10	241	15.66	132.29	16.94
2010/11	150	0	122.86	12.81
2011/12	132	18.95	126.06	10.50
SUM	3083.00	69.79	848.88	99.67
Average	513.80	11.63	141.48	16.61
SD	393.79	6.66	26.47	4.84
CV	76.65	57.27	18.71	29.12

Source: Annual report of the listed finance companies, NEPSE and SEBON

## 3. Summary financial performance of Siddhartha Finance Ltd.

Year	MPS(Y)	DPS(X <sub>1</sub> )	BPS(X <sub>2</sub> )	EPS(X <sub>3</sub> )
2006/07	242	31.58	155.99	24.79
2007/08	1360	29.47	155.17	36.69

2008/09	1360	21.05	154.63	30.02
2009/10	700	26.32	157.72	28.14
2010/11	212	18.95	147.15	23.64
2011/12	131	18.11	124.57	18.95
SUM	4005.00	145.48	895.23	162.23
Average	667.50	24.25	149.21	27.04
SD	522.26	5.19	11.51	5.56
CV	78.24	21.38	7.71	20.55

Source: Annual report of the listed finance companies, NEPSE and SEBON

#### 4. Summary financial performance of Om Finance Ltd.

Year	MPS(Y)	DPS(X <sub>1</sub> )	BPS(X <sub>2</sub> )	EPS(X <sub>3</sub> )
2006/07	345	40	141	19.55
2007/08	500	30	166	26.70

2008/09	600	0	144.07	24.91
2009/10	371	35	118.86	22.94
2010/11	258	0	117.50	16.37
2011/12	176	20	131.88	22.16
SUM	2250.00	125	819.31	132.63
Average	375.00	20.83	136.55	22.11
SD	141.69	15.92	16.54	3.39
CV	37.78	76.43	12.11	15.35

Source: Annual report of the listed finance companies, NEPSE and SEBON

### 5. Summary of financial performance of Royal Banking and Finance Ltd.

Year	MPS(Y)	DPS(X <sub>1</sub> )	BPS(X <sub>2</sub> )	EPS(X <sub>3</sub> )
2006/07	185	10	135.25	29.80
2007/08	535	12	119	29.38

2008/09	550	10.53	125	16.30
2009/10	265	15	126.80	24.71
2010/11	169	10.53	120.70	15.74
2011/12	107	0	117.56	9.36
SUM	1811.00	58.06	744.31	125.29
Average	301.00	9.68	124.05	20.88
SD	176.34	4.64	5.95	7.6
CV	58.42	47.89	4.8	36.40

**Source:** Annual report of the listed finance companies, NEPSE and SEBON



## Appendix II

**Summary of Simple Correlation and Regression analysis produced by EXCEL program for sample banks and finance companies.**

### 1. Himalayan Bank Ltd.

Relationship between	Correlation Coefficient(r)	Coefficient Of determination( $r^2$ )	t-calculated	t-tabulated value	Results	MPS Intercept(a)	Variable Intercept(b)
MPS on DPS	0.8387	0.7034	3.0810	2.776	significant	-1840.10	89.84
MPS on BPS	0.9091	0.8264	4.3638	2.776	significant	-3226.09	19.37
MPS on EPS	0.9015	0.8127	4.1661	2.776	significant	-927.47	43.39

Source: Table 4.9, 4.10, 4.11, 4.15, 4.16, 4.17, 4.21, 4.22 and 4.23

### Simple Correlation and Regression Analysis between MPS and DPS of HBL.

Year	MPS (X)	DPS (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2006/07	1740	40	3027600	1600	69600
2007/08	1980	45	3920400	2025	89100
2008/09	1760	43.56	3097600	1897.47	76665.6
2009/10	816	36.84	665856	1357.19	30061.44
2010/11	575	36.84	330625	1357.19	21183
2011/12	653	28.42	426409	807.7	18558.26
N = 6	$\sum X = 7524$	$\sum Y = 230.66$	$\sum X^2 = 11468490$	$\sum Y^2 = 9044.55$	$\sum XY = 305168.3$

$$\begin{aligned} \text{Correlation Coefficient (r)} &= \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}} \\ &= \frac{6 | 305168.3 - 7524 | 230.66}{\sqrt{6 | 11468490 - (7524)^2} \sqrt{6 | 9044.55 - (230.66)^2}} \\ &= \frac{95523.96}{3492.9 | 32.61} = 0.8387 \end{aligned}$$

$$\text{Coefficient of Determination (r}^2\text{)} = (0.8387)^2 = 0.7034$$

### Regression Equation of MPS on DPS by using t-Test of HBL

$$b = \frac{N \sum XY - \sum X \sum Y}{N \sum Y^2 - (\sum Y)^2} = \frac{6 | 305168.3 - 7524 | 230.66}{6 | 9044.55 - (230.66)^2}$$

$$= \frac{95523.96}{1063.26} = 89.84$$

$$a = \bar{X} - b\bar{Y} = 1254 - 89.84 | 38.44 = - 2199.45$$

$$t\text{-Test} = \frac{r}{\sqrt{1 - r^2}} | (n - 2) = \frac{0.8387}{\sqrt{1 - 0.7034}} | (6 - 2) = 3.0801$$

Note: Calculation of Correlation coefficient, Coefficient of Determination, Constant (a), Slope (b) and t-Test for MPS on BPS and MPS on EPS of HBL has been done in same way. And same way was used to calculate Correlation coefficient, Coefficient of Determination, Constant (a), Slope (b) and t-Test for MPS on DPS, MPS on BPS and MPS on EPS of remaining sample banks and finance companies.

#### 2. Nepal Investment Bank Ltd.

Relationship between	Correlation Coefficient(r)	Coefficient Of determination( $r^2$ )	t-calculated	t-tabulated value	Results	MPS Intercept(a)	Variable Intercept(b)
MPS on DPS	0.0032	0.00001	0.0064	2.776	Insignificant	1208.55	0.2282
MPS on BPS	0.7448	0.5547	2.2323	2.776	Insignificant	-2282.67	18.38
MPS on EPS	0.6812	0.4640	1.8606	2.776	Insignificant	1034.51	3.94

Source: Table 4.9, 4.10, 4.11, 4.15, 4.16, 4.17, 4.21, 4.22 and 4.23

#### 3. Bank of Kathmandu

Relationship between	Correlation Coefficient(r)	Coefficient Of determination( $r^2$ )	t-calculated	t-tabulated value	Results	MPS Intercept(a)	Variable Intercept(b)
MPS on DPS	0.5724	0.3276	1.3961	2.776	Insignificant	88.91	40.49
MPS on BPS	0.8192	0.6711	2.8569	2.776	significant	-3388.79	25.05
MPS on EPS	0.9145	0.8363	4.5205	2.776	significant	-2478.77	79.19

Source: Table 4.9, 4.10, 4.11, 4.15, 4.16, 4.17, 4.21, 4.22 and 4.23

#### 4. Everest Bank Ltd.

Relationship between	Correlation Coefficient(r)	Coefficient Of determination( $r^2$ )	t-calculated	t-tabulated value	Results	MPS Intercept(a)	Variable Intercept(b)
MPS on DPS	0.1046	0.0109	0.2103	2.776	Insignificant	1597.62	7.26
MPS on BPS	-0.7149	0.5111	2.0449	2.776	Insignificant	5451.38	-12.71
MPS on EPS	-0.0653	0.0043	-0.0659	2.776	Insignificant	2262.73	-3.46

Source: Table 4.9, 4.10, 4.11, 4.15, 4.16, 4.17, 4.21, 4.22 and 4.23

### 5. Nepal Arab Bank Ltd.

Relationship between	Correlation Coefficient(r)	Coefficient Of determination( $r^2$ )	t-calculated	t-tabulated value	Results	MPS Intercept(a)	Variable Intercept(b)
MPS on DPS	0.8441	0.7125	3.1485	2.776	Significant	-114.73	43.1
MPS on BPS	0.8817	0.7774	3.7376	2.776	Significant	-4042.69	23.97
MPS on EPS	0.9271	0.8595	4.9467	2.776	Significant	-3698.75	70.16

Source: Table 4.9, 4.10, 4.11, 4.15, 4.16, 4.17, 4.21, 4.22 and 4.23

### 6. Mahalaxmi Finance Ltd.

Relationship between	Correlation Coefficient(r)	Coefficient Of determination( $r^2$ )	t-calculated	t-tabulated value	Results	MPS Intercept(a)	Variable Intercept(b)
MPS on DPS	0.6331	0.4008	1.6357	2.776	Insignificant	-42.31	33.71
MPS on BPS	0.7060	0.4984	1.9937	2.776	Insignificant	-1923.23	18.96
MPS on EPS	0.6961	0.4846	1.9392	2.776	Insignificant	-123.96	32.38

Source: Table 4.12, 4.13, 4.14, 4.18, 4.19, 4.20, 4.21, 4.22 and 4.23

### 7. Narayani National Finance Ltd.

Relationship between	Correlation Coefficient(r)	Coefficient Of determination( $r^2$ )	t-calculated	t-tabulated value	Results	MPS Intercept(a)	Variable Intercept(b)
MPS on DPS	0.2612	0.0682	0.5412	2.776	Insignificant	334.12	15.43
MPS on BPS	0.0621	0.0039	0.1244	2.776	Insignificant	383.04	0.9242
MPS on EPS	0.3154	0.0995	0.6647	2.776	Insignificant	87.34	25.68

Source: Table 4.12, 4.13, 4.14, 4.18, 4.19, 4.20, 4.21, 4.22 and 4.23

### 8. Siddhartha Finance Ltd.

Relationship between	Correlation Coefficient(r)	Coefficient Of determination( $r^2$ )	t-calculated	t-tabulated value	Results	MPS Intercept(a)	Variable Intercept(b)
MPS on DPS	0.2496	0.0623	0.5155	2.776	Insignificant	57.74	25.15
MPS on BPS	0.5388	0.2903	1.2792	2.776	Insignificant	-2980.69	24.45
MPS on EPS	0.8975	0.8055	4.0701	2.776	Significant	-1613.31	84.35

Source: Table 4.12, 4.13, 4.14, 4.18, 4.19, 4.20, 4.21, 4.22 and 4.23

### 9. Om Finance Ltd.

Relationship between	Correlation Coefficient(r)	Coefficient Of determination( $r^2$ )	t-calculated	t-tabulated value	Results	MPS Intercept(a)	Variable Intercept(b)
MPS on DPS	-0.1160	0.0135	0.2336	2.776	Insignificant	396.5	-1.03
MPS on BPS	0.6023	0.3628	1.5091	2.776	Insignificant	-329.62	5.16
MPS on EPS	0.6720	0.4516	1.8149	2.776	Insignificant	245.35	28.06

Source: Table 4.12, 4.13, 4.14, 4.18, 4.19, 4.20, 4.21, 4.22 and 4.23

### 10. Royal Banking and Finance Ltd.

Relationship between	Correlation Coefficient(r)	Coefficient Of determination( $r^2$ )	t-calculated	t-tabulated value	Results	MPS Intercept(a)	Variable Intercept(b)
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MPS on DPS	0.4673	0.2184	1.0570	2.776	Insignificant	129.78	17.77
MPS on BPS	-0.1019	0.0104	-0.2049	2.776	Insignificant	72.58	-3.02
MPS on EPS	0.3220	0.1037	0.6802	2.776	Insignificant	145.86	7.47

Source: Table 4.12, 4.13, 4.14, 4.18, 4.19, 4.20, 4.21, 4.22 and 4.23