SHARE PRICE DETERMINATION AND ITS VOLATILITY IN THE NEPALESE COMMERCIAL BANKS

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By

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RECOMMENDATION

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Has been prepared and approved by this department in the prescribed format of the faculty of management. This thesis is forwarded for examination.

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “SHARE PRICE DETERMINATION AND ITS VOLATILITY IN THE NEPALESE COMMERCIAL BANKS”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Ms. Upana Shrestha has defended research proposal entitled SHARE PRICE DETERMINATION AND ITS VOLATILITY IN THE NEPALESE COMMERCIAL BANKS successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled SHARE PRICE DETERMINATION AND ITS VOLATILITY IN THE NEPALESE COMMERCIAL BANKS presented by Upana Shrestha for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

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Abbreviations

BS	: Bank size
CPI	: Consumer Price Index
DPR	: Dividend Payout ratio
DR	: Default Rate
DY	: Dividend yield
EPS	: Earning Per Share
IR	: Interest Rate
INF	: Inflation
Ln	: Natural logarithm
MBL	: Machhapuchre Bank
MPS	: Market Price per Share
NEPSE	: Nepal Stock Exchange
NRB	: Nepal Rastra Bank
PE	: Profit Earning Ratio
ROA	: Return on assets
ROE	: Return on equity

Abstract

This study examines the determinants of share price of commercial banks listed on the Nepal Stock Exchange Limited over the period of 2017 to 2021. Data were sourced from the annual reports of the sampled banks and analyzed using regression model. The results revealed that earning per share and price- earnings ratios have the significant positive association with share price while dividend yield showed the significant inverse association with share price. The major conclusion of the study is that dividend yield, earning per share and price-earnings ratio are the most influencing factors in determining share price in Nepalese commercial banks. The results of this study uncovered new evidence in Nepalese perspective, which are considered to be valuable to the market participants. Thus, findings of this study seems to be particularly useful for equity investors and fund managers as they can watch out for these significant factors while estimating stock returns and predicting share prices

Key words: *Share price, Dividend payout ratio, Dividend yield, Earnings per share, Price earnings ratio*

CHAPTER I

INTRODUCTION

1.1 Background of the study

Volatility has been an enormously important topic to almost anyone involved in the financial markets. It is one of the important aspects of financial market developments, and provides an important input for portfolio management, option pricing and market regulations (Poon & Granger, 2003). One of the major avenues of investment that has the potential of yielding considerable returns to investors is the investment in equity shares. It is also a source of finance for the capital requirements of firms. Returns from such equity investments are however subject to vary, depending upon the performance of the particular share and movement in share price. These studies also suggest that the movement of stock market indices is highly sensitive to the changes in the fundamentals of the economy, to the changes in the expectation about future prospects (Ahmed, 2008) and may even serve as a proxy for the pervasive risk factors (Brown & Otsuki, 1990). Fluctuation in share prices may occur due to the supply and demand forces but there is no foolproof or perfect system that indicates the exact movement of share prices. The factors behind the increase or decrease in the demand and supply of share prices can be categorized into three main types: technical factors, fundamental factors and market sentiments.

Ambrosio (2007) explained that a stock market volatility is the fluctuation in the price of broad stock market indexes over a defined period. However, knowledge of such factors and their possible impact on share prices is highly appreciable as it would help investors make wise investment decisions and enable firms to enhance their market value. The economy of the country largely depends upon the utilization of its resources and mobilization of capital. The mobilization of the capital is an important tool to utilize the resources and hence it affects the overall economy directly and indirectly. The financial institutions contribute the national economy by accumulating the capital funds to meet the financial needs of different productive sectors.

Developing capital markets are characterized by high risk and return, and they are highly predictable with high volatility, compared to the developed markets (Bekaert &

Harvey, 1997). Stock market of Nepal is a small in size, illiquid, and dominated by few large companies. It has not sufficient capacity to handle risk relative to the volume of trading (K.C., 2010). Bernanke and Gertler (1999, 2001) observe that the volatile nature of asset prices makes them hard to predict and that monetary authorities should only change interest rates in reaction to stock-price movements, when they expect such movements to affect inflation. Goodfriend (2003) also notes that, since there is no stable correlation between stock-price returns and short-term interest rates, it would be difficult for interest rates to target stock-price changes appropriately. Bernanke and Kuttner (2003) also note that stock markets do not react much to interest rate changes.

In Nepalese case, the primary market, as well as the capital market as a whole, is still in the developing phase (Kafle, 2005). Financial sector has a crucial role to pool scattered savings for capital formation. Capital is the lifeblood of business organizations. Every business enterprise requires short term, intermediate term and long-term capital fund for the smooth operations and expansion of organizational activities. Long-term funds play highly significant role for future growth and prosperity of the organization. Most business organization collect long term funds from financial market. Stock exchange is the market for long term capital where both new capitals can be raised by companies and where existing share can also trade (bought and sold) by providing secondary market for investors to sell their shares, the stock exchange also provides a market for government loans and securities. A securities market is the place where people buy and sell financial instruments. Financial instrument may be in the form of government bonds, corporate bonds or debentures, ordinary share, preference share etc.

The economist believe that the price of share is determined by demand and supply of share in a free economy but there are other factor that influence the price of share. The securities market, whether the primary or the secondary, stock price can be significantly influenced by a number of micro environmental factors including dividend per share, book value (asset value) of the firm, earnings per share, price earnings ratio and dividend cover etc. The most important factor that influence the share price is demand and supply of share factor. If most of the buyer of share price started to buy share than the price increases and if they stared to sell their share than the price of share decreases. The objectives of this paper is having an idea about the factors affecting the equity return of studied banks share and secondarily, to identify whether there is a significant relationship between market return of listed commercial banks with some microeconomic factors like dividend per share, book value (asset value) of the firm, earnings per share, price earnings ratio and dividend.

The pioneering work on share price determinants by Collins (1957) for the US identified dividend, net profit, operating earnings and book value as the factors influencing share prices. Following Collins (1957) there have been various attempts to identify the determinants of share prices for different markets. The other empirical studies viz. Taulbee (2005), Nawazish (2008), Al-Shubiri (2010), Sharma (2011), Khan and Amanullah (2012), Srinivasan (2012), Malhotra and Tandon (2013), Almumani (2014) among others reveal that various factors in different markets determine the Share price. Determining share prices is a complex and conflicting task. Shiller (1981) found that share prices are not stable and fluctuate excessively in relation to the news about fundamentals (as dividends) primarily due to market irrationality. Thus, it is asserted that understanding the impact of various fundamental variables on share price is very much helpful to investors as it will help them in taking profitable investment decisions.

The present study deals with an attempt to analyze the determinants of share price of commercial banks on the basis of financial statements information in Nepalese context. The objective of this study is to examine the impact of the internal factor on the share prices of Nepalese commercial banks. The micro economic factor also known as company fundamental factor such as company performance, top management changes, and creating new assets, dividends, earnings, etc. are also responsible for change in price of the stock. Company fundamental factors are determined by financial ratios derived from company financial statements. This study attempts to construct the relation of market price per share (mps) of the Nepalese commercial banks to the major financial indicators like dividend yield (dy), earning per share (eps), price earning ration (p/e), dividend payout ratio (dpy) etc. The relation is hoped to show the status of Nepalese commercial banks with respect to the determiners of share price. These findings may be helpful to the potential investors to make the better investment decision likewise; this independent study provides the information about the position of share price in share industry.

Moreover, the industrial average regarding different financial indicators are helpful to compare with the individual banks. This information is expected to be helpful to the managers of the respective banks. Therefore this study will relate the company specific variables with the stock price.

1.2 Statement of the problem

Share price is determined by demand and supply. Both the qualitative and quantitative factor determines the share price and to specify exactly what factors to determine the share is a controversial and unpredictable issue. The share price fluctuates time to time and share exchange reacts with the environmental changes. Nepalese market seems too volatile than other country share market. The share of commercial banks has dominant role of determining the key indicator of the Nepalese stock exchange, it is surprisingly that commercial banks share have continued to appear as the most attractive investment alternatives since the opening of the floor in January, 1994.

The ups and downs may be caused by different factors. They could be macroeconomics factors or others variables inside the company itself, like: profitability, assets, management etc. For this research macro economies and variable inside the company is considered. So that it can find which variable is more effective to generate return in NEPSE index of Nepalese market. This study will try to identify the determinants of share price and find out the degree of affection of those determinants. Nepal share stock is always dominated by banking and financial sector. The market is almost non-existence in other sector with expectation of few companies.

The stock price of share plays significant role in economic prosperity, sustaining economic growth and capital formation. NEPSE is not only place for trading of securities but it is also play a role of operator between savers and users by different means like: pooling of funds, sharing risk and transferring wealth. There is a strong evidence of time -varying volatility, tendency of the period of high and low volatility to cluster and high persistence and predictability of volatility in the Nepalese stock market.

Demirguc-Kunt and Levine (1996), Singh (1997) and Levine and Zervos (1998) find that stock market growth plays an important role in predicating future economic growth in situations where the stock markets are active. The price of stock price is determined by the performance of individual firm. The shares of commercial banks offer the investment opportunities to Nepalese investors because these shares are more frequently traded in the market than as compared to others in Nepalese context. Specifically, this study examined the effects of dividend payout ratio, dividend yield, earning per share, price- earnings ratio and size on the share price of banks listed on Nepal stock exchange limited. The major research question is what factors determine the share price of a company and what makes it volatile?

1.3 Objectives of the study

This study aims to identify the factors respective for determinants of stock price and their relationship with the stock price, so that it will give a better insight into the stock price and to make decision to buy and sell the share. Furthermore, this study is proposed to meet the following specific objectives;

1. To analyze the market trends of MPS with its financial indicator.
2. To examine the impact of the internal factor (dividend payout ratio, earnings per share, price earnings ratio) on the share prices of Nepal stock exchanges.

1.4 Hypothesis of the study

Based on the reviewed related literatures, following alternative hypotheses are developed to estimate the sign relationship of share price determinant of Nepalese commercial banks.

H1: There is a significant relationship between eps, dps, pe ratio and market share price.

1.5 Rationale of the study

Share market in one of the important factor in the economy in not just developed economies but also developing and under developed economies. It plays a significant role in the economy of the nations, a bad performance of share market may lead to economic disruption in that country. Share market is used by business houses and government to raise funds, promote the investment and influence the economy. So the study has tried to assess what factors actually have an impact on the performance of Nespe. So that the investors and speculators can find out which factors actually affect the share market and make investment decisions according to the changes in those macro economic variables. This study will also help the government agencies and policy makers to make right macroeconomic policies which will lead to growth in the share market of the country and betterment of the economy as a whole.

1.6 Limitations of the study

This study is a milestone in the field of knowing factors affecting the share price of Nepalese commercial banks. Findings of the study are very useful for both academicians and future researchers. However this study has following limitations:

i. Other variables affecting the share price of Nepalese commercial banks are totally ignored.

ii. The overview of the study has taken into consideration five selected commercial banks so that the study might not cover the whole commercial banks.

iii. The study is based on correlation and multiple regression methods of analysis and using secondary data of selected commercial banks so other research design and primary data is not taken into consideration.

iv. This study only focuses on specific internal variables that affect the MPS of the banks such as earning per share, dividend per share, price earnings ratio so, other variables are not focus for the study.

v. This study covers the recent data and information of 6 years beginning from 2016/17 to 2021/22.

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical Review

Review of literature is the process of learning and understanding the concept on the related topic. In the global contexts there are thousands of research papers, articles, books and journals relating to the securities market. Similarly, some of the major determinants of the stock price in various stock exchanges have been identified. Even though the capital market is not well developed in Nepal, there are various researches made on it. It is being very infancy, the factor which affects the stock price of Nepalese commercial bank large may vary from that of NEPSE. In this chapter various books, magazines, journals, research papers, unpublished thesis reports etc. are reviewed, which affects the stock price in Nepalese commercial banks.

Volatility often refers to the amount of uncertainty or risk related to the size of changes in a security's value. A higher volatility means that a security's value can potentially be spread out over a larger range of values. This means that the price of the security can change dramatically over a short time period in either direction. A lower volatility means that a security's value does not fluctuate dramatically, and tends to be more steady.

Financial analysts and economists agree that the sudden or unexpected fluctuations in interest rates and exchange rates directly influence the costs and returns of financial institutions' common stocks (Saunders & Yourou-gou, 1990; Kasman, 2011). The relationship of banks' stock returns and macroeconomic fundamentals is exemplified by a well-known theoretical stock evaluation method, which indicates that the present value is an ap-proximation of the current equity share prices for all future cash flows, and macroeconomic variables are factors influencing cash inflows and the rate of return. Some macroeconomic fundamentals generally measure stock returns. For a specific period, the fluctuation of stock prices is called the stock return volatility. Some leading macroeconomic fundamentals such as the market risk, interest rate risk, and exchange rate risk vary and become the causes of bank stock return volatility. The upward trend in risk may urge investors to switch their investments from bank stocks to bonds, which are a less risky investment. Financial market liberalization facilitates banks' operations beyond their borders, and they become exposed to the factuality of interest rate risk due to financial market conditions. This situation eliminates the exploding effects of exchange and interest rates. The sensitivity of common bank stocks is volatile due to the variation in market interest rates (Sukcharoensin, 2013; Choi et al., 2019; Ahmad et al.,2019).

Stock market plays a vital and massive role in the economy of any country. It also contributes to the economic development of the country by promoting capital formation and raising economic growth. Fluctuation in stock prices occurs due to the supply and demand forces. But there is no foolproof or perfect system that indicates the exact movement of stock prices. The factors behind the increase or decrease in the demand and supply of stock prices can be categorized into three main types: technical factors, fundamental factors and market sentiments. In other words we can also say that the factors that influence the share prices are based on internal & external factors. Internal factors such as dividend per share, earnings per share, book value, leverage and size etc. External factors or macro-economic variables such as gross domestic product, interest rate, government regulation and foreign exchange rate etc. To forecast future stock prices, fundamental analysts use stock valuation ratios to derive a stock's current fair value and forecast future value.

Various researchers have found important internal factors that determine the share prices for different markets, viz., dividend, retained earnings, size, earning per share, dividend yield, leverage, payout ratio, and book value per share. In an efficient market, stock prices would be analyzed by technical analysis or fundamental analysis. Technical analysis evaluates the stock price movement and predicts the future stock price based on historical data of stock price. Fundamental analysis evaluates the intrinsic value of the company and compares it to the stock price. Srinivasan (2012) stated that internal factors determine the share prices for different markets: dividend, return on assets, return on equity, retained earnings, size, age of banks, earning per share, dividend yield, leverage, payout ratio, and book value per share. Understanding the impact of various fundamental variables on share price is very much helpful to investors as it will help them in taking profitable investment decisions.
Securities markets are the markets in which securities, or financial assets, are traded. There are two different types of securities markets. The first is known as the primary

market, which is used for trading newly issued securities. The second type is known as the secondary market, which is used for trading securities that have already been issued. Primary markets and secondary markets are generally used for trading equity securities. Securities market is a mechanism created to facilitate the exchange of financial securities or assets by bringing together buyers and sellers of securities (Sharpe, et. al, 2005).

The stock market refers to the collection of markets and exchanges where the issuing and trading of equities (Stock of publicly held companies), bonds and other sorts of securities takes place, either through formal exchanges or over-the-counter-markets. Also known as the equity market, the stock market is one of the most vital components of a free-market economy, as it provides companies with access to capital in exchange for giving investors a slice of ownership. It is a place where the companies get listed to issue shares and raise the funds. In case of an already listed public company, they issue more shares to the market for collecting more funds for business expansion.

Secondary market is one kind of capital market where securities are traded which has already been issued in the past. The secondary market, also known as the aftermarket, is the financial market where previously issued securities and financial instruments such as stock, bond, option and futures are bought and sold. Simply, secondary markets are markets in which existing outstanding securities are traded between the investors i.e. buyers and sellers. It creates the price and allow for liquidity. Thus, Secondary Market mainly deals with previously issued shares traded through stock exchange, over the counter market or direct selling. For the efficient growth of primary market, secondary market is an essential requirement. Since, the secondary market provides liquidity to the securities; the investors are encouraged to buy the securities in the primary market. In Nepal, Nepal Stock Exchange (NEPSE) is the organized secondary market where thousands of securities are traded. New York Stock Exchange (NYSE), National Association of Securities Dealers Automated Quotations (NASDAQ) are the major exchange organizations around the world.

Common Stock represents the ownership position in the company. The holders of common stocks are called common stockholders or shareholders and they are the legal owners of the company. Common stocks are also known as equity shares or ordinary shares. Ordinary shares have no maturity date and they are the source of permanent capital. Common stocks are variable income security, meaning that the dividend payment to the shareholder is not fixed like interest to the bondholders and dividend to the preference shareholders. The common stocks are the permanent and vital source of capital since they do not have a maturity date. As a return to the contribution of shareholders investment, they are entitled to dividends. It means, in the case of organizational profit, the shareholders are provided a certain sum of money as dividend. The amount or rate of dividend is fixed by the Board of Directors. Hence, the common stock is a kind of variable income security. Being the owner of the company, the shareholders bear the risk of ownership. They are entitled to dividends after the claims of outsiders' are satisfied.

Earnings per share (EPS)

The earnings per share (EPS) is the share of a stock on the earnings of the company. It refers to the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholder. It is also identified to measure the profitableness of the shareholders' investment. The earnings per share simply show the profitability of the banks on a per share basis. The higher earnings indicates the better achievements of the profitability of the banks by mobilizing their funds and vice versa. Earnings per share are calculated to know the earning capacity of the bank and to compare with its market price. It can be calculated by dividing the earnings available to common shareholders by the total number of common stock outstanding of banks. It can be presented symbolically as: $EPS = Total\ Earnings\ available\ to\ common\ share\ holders/No.\ of\ Shares\ Outstanding$

Dividend per share (DPS)

The percentage of earnings the firm pays in cash to its shareholders is known as dividend. The dividends, of course, reduce the amount of earnings retained in the firm and affect the total amount of internal financing. Nothing is more important than dividends to stockholders. They buy shares of the firm with the hope of sharing profits earned by firms. The sole motive of stockholders is to receive a return on their investment; nothing pleases them more than knowing the firm's earnings and more profits mean more dividends coming in. It can be presented symbolically as: $DPS = Total\ Dividend\ paid\ to\ common\ share\ holders/\ No.\ of\ Shares\ Outstanding$

Price earnings ratio (P/E Ratio)

The Price Earnings ratio of a stock is the market price divided by its EPS. This tells you how other investors view the stock. It relates with the comparison of market value with its earnings per share. The price earnings ratio indicates the extent to which the earnings of each share are covered by its price. It tells whether the share price of a company is fairly valued, undervalued, or overvalued. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. A company will have a high PE if investors hope their earnings from the stock will increase; this is why they buy the share. This increase in demand will result in the share's market price rising. It can be presented symbolically as: $Price\ Earnings\ Ratio = Market\ Price\ Per\ Share / \ Earnings\ Per\ Share$

2.2 Review of related studies

Miller and Modigliani (1961), studied “dividend policy, growth and the valuation of shares” has concluded that dividend payout ratio (dividend policy) does not affect the wealth of the shareholders or on the share price of the firm. It argues that the value of the firm is determined by the earning power of the firm’s assets or its investment policy, and that the manner in which the earnings stream is split between dividends and retained earnings do not matter.

Walter (1963), “dividend policy: it’s influence on the value of enterprise” argues that dividend policies usually affect the value of the enterprises. The investment policy of a firm cannot be separated from its dividend policy. The key argument in the support of the relevant proposition of the model is the relation between the return of firm’s investments or its internal rate (r) and its cost of capital (k), the stock price will be enhanced by retention and will vary inversely with dividend payout.

Sharif, Purohit & Pillai, (2015) have conducted a research In Bahrain to analyze the factors affecting share prices in Bahrain stock exchange and they found that there is significant positive relationship between ROE, ROA, BVPS, P/E ratio of the firm suggesting that these factors act as active determinants in shaping the market price of shares. However a significant negative relationship was found between dividend yield and MPS.

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

International Monetary Fund (IMF) (1997), Policy Development and Review Development Division published a working paper entitled “Determinants of Stock Prices: The Case of Zimbabwe”. The working paper examined the general relationship between stock prices and macroeconomics variables in Zimbabwe, using the revised DDM, error-correction, model, and model, the multi factor return generating model. Despite the large fluctuation in stock prices since 1991, the analysis indicated that the Zimbabwe Stock Exchange functioned quite consistently during that period. Whereas sharp increases in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization, the movements of monetary aggregates and market interest rates explained the rapid increase of 1990’s in stock prices.

The study of Nirmala, Sanju and Ramachandran (2011) identified the determinants of share prices in the Indian market. The study used panel data pertaining to three sectors viz., auto, and healthcare and public-sector undertakings over the period 2000-2009 and employs the fully modified ordinary least squares method. They found that dividend, price-earnings ratio and leverage are significant determinants of share prices for all the sectors under consideration. Further, profitability was found to influence Share prices only in the case of auto sector.

The study of Sharma (2011) examined the empirical relationship between equity Share prices and explanatory variables such as: book value per share, dividend per share, earning per share, price earnings ratio, dividend yield, dividend payout, size in terms of sale, and net worth for the period 1993-94 to 2008-09. The results revealed that earning per share, dividend per share, and book value per Share has significant impact on the market price of share.

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

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

Almumani (2014) attempted to identify the quantitative factors that influence share prices for the listed banks in Amman Share Exchange over the period 2005-2011 using a linear multiple regression model. There is a significant positive relationship between EPS and the MP of the listed banks in Jordan. Moreover, moreover, there is a significant relationship between banks BV and MP. Another empirical finding from the regression analysis shows a positive relationship between P/E and MP. Empirical findings from the regression analysis on the relationship between SIZE and MP indicate that there is an inverse relationship between S and MP. Finally, other variables (DPS and DP) have insignificant impact on MP. Thus, from the review of literature on Share price determinants, it can be observed that Most of the studies have used either time-series or cross-section data. There have also been attempts to identify the Share price determinants using panel data.

Suleman et al. (2011) studied the effects of dividend policy on share price volatility in Pakistan. The study extracted data from Karachi Stock Exchange regarding five important sectors for the period of 2005 to 2009 and used multiple regressions model for their analysis. The study also revealed that share price volatility has significant negative relationship with growth. The study also found that share price volatility has significant positive relationship with dividend yield. An attempt has been made by Hussainey et al. (2010) to examine the impact of dividend yield on stock price changes using123 English companies from 1998 to 2007 in UK. The result of the study showed a positive relation between dividend yield and stock price changes and negative relation between dividend payout ratio and stock price changes. Their results further indicated that the firms' earnings, growth rate, level of debt and size also explain the change in stock prices of UK. Their findings discovered that the payout ratio is the predominant determinant of the stock price volatility and size and debt have the strongest relationship with price volatility.

Another study was conducted by Habib et al. (2012) to examine the relationship between dividend policy and share price volatility in Pakistani stock market. The cross sectional regression is used to analyze the relationship of share price with dividend yield and payout ratio. This study also proposed that signaling effect is also relevant in determining the share price volatility. The study found that dividend yield and share prices are positively related but payout ratio is negatively related to share price. Gabriel and Ugochukwu (2012) investigated the relationship between volatility and stock price in Nigerian Stock Market. The study used month end stock price of four major companies from the period January 2005 to December, 2009 data. The results revealed that out of the four companies, only two companies' stock price was predicted by volatility in their stock prices The major result of the study showed stock price volatility could not predict their current stock price and hence volatility was insignificant and negatively correlated.

The stock market price of commercial banks concerns not only by its demand and supply but also depends on various factors. It influences by both internal and external factors. Considering the internal factors, it depends upon the microeconomic factors such as the firm's earnings yield, dividend policy, market to book value, etc. On the other hand, it depends upon the macroeconomic factors which are money supply, interest rate, inflation rate, government regulations, foreign exchange rate, etc. Collins (1957) identified dividend, operating earnings, net profit and book value are the factors that determinants share prices of US banks. Moreover, Fama (1981) has suggested earning yield, firm size, a book market value, cash flow yield, and leverage, which are the fundamental variables determining the stock return. According to Modigliani and Miller (1958), a company's stock price is determined by its earnings and value, not by dividend policy. John and Williams (1985) recounted that the MM's statement is only legitimate if management gives their shareholders both constructive and destructive information. Managers reveal only positive information, and they disclose adverse reports while any regulation forces them.

However, Kurihara (2006) has another study that stock price depends on external factors such as the GDP, interest rates, money supply, economic employment, market demand and stock supply. The stock price is often used to indicate a firm's value which rising price indicates a good enhancement in the stockholder's wealth. Balakrishnan (1984) discovered a link between explanatory variables such as earnings per share, dividend per share and book value per share and their impact on the stock market price. Similarly, Almumani (2014) revealed that earning per share, price-earnings proportion and book value per share, all are strongly favorably connected with market price, whereas the size is significantly inversely related. Dividend per share and dividend payout proportion, on the other hand, has a positive but insignificant relationship with the market price. Tandon and Malhotra (2013) found that book value per share, price-earnings proportion and earnings per share are favorably connected with market price, whereas dividend yield is inversely correlated.

Nowadays, many people are interested in investment in the stock market, though they are aware of its price volatility (Ghimire & Mishra, 2018). According to Nel and Kruger (2001), higher volatility in stock prices equates to higher risk. The stock market represents the economy, which is important to the country's development of industry and commerce (Silwal & Napit, 2019). The stock market has evolved into an important market that promotes the capital formation and long-term economic growth. The investors build their investment portfolios accordingly through the firm's performance. By providing long-term funds in exchange for financial assets, a well-organized and controlled capital market helps and creates an environment that is conducive to development. In light of this statement, the researcher concentrates on the essential aspects of a firm's internal variables that directly impact the share price movement. The internal factors are only being considered for this study because somehow these factors can be controlled by inner management.

2.3 Review of Nepalese Context

The development of the share market in Nepal dates back to the late 1970s, when the Government of Nepal established Securities Marketing Center (SMC) in 1976. In 1984, the Securities Exchange Act was promulgated and SMC was converted into the Securities Exchange Center (SEC). In addition to facilitating trade, SEC had to perform the role of a broker, underwriter and issue manager of shares and government securities to facilitate and promote the growth of capital market. Shares of forty-two companies were listed in between 1984 and 1990. Most of the listed companies had the ownership of government. In 1990s, due to the world whim of privatization and economic liberalization, the Government changed the structure of SEC and the result was obvious - Securities Board of Nepal (SEBON) and Nepal Share Exchange Ltd. (NEPSE) came into existence at the policy level in 1993. Thereafter, they are operating as the main constituents of securities market in Nepal.

SEBON facilitates the orderly development of a dynamic and competitive capital market and maintains its credibility, fairness, efficiency, transparency and responsiveness under the Securities Act 2006. It is an apex regulator of the securities market in Nepal. On the other hand, NEPSE was established in 1994 with the objective of imparting free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through members, market intermediaries, such as broker and market makers. Major financial instruments trading in NEPSE include corporate shares, debentures, government bonds and mutual funds. NEPSE introduced fully automated screen based, order driven market trading since 2007.The average market capitalization (1993/94 -2010/11) of Nepal's Share market was Rs.140376.4 million with the highest capitalization of Rs. 512939 million in 2008/09 and the lowest capitalization of Rs.12295 million in 1995/96.

During this period average value traded ratio was only 0.65 percent. Nepal Share Exchange had an annual average turnover of 4.31 percent during this period. These low ratios indicate the relative illiquidity and stunting of the overall market growth. This is also supported by the dominance of a few companies in the market as the market capitalization of the top ten equities listed on the Nepal Share Exchange accounted for about 58 percent of the total share market capitalization in 2010. Similarly, average number of listed companies in Nepal Share market for this was one hundred and twenty-two with average annual growth rate of 6.93 percent. At the end of 2011, the number reached two hundred and nine.

There are many loopholes in stock exchange Act. Investor feels insecure here. A few years back there was a company called Nimrod Pharmaceuticals Company that floated in shares but where is it now? Similarly, it has been more than a decade that Bansbari Leather has allotted its shares, but why didn’t the company list its shares in the market? It has been 5 years that Gorakhkali Rubber Udhyog has not called its AGM. The NRB has recently done a decision to take on liquidation of Nepal Development Bank Ltd. Government remains silent in all these cases. This is why the public as well as the institutional buyers is not feeling secure in investing in stock Market (Business Age, Jan 2000). Investment in the capital market now has become very uncertain, sending the investor in search of avenues of more certain retains. The equity investment is considered riskier than investment in bond preferred stock etc. the secondary market is not performing well. The NEPSE index is hovering around 208 and 215 since long. After great slum Nepal stock market in F/Y 2000/01, dissatisfaction has increased in the mind of investors. The NEPSE index on 23 Nov 2000 had reached the pick of 545, 82 and after that it is continuously on the decline (Business Age, March 2004).

Dhamala (2003), studied on “Determinants of Share Price in Nepalese Financial Market” taking ten public companies i.e. 5 from commercial banks and 5 from finance companies covering relevant data and information for 5 years from 1996 to 2001. He found in his study that the Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance. The market price of the share in Nepal is not indicative of a company’s financial performance in stock market and the share market is imperfect, is not efficient, and is liable to manipulation. Basically, value of share price is to be determined by the future prospects of the company based on the past financial indicators.

A study conducted by Pradhan and Balampaki (2004), on the title of “Fundamentals of Stock Return” has given some important insight regarding nature of stock return in Nepal. This study deals with fundamentals of stock returns. It examines if dividend yield, capital gain yield and total yield are related to earnings yield, size, book to market ratio and cash flow yield. The study is based on pooled, crossed, sectional data of 40 enterprises whose stocks are listed in Nepal Stock Exchange Ltd. and traded in the stock market. The study reveals that earning yield and cash flow yield have significant impact on divided yield. Their main findings of the study are earning yield and cash flow yield have insignificant impact on book to market value whereas size has negative impact in dividend yield.

In the case of earning yield and cash flow yield, cash flow yield has been found to be more informative than earning yield. Capital gain yield is positively influence by earning yield and size, whereas the same is negatively influence by book to market value and cash flow yield. Book to market value has been found to be statistically strong in predicting capital gain yield. Similarly, total yield is positively determined by earning yield and size whereas the same is negatively determined by book to market value and cash flow yield. Book to market value has been found to be more informative than other variables K.C. (2004) has conducted a study entitled “Development of Stock Market and Economic Growth in Nepal” based upon the data of ten years.

There are some researches carried out by different researchers in this topic in Nepal. Here are some of the reviewed Independent Study, which can help us to understand about their objectives, used statistical tools and major findings of the study. Neupane (2004), conducted a study on “Determinants of Stock Price in Nepal Stock Exchange” taking 11 sample organizations using various financial and statistical tools like standard deviation, correlation, regression analysis, t-test, Z-test. He concluded that in NEPSE, DPS, BPS and EPS individually do not have consistent relationship with the market price of share, among the listed companies. The pricing behavior varies from one company to another. But EPS, BPS and DPS, jointly have significant effect in market price shares. So there may be other major factors affecting the share price significantly. NEPSE is in its primary stage, adopting open outcry system for stock trading and stockbrokers lack professionalism to create investing opportunities in NEPSE. Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing and processing, trading and hotel sector have weak performance. So financial intermediaries are strong but their ultimate investment is suffering.

Dhungel (2005), conducted a study on “Stock Price Movement and Financial Performance of Nepalese Listed Companies”, derive the conclusion as the invisible factors causes the ups and downs movement of monthly share Volume, price and market capitalization throughout each fiscal year, the fluctuation trends are not in order and there is no correlation between volume and price stocks. The large stocks have the lower price earnings ratios, large market value to book value ratio and lower ratio of dividend per share to market price per share, higher and less variable leverage and lower profitability Dhakal (2007), his study on “Determinants of Share Price on Nepalese Commercial Banks” with randomly selected 10 commercial banks, concluded that the MPS of most of the banks are found to be correlated with other individual financial indicator like BPS, EPS and DPS insignificantly. This shows that they individually rarely influence share price but they have combine effect on it. Most banks are unknown about laws and policies regarding share market but poor rules and regulation as well as infective regulatory mechanism of market makers are the problem of Nepalese capital market.

Acharya (2008), his study on “Determinants of Stock price in Nepalese Commercial Banks” with randomly selected 10 commercial banks, concluded that Share price are affected by different kinds of micro and macro variables such as EPS, DPS, information disclosed, political instability, growth rate according to respondents’ survey. However, interest rate, retention ratio, cost of equity, market liquidity, change in management do not significantly affect the share price in NEPSE. The major findings show in the study that the market price per share has high degree of positive relationship with EPS in all sample banks and largely depends on EPS.

Lama (2016) found that market price per share is positively correlated to size, earning per share, dividend per share, return on assets, money supply, inflation and gross domestic product Due to the inadequate knowledge of share market among Nepalese investors, capital market of Nepal has not been well developed yet. The reason why commercial banks are only the attractive sectors to invest, in the view of investors is that they are better managed and controlled, that is why they are in profit and distribute good rate of dividend.

As the main constituents of securities market in Nepal, SEBON facilitates the orderly development of a dynamic and competitive capital market and maintains its credibility, fairness, efficiency, transparency and responsiveness under the securities act 2006. It is an apex regulator of the securities market in Nepal. On the other hand, NEPSE was established in 1994 with the objective of imparting free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through members, market intermediaries, such as broker and market makers. Major financial instruments trading in NEPSE include corporate shares, debentures, government bonds and mutual funds. NEPSE introduced fully automated screen based, order driven market trading since 2007.

The average market capitalization (1993/94 - 2010/11) of Nepal's share market was rs.140376.4 million with the highest capitalization of rs. 512939 million in 2008/09 and the lowest capitalization of rs.12295 million in 1995/96. During this period average value traded ratio was only 0.65 percent. Nepal share exchange had an annual average turnover of 4.31 percent during this period. These low ratios indicate the relative illiquidity and stunting of the overall market growth. This is also supported by the dominance of a few companies in the market as the market capitalization of the top ten equities listed on the Nepal share exchange accounted for about 58 percent of the total share market capitalization in 2010. Similarly, average number of listed companies in Nepal share market for this was one hundred and twenty-two with average annual growth rate of 6.93 percent. At the end of 2011, the number reached two hundred and nine.

Pradhan and Dahal (2016) investigated the factors that influence the share price of Nepali commercial banks. The findings demonstrate that firm-specific variables such as earnings per share, price-earnings proportion, dividends per share, book value per share, return on assets and size are the most important determinants of stock price. Moreover, size is the most influential variable among the variables that affect the stock price. It simply indicates that the larger the company, the greater the stock price.

However, Bhattarai (2018) has examined the effect on stock price from both firms specific and macroeconomics variables of banks and insurance companies in Nepal throughout 2009/10 to 1014/15. Most specific variables include earnings per share, price-earnings proportion, dividends per share, company size, return on assets and return on equity, whereas macroeconomic variables include GDP, exchange rate, money supply and inflation rate. Earnings per share, dividend per share, priceearnings ratio, firm size, GDP and exchange rate were all found to have a substantial positive correlation with the market price. Return on equity, return on assets and money supply, on the other hand, have a considerable negative relationship with the market price. The final findings show that, except Dividend Per Share (DPS), all individual variables have a significant effect on the stock price of banks and insurance firms in Nepal.

Ghimire and Mishra (2018) used regression to examine the link between share price and variables such as earnings per share, dividend per share, price-earnings proportion, book value and market to book value for 11 financial and non-financial enterprises in Nepal from 2012 to 2017. The findings showed that marketto-book value, dividend per share, and price-earnings ratio are the most important predictors of stock price, whereas earnings per share have a lesser impact.

Bhattarai (2020) examined the factors that affect the market share price of Commercial banks from 2013/14 to 2017/18 of Nepalese Commercial Banks. The bank's specific secondary panel balance was collected from 12 sample commercial banks by using convenient sampling techniques and data of macroeconomic variables were collected through the economic survey which was published by the Ministry of Finance, Nepal. The dividend payout ratio, dividend yield, price earnings ratio, bank size, gross domestic product growth rate and inflation were used as independent variables. The study employed descriptive, correlation and causal comparative research design. The data were analyzed through the pooled OLS and Fixed Effects Models as directed by the model diagnosis test. The findings from both models were more or less the same. The dividend payout patio showed negative and statistically significant with market share price. The dividend yield, earning per share were positive and statistically significant with market share per price. The bank size, gross domestic product growth rate and inflation rate were not part of the market share price. The study had recommended for the management of the commercial bank to strengthen its effort for effective management of the bank specific factors to avoid the negative effect on the share price.

Gbalam and Uzochukwu (2020) evaluated price reactions to dividend announcement of firms listed on the Nigerian Stock Exchange. Variables for the study were dividend per share, dividend pay-out ratio, Price per share. Ordinary Least Square Regression was carried out to determine the relationship and the results of the findings shows that there is a positive but insignificant relationship between dividend payout and share price announcement of firms in Nigeria. Silwal & Napit (2019) analyzed and identified the determinants of the stock price in Nepalese Commercial bank. The study is based on pooled cross- sectional data of ten banks whose stocks are listed in Nepal stock exchange. The study employed correlation and causal comparative research design and results revealed that book value per share, price earnings ratio, and return on equity have positive relation with stock price. Dividend yield had a positive but minimal influence on the price of the stock whereas size had a negative relationship and is statistically insignificant with stock price. It revealed that book value per share is the most influential factor that determines stock price in Nepal.

Table 2

Empirical Findings

Researchers and Year	Major Findings
Modigliani (1961)	The results of the study show that in assessing the merits of a company's dividend, investors calculate the dividend yield and this shows how much a company pays out in dividends each year relative to its share price.
Walter (1966)	The main point which he prioritizes is that there is a significant relationship between internal rate of return and cost of capital and determining factors to retain profit or distribute dividends. As long as internal rate is greater than the market rate the stock price will be enhanced by retention of earnings and will inversely affected by dividend payout.

Friend and Puckett (1964)	They found that the stock prices or more accurately the Book value per share does not seem to have a significant effect on Market price of stock.
Farrelly and Edelman (1985)	The findings of the study show relatively strongly dividend payout affects common stock prices. Likewise, on average, that dividend payouts provide a signaling device of future company prospects and that the market used dividend announcements as information for assessing security value. Dividend policy changes should be adequately disclosed to investors. perceptions of the relative riskiness of dividends and retained earnings and hence are not indifferent between dividend and capital gain returns.
Asquith and Mullin (1983).	The findings of the study revealed the increase in dividend per share is effective for a firm because it enhances the market price of the share and has great impact on shareholders wealth
Shrestha (1980)	The main findings of the study Shrestha (1980) highlighted the following issues: government of 1980 expects two things from public enterprises: (i) They should be in a positive to pay minimum dividend (ii)Public enterprises should be self-supporting in financial matters in future years to come but none of these two objectives are achieved by public enterprises
Pradhan (1993)	The study found that Positive relationship between dividend payout and liquidity. Positive relationship between dividend payout and profitability. DPS and MFS

	are positively correlated, Liquidity and leverage ratios are more variable for the stock paying lower dividends. Earnings, assets turnover, and interest coverage are more variable for the stock paying higher dividends.
Bhattrai (1996)	The main findings there are positive relationship between cash flow and current profit and divided percentage of shares. The degree of relationship is almost perfect. There is no criterion to adopt payout ratio and it is observed that there is a negative relationship between payout ratio and valuation of shares. In aggregate, there is no stable dividend paid by the companies over the years. Some companies have steadily increased dividend. Such increase in dividend has a considerable impact on valuation of shares if there are rational investors; however, this is yet to be realized by Nepalese company management. Inflation rate in recent year are decreasing and the market price of share are increasing. Nevertheless, the companies are not able .to give required rate of return to the investors. There was negative relationship between price of share and stockholders required rate of return. Shareholders have foregone opportunity income in hope of getting higher return, but companies have not been able to return even equal to risk free rate of return.
Timilsina (1997)	The study concluded that the relationship between dividend per share and stock price is positive in the sample companies. Dividend per share affects the share price differently in different sectors. Changing dividend policy or dividend per share might help to increase the market price of the share. The relationship between stock price and retained earnings per share is not prominent. The relationship between stock prices and lagged earning

	price ratio is negative.
Manandhar (2000)	The main finding of the study was found significance relationship between change in dividend policy in terms of dividend per share and change in lagged earnings. There is relationship between distributed lagged profit and dividend. The difference is found significant between overall proportion of change dividend and due to increase and decrease in Earning yield during the study period.
Adhikari (2000)	This study concludes that There is negative relationship between dividend payout and earning before tax to net worth. Stocks with larger ratio of DPS to book value per share have higher profitability. Nepalese shareholders are not really indifferent towards payout or nonpayment of dividend
Khatiwada (2001)	This main finding of the study concluded that announcement of dividend and earnings did not affect the shareholders return in average. Other banks except Nepal SBI Bank Ltd. having different dividend rates did not provide abnormal return to the shareholders. Shareholder realized positive abnormal return from NB, SBI and Grindlays.
Arnott (2003).	The empirical results, suggest that It should be noted that the dividends paid are only a portion of the firm’s net profits. The dividend payout structure of a firm is decided by the board of directors appointed by its shareholders in the annual general meeting. Dividend payment policy aims at meeting the expectations of the existing investors as well as the potential ones

Azhagaiah and priya (2008)	The obtained results indicate that Higher dividend per Share creates positive reaction to market price of the share and there is an increase of price of share in market
Khan (2011)	The findings of the study indicated Non performing loan has negative effect on Market Price of Stock Earning per share has positive effect on Market stock prices
Kapoor (2010)	This study concluded that in FMCG sector and service sector, cash dividends announcement has an impact on market price of stocks
Budathoki (2012)	The major finding of this study conducted that the average earning yield of the banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS. The average dividend per share (DPS) shows that there is no regularity in dividend payment. The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable. The average market price shows that there is quite high level of fluctuation
Bhattrai (2013)	This paper has examined that there is the largest fluctuation in EPS and DPR, the relationship between DPS and EPS is positive; however, it is not significant. There may be various other factors besides EPS to affects MPS and the growth rate of dividend is inconsistent. It concluded that no sampled commercial banks have followed distinctly defined dividend policy.
Ajanthan (2013)	The main findings of the study were that there is a positive relationship between the dividend policy and profitability of the company in Sri Lanka
Sijolnur and Abdul Basit (2013)	The study demonstrated that the dividend policy did not have a consistent pattern of influencing the financial performance of companies in the US, nor did the study

	find a clear relationship between the value of the market share and the dividend policy of the company
Wasfi and Maysa (2013)	The findings research on the relationship of dividend per share and market price of stock found a positive and significant relationship between them non-performing loan and Market price of stock, found a negative and insignificant relationship between study variables. The result of positive and significant relationship between dividend per share, and the market price of stock imply that the dividends per share might lead to increase the closing price of the firm's stock. .
Paudel (2014)	The major conclusion of the study is that MPS of 6 financial institutions has higher positive correlation with major financial indicators such as Earning yield, NWPS and DPS and such relationship in significant. The Nepalese stock markets in not efficient enough to determine MPS in accordance with respective financial performance. The market price of share in Nepal is not indicative of a company's financial performance in stock market. Value of share price is to be determined by the future financial indicators, unfortunately, the stock market does not run based on proper information about the company.
Masum (2014)	The study concluded that with the help of Panel data approach positive correlation between dividend and market price of stock considering EPS, BVPS, Retention Ratio; while dividend yield and profit after tax have negative relation with market price of stock.
Emeni and Ogbolu (2015)	This result of the study indicated that dividend per share and investment policy have a negative but significant relationship with the market value of firm in financial

	sector of Nigeria, while the studies also indicates that earnings per share have a positive and insignificant relationship with market price of stock.
Monogbe (2015)	The study revealed that dividend decision is taken by the firm's board of directors, and is based on the current financial performance and future activities of the firm. The board normally holds quarterly or semi-annual dividend meetings. When generated profits are not adequate, firms may abstain from paying any dividends.
Ajayi (2015)	The main findings of the study were that Their result shows a positive relationship between dividend payout ratio and share price volatility for dividend paying firms, and a negative relationship between retention ratio and share price volatility for lesser dividend paying firms.

2.4 Research Gap

Earlier studies and researches on the stock price movement in the NEPSE are carried out on the apparent approach by taking the most common Indicators in consideration. During the review of previous Independent Study, it is found that no researcher has been conducted by taking these sample companies, which the researcher has selected in this research. So, it is believed that this study will fulfill the gap, which had been made by the earlier researcher. Researcher has taken sample from only the first class commercial banks, which also could predict the sensitive stock moment as well. Moreover, the researcher has been conducted on price behavior related to stock market efficiency by using share brokers, market analysts and individual investors as primary sources of information. There was a need to conduct a survey with the share brokers, market analyzers and individual investors who are the major stakeholders of the stock market. Furthermore, it shows that there are very few research works conducted on various aspects of securities price formation of commercial banks in the field of stock market.

The studies conducted in developed security markets may not be entirely relevant in the security markets of underdeveloped country like Nepal. There applicability to test in the context of smaller and underdeveloped capital market likes ours. The changes taken place after the completion of these studies might have reduce their relevance. Therefore, it is necessary to test the validity of these studies and their applicability in our context. Most of the above stated studies use technical method and statistical methods like regression analysis, correlation coefficient, NEPSE trend etc. for analysis purpose. Only few of studies use fundamental analysis tools for the research work. More than that, some few studies are concerned about financial indicators like EPS, DPS P/E ratio and BS, which are the most influencing factors for the MPS. So, this study tries to analyze the relationship of these factors along with influencing factor on market price of the stock. The above-mentioned empirical studies indicate that stock price is determined not only by a single factor but by several different essential variables. There is no uniformity in the variables selection for determining the stock price in Nepal.

Various quantitative and qualitative factors affect the share price formation. Many studies documented that dividend is one of the most influencing factors in share price formation. The fundamental analysts say that the price of stock is the present value of the future cash flows and the price of stock must be equal to this value. The role of brokers and market makers is crucial in pricing.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research design

Research design indicates a plan of action to be carried out in connection with proposed research work. The research design adopted to do this study consists of descriptive statistic measure, inferential analysis through cross tabulation, correlation, ANOVA test and t test. The research design is based on the statistical measure such correlation, coefficient of variation (cv), regression. The other measure is the financial measure such as ratio analysis. The data is based on the secondary data to deal with the various issues.

The descriptive research design has been adopting for fact-finding and operation searching for adequate information of firm characteristics in Nepalese banks. Besides, an effort has also been made to describe the nature of pooled data of the commercials banks by using descriptive statistics with respect to bank specific variables such as which have impact on the market share price of the Nepalese commercial banks.

3.2 Population and sampling procedure

The study is based on the secondary data. It includes 5 commercial banks out of 22 commercial banks. The study is based upon the annual report of the commercial banks. The study is basically based upon the report published by the banks. The banks which are in operation for longer period of time can provide reliable data and more accurate assessment. Therefore, those 5 banks (Sanima Bank, NMB Bank, Nepal Bank, Civil Bank and Investment Bank) which have completed 10 years of operations are selected for the study. 6 years data from 2016 to 2021 are used for the analysis.

Table 1

Number of commercial banks selected for the study including study period and observations

S.n	Name of bank	Study period	No of observation
1	Nepal Investment Bank Ltd	2016-2021	6
2	Sanima Bank Ltd.	2016-2021	6
3	Civil Bank Ltd	2016-2021	6
4	Nepal Bank Ltd	2016-2021	6
5	NMB Bank Ltd	2016-2021	6

Source: www.nrb.com.np

3.3 Nature and source of data collection

The main source of data is banking and financial statistics published by Nepal Rastra Bank (NRB), NRB directives and concerned by-laws regarding banking performance. In addition to these, different published journals are also analyzed. Bank supervision reports published by NRB have also been used to obtain the information regarding, DPS, MPS, P/E, AND EPS. After this, the data regarding variables were calculated. Lastly, all the gathered information from secondary sources was undertaken for pooled analysis to answer the research hypothesis and purpose of the study. Out of 27 commercial banks operating in the country, 5 banks are selected.

3.4 Research framework and definitions of variables

The conceptual frame work is designed to understand the factor that may affect the market price per share. The extent literature available strongly supports the movement of share price as a consequence of firm specific factors. In view of theory and major empirical evidences, it is expected that the market price per share of commercial banks may be influenced by dividend per share, earnings per share, and price earnings ratio of the bank. The conceptual framework developed to test the effect of these variables on the market price per share of listed commercial banks of Nepal in this study is portrayed in figure 1.

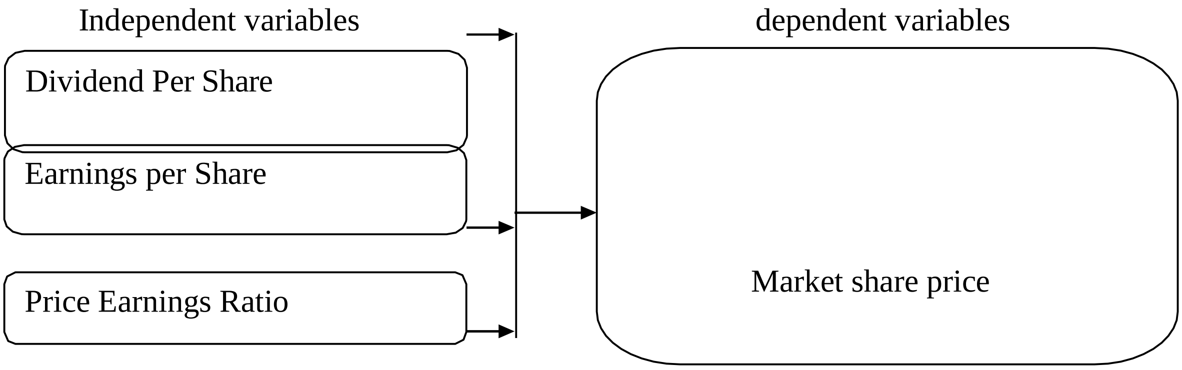

Figure 1 Conceptual framework of the study

Market Price. The present study seeks to test the factors influencing Share prices of commercial banks in Nepalese Share market. As observed by researcher such as Malhotra (1987), Piotroski and Roulstone (2004), and Zakir and Khanna (1982), Share price can change minute by minute due to changes in the buying and selling pressure. Due to these changes, it becomes difficult to decide as to which market price should be regressed as a measure of dependent variable. In the present study closing price of Share at the end of the financial year of the bank has been taken to represent market price. The market price is used as dependent variable in the present study.

Dividend. The percentage of earning the firm pays in cash to its shareholders is known as dividend. Dividend reduces the amount of earning retained earnings in the firm and effect the total amount of internal financing. Nothing is more important than dividends to stockholders. They buy share of firm with the hope of sharing profits earned by firms. The role motive of stockholders is to receive return on their investment, nothing pleases them than knowing the firm’s earnings and more profits mean more dividends coming in. Dhanani (2005) found that dividend policy serves to enhance corporate market value.

Earnings per Share. Earnings per Share serve as an indicator of a company's profitability. The increasing earnings per Share generally results in high market price. According to Ball and Brown (1968), Baskin (1989), Malhotra and Tandon (2013), Almumani (2014), Jatoi, Shabir, Hamad, Iqbal and Muhammad (2014) the earnings per

Share has a positive relationship with market price, that is, higher the earning per share, higher will the market price be.

Price Earnings Ratio. It relates with the comparison of market value with its earnings per share. The price earnings ratio indicates the extent to which the earnings of each Share are covered by its price. It tells whether the Share price of a company is fairly valued, undervalued, or overvalued. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. In the same token, Khan and Amanullah (2012), Malhotra and Tandon (2013), Almumani (2014) also indicated that price-earnings ratio have a significant positive association with firm's Share price

3.5 Model specification

Irfan and Nishant (2002), Malhotra and Tandon (2013) and Almumani (2014), this study investigates that market price of the equity shares as a function dividend per share, earning per share, price earning ratio and stock price. To achieve this objective a multiple regression model is specified as:

MPit =βo+β1 DPSit +β2 EPSit +β3 PEit + ei

Where:

MPit = market price of the share of firm i in year t
DPSit = dividend per share of firm i in year t
EPSit = earnings per share of firm i in year t
P/Eit = price earnings ratio of firm i in year t

B0 = the intercept (constant term)

B1, β2, β3 = regression coefficient for respective variables (i.e. The slope which represents the degree with which share price changes as the independent variable changes by one-unit variable).

E = error term

Explanatory variables used in the study along with their expected sign in the empirical estimate as specified in equation (1) are summarized in table 1. The dependent variable is market value of share.

Table 2

Description of explanatory variables and their expected sign

Variables	Description	Expected sign
DPS	Dividend per share	-
PE ratio	Price Earning ratio	-
EPS	Earnings per share	+

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Data presentation

Various statistical and econometric models described in chapter three have been used for this purpose. Trends of variables, descriptive analysis, correlation analysis and ordinary least square regression analysis have been employed in order to analyze the connection.

Data analysis is important part of research analysis. The main function of data analysis is to collect data and examine the collected data and find the relationship between the variable i.e. Independent and dependent variables and also the nature of the relationship.

4.2 Structure pattern of variables

This section analyses the structure pattern of dependent variables i.e. Market share price and various independent from 2017-2022.

Table 3

MPS, DPS, PE ratio and EPS of Sanima Bank

Year	MPS	DPS	EPS	P/E Ratio
2016/17	477	30	59.2	39.5
2017/18	390	30	59.8	25.4
2018/19	379	12	51.8	18.6
2019/20	681	12	50.5	15.82
2020/21	425	33.5	36.1	21.15
2021/22	480	33.6	33.5	40.48

Source: Annual report

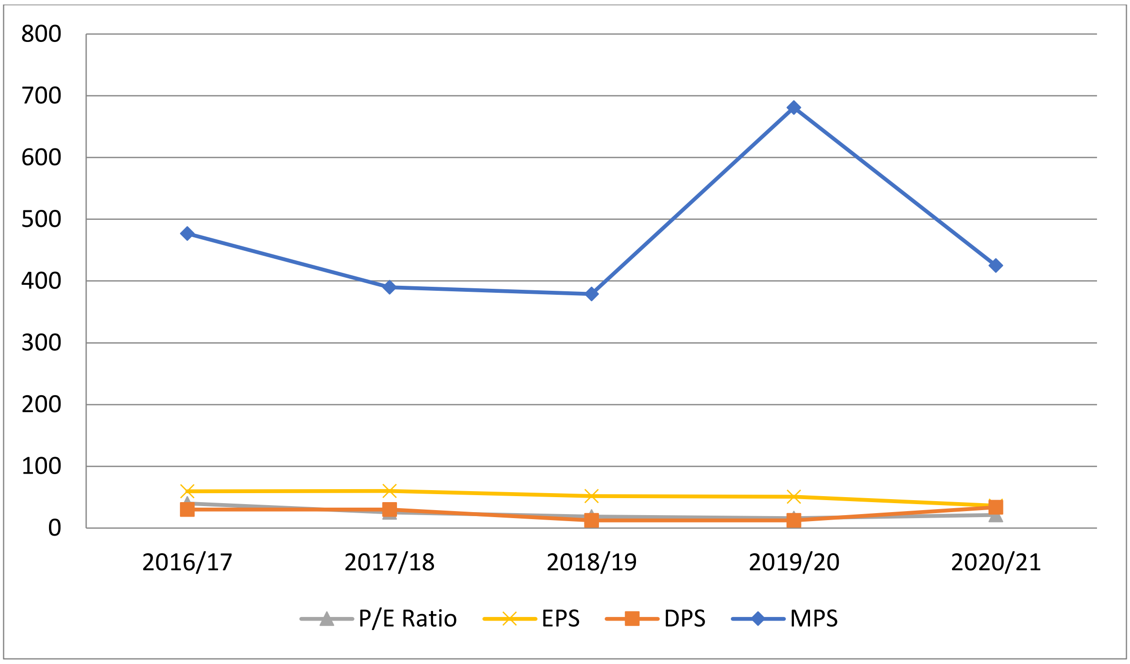

Figure 2 Structure and pattern of dependent and independent variable of Sanima Bank.

DPS increases at 2017 and then decrease till 2019. Similarly, eps is increases from 2018 to 2021. P/e ratio is decreases to 2019 to 2021 and then increase from 2018 to 2020.

Table 4

MPS, DPS, PE ratio and EPS of Civil Bank

Year	MPS	DPS	EPS	P/E Ratio
2017/18	290	16	22.4	26.6
2018/19	380	10	25.5	15.2
2019/20	422	16	23.6	12.2
2020/21	320	12.4	26.4	11.1
2021/22	298	14	17.9	13.2

Source: Annual report

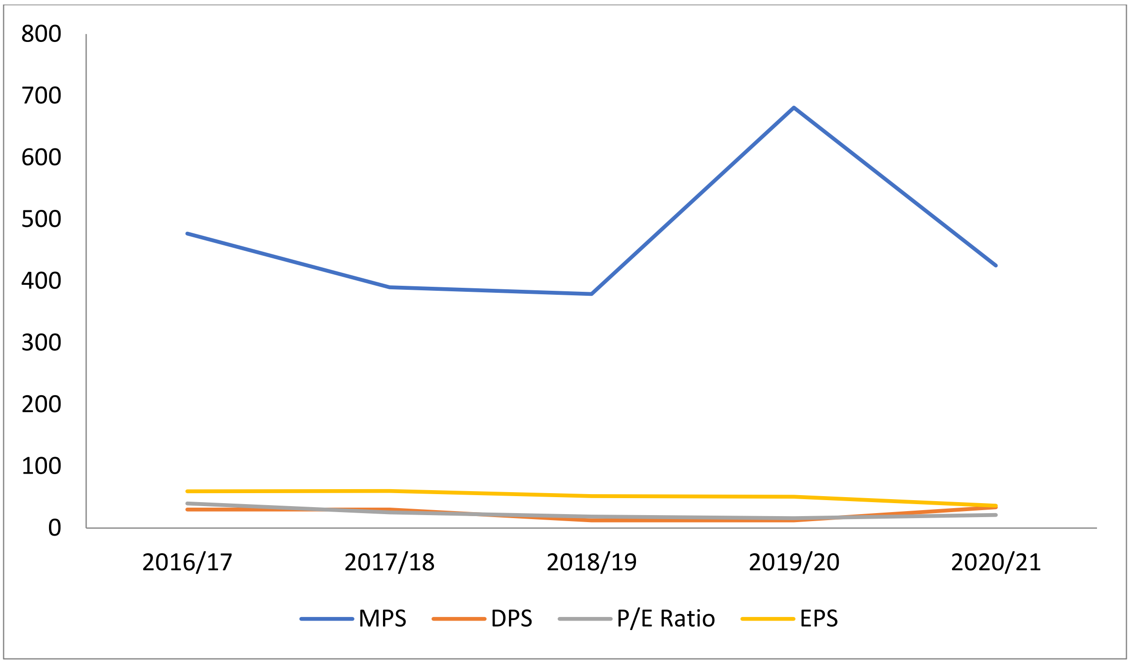

Figure 3 structure and pattern of dependent and independent variable of Civil bank.

The above figure illustrates that mps decrease from 2016 to 2020 and then increase from 2020 to 2021. And then decreases at 2015. Similarly, dividend payout ratio is decreases till 2018 and then after increases at 2020.and then decrease till 2018.

Table 5

MPS, DPS, PE ratio and EPS of NMB Bank

Year	MPS	DPS	EPS	P/E Ratio
2017/18	385	20	23	19
2018/19	413	9.47	16.6	19
2019/20	875	10	34.2	13
2020/21	726	18	31.8	17.3
2021/22	610	0	28.1	35.2

Source: Secondary data annual report

The above figure illustrates that mps increase from 2016 to 2019 and then decrease from 2020 to 2021. Similarly, dividend per share decreases to 2018 and then after increases till 2021. Similarly, eps is increases from 2017 to 2019. P/e ratio is decreases to 2019 to 2021and then decreases from 2021 to 2022.

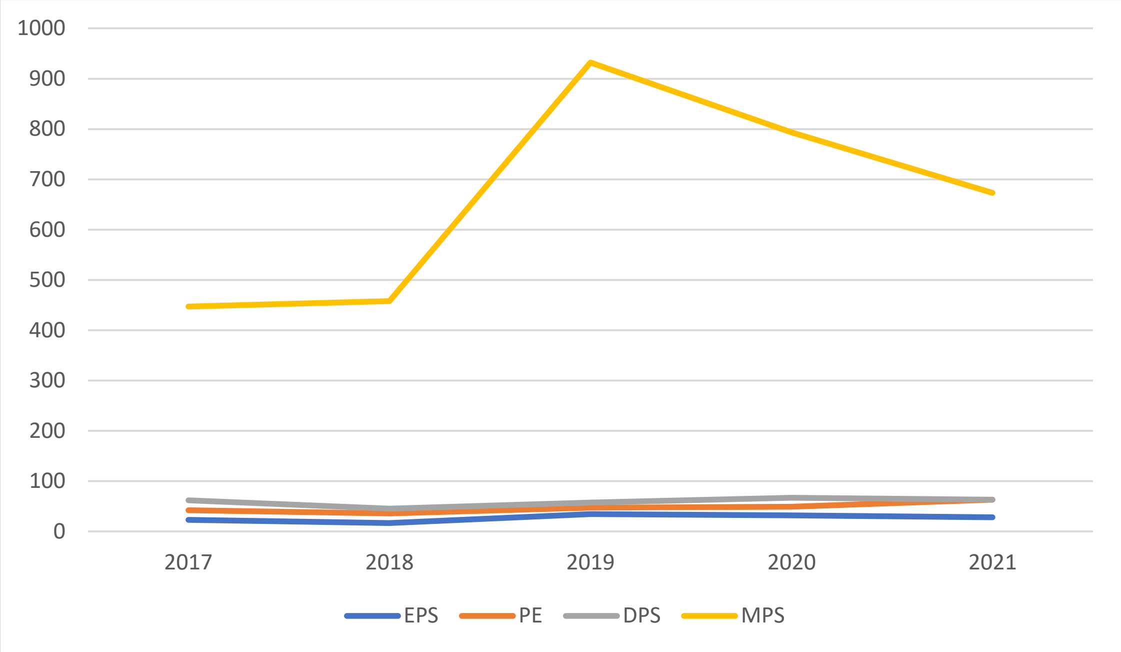

Figure 4.. Structure and pattern of dependent and independent variable of NMB Bank.

Source. Secondary data annual report

Table 6

MPS, DPS, PE ratio and EPS of Nepal Investment Bank

	MPS	DPS	EPS	P/E ratio
2016/17	700	20	29.3	35.5
2017/18	649	15	29.3	26.3
2018/19	566	18	35.4	17.4
2019/20	390	10.5	26.4	19.6
2020/21	515	13	17	25.3
2021/22	270	12.61	22	20.9

Source: Secondary data annual report

The above figure illustrates that mps slightly increases from to 2016 and then increase from 2018 to 2021. Similarly, dividend per share is decreases till 2017 and then after increases at 2021.and then decrease. Similarly, eps is increases from 2017 to 2019. P/e ratio is decreases to 2019 to 2021 and then increase from 2021 to 2022.

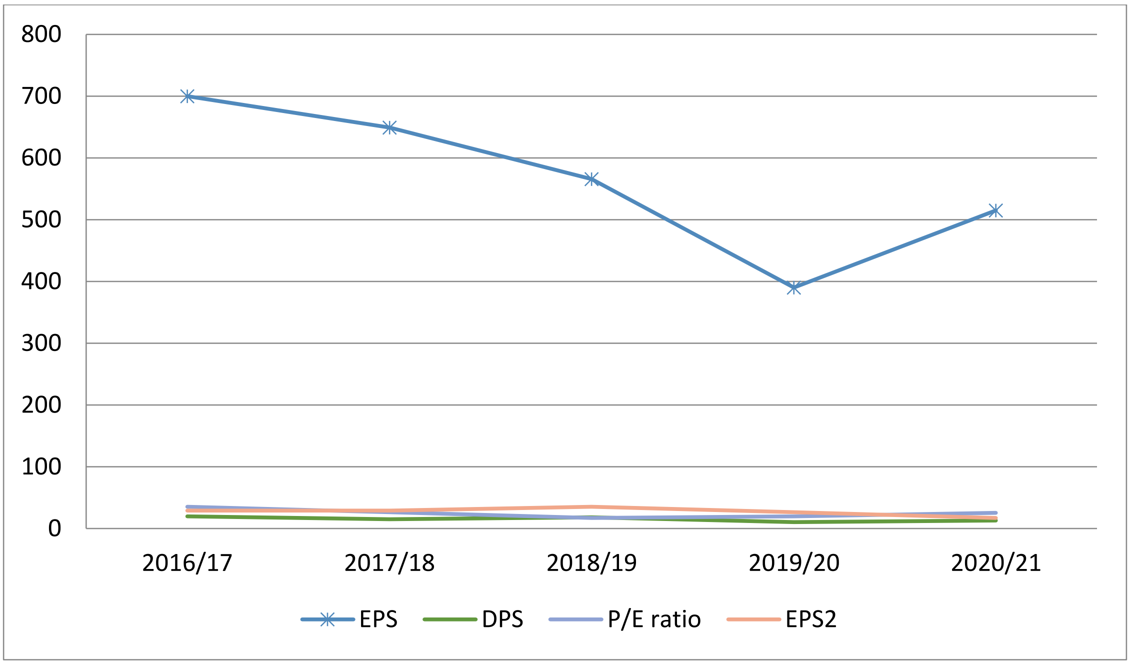

Figure 5 Structure and pattern of dependent and independent variable of Nepal investment bank

Table 7

MPS, DPS, PE ratio and EPS of Nepal Bank

	MPS	DPS	EPS	PE Ratio
2016/17	410	20	52.7	14.5
2017/18	350	20	31.5	13.7
2018/19	369	6	36.9	8.5
2019/20	417	6	42.8	9.5
2020/21	499	15	31.4	12.2
2021/22	317	20	29.1	16.4

Source: Secondary data annual report

The above figure illustrates that mps slightly decreases from 2016 to 2020 and then decrease steadily from 2020 to 2021. Similarly, dividend per share decreases till 2018 and then after increases till 2022. Similarly, eps increases from 2018 to 2021. P/e ratio is decreases to 2019 to 2021and then increase from 2021 to 2022.

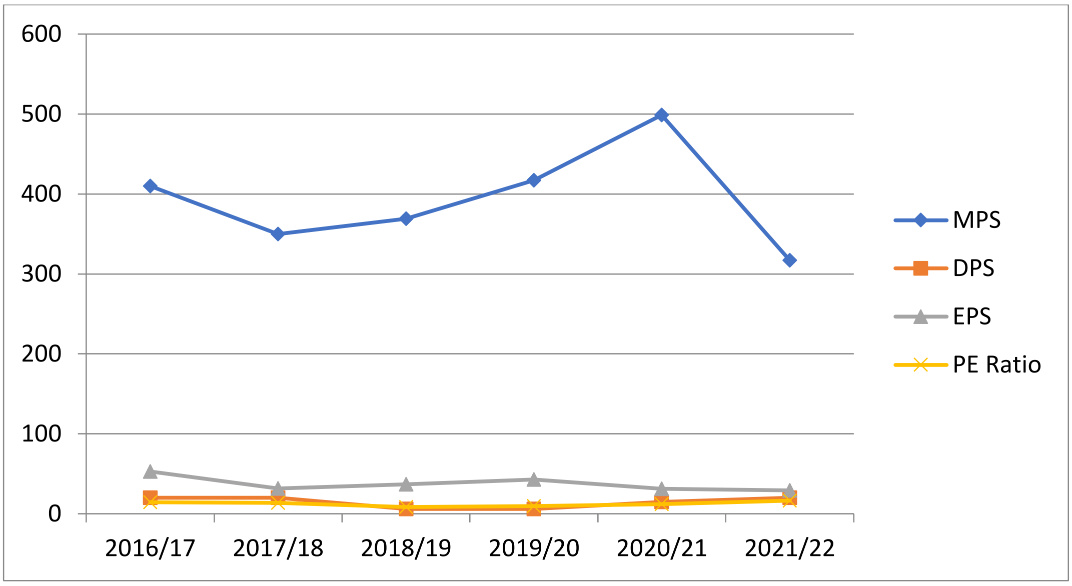

Figure 6 Structure and pattern of dependent and independent variable of Nepal Bank.

The above figure illustrates that mps decrease from 2016 to 2018 and then increase from 2018 to 2022. Similarly, dividend per share decreases till 2017 and then after decreases at 2019 and then decrease till 2021. Similarly, eps is increases from 2017 to 2019. P/e ratio is decreases to 2019 to 2021and then increase from 2021 to 2022.

4.3 Descriptive statistics

Descriptive analytics is the process of using current and historical data to identify trends and relationships. It's sometimes called the simplest form of data analysis because it describes trends and relationships.

Table 8

Descriptive statistics

Descriptive statistics	Scale	Minimum	Maximum	Mean	Std. Deviation
MPS	Rupees	107	6830	1451.494	963.012
DPS	Rupees	0.000	0.739	0.300	0.248
EPS	Rupees	1.540	175.840	49.937	39.567
P/E	Ratio	10.070	242.540	34.212	30.114

Source: SPSS 26

Findings from the descriptive statistics as presented in table 9 shows that, mean value of market price of share is Rs. 1451.494 over the study period. This variable has minimum value of rs.107 and maximum one at rs. 6,830 during the study period. However, in terms of standard deviation it is rs. 963.012 during the study period. DPS data shows that banks minimum DPS is zero and maximum of 73.9 percent.

4.4 Correlation analysis

Correlation analysis, also known as bivariate, is primarily concerned with finding out whether a relationship exists between variables and then determining the magnitude and action of that relationship. The pearson co-efficient of correlation is used to assess the relationship between market price of share and dividend payout ratio, dividend yield, earnings per share, price earnings ratio, size of the bank at 1% and 5% level of significance. The pearson correlation analysis results have been presented in table below.

Table 9

Correlation analysis

Variable	MPS	DPS	EPS	P/E
MPS	1			
DPS	.429**	1		
EPS	.838**	.593**	1	
P/E	.046	-.332**	-.214	1

Source; SPSS 26

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

It is quite clear from table 3 that the share price is significantly positively related to dps and eps, which means that this variable move together with share prices.

4.5 Regression analysis

In statistical modeling, regression analysis is a statistical process for estimating the relationships among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. The study relies on secondary data analysis based on the regression model specified on chapter iii. It basically deals with the regression results from various specifications of the model to examine the estimated relationship of independent variables i.e. Mps, dps, p/e ratio, and eps. The regression coefficients of model were estimated using multiple regressions analysis. Findings from the regression analysis for the selected banks are depicted in table 4.

Table 10

Regression results on the determinants of share price

Model	**Beta**	**T**	**Sig**
Constant	1985.743	.569	.571
DPS	166.15	.369	.693
EPS	34.664**	14.196	000
P/E	7.843**	2.784	.007

** indicates significant at the 0.01 level (2-tailed).

Source: SPSS 26

Dependent variable: market share price

The r-square which is often referred to as the coefficient of determination of the variables is .797. The r-square which is also a measure of the overall fitness of the model indicates that the model is capable of explaining about 79.7% of the variability in the share prices of banks. This means that the model explains about 79.7% of the systematic variation in the dependent variable. That is, about 20.3% of the variations in market price of the sampled banks are accounted for by other factors not captured by the model. This result is complimented by the adjusted r- square of about 78.3%, which in essence is the proportion of total variance that is explained by the model.

Similarly, findings from the fishers ratio (i.e., the f-statistics) which is a proof of the validity of the estimated model as reflected in table.4, indicates that, the f is about 58.756 and a p-value or f(sig) that is equal to 0.000, this invariably suggests clearly that simultaneously the explanatory variables are significantly associated with the dependent variable. That is, they strongly determine the behavior of the market values of share prices.

Table 4 shows that dividend yield has an inverse relationship with that of market price. This result basically means that with the influence of other variable held combined issue constant, as firm's dividend yield will have negative impact on market price. The result is supported with the findings of Zahir and Khanna (1982), Zahir (1992), Irfan and Nishat (2002), Malhotra and Tandon (2013). In essence, it could be deduced from this result that the dividend of banks has a significant negative impact on the mp of listed banks in Nepal.

Empirical finding from the regression analysis shows a positive relationship between eps and mp. This is evident in the t-statistics value of (t-statistics = 14.196 and the p-value < .01). The results can be explained as that an increase in earnings per share will in variably bring about a significant increase in the market prices of equity shares. Importantly this outcome is consistent with the findings provided in Al-omar Andal-mutairi (2008), Somoye et al. (2009), Uddin (2009), Malhotra and Tandon, (2013), Jatoi, Shabir, Hamad, Iqbal, and Muhammad (2014) where it has been observed that earning per share is a major determinant of stock prices.

Another empirical finding from the regression analysis shows that there is positive relationship between p/e ratio and mp. The coefficient of p/e ratio is 7.843 which mean that when there is 1-unit increase in price to earnings ratio, the share prices will increase by rs.7.843. This outcome is consistent with findings of Oyama (1997), and Malhotra and Tandon (2013) that eps and p/e ratio has a significant positive impact on share prices. Finally, other variables (dps) have insignificant impact on mp. This indicates that dps have no explanatory power toward stock price movement.

4.6 Results of hypothesis

This section includes discussion related to the acceptance and rejection of the hypothesis. In this study, significance level p-value is interpreted from the output of regression analysis will be tested to see whether there is a significant impact of independent variable on the dependent variables. Usually the level of significance taken is 1 percent (0.01).

Therefore,

P>0.01: accept the alternative hypothesis.

P<0.01: reject the alternative hypothesis.

Table 11

Hypothesis result

Variables	Description	Expected sign	Actual sign
DPS	Dividend per share	-	Positive
EPS	Earnings per share	+	Positive
P/E RATIO	Price earning ratio	+	Positive

Based on regression analysis shows a dividend yield has an inverse relationship with that of market price. This result basically means that with the influence of other variable held combined issue constant, as firm's dividend yield will have negative impact on market price.

There is a positive relationship between eps and mp. This is evident in the t statistics value of (t-statistics = 14.196 and the p-value < .01). The results can be explained as that an increase in earnings per share will invariably bring about a significant increase in the market prices of equity shares. Another empirical finding from the regression analysis shows that there is positive relationship between p/e ratio and mp. The coefficient of p/e ratio is 7.843 which mean that when there is 1unit increase in price to earnings ratio, the share prices will increase by rs.7.843. Dps have insignificant impact on mp. This indicates that dps have no explanatory power toward stock price movement.

4.7 Discussions

The findings of the study over the period 2016-2021 revealed that earning per share and price-earnings ratio have the significant positive association with share price while dividend yield showed the significant inverse association with the share price of the banks. The study concludes that earnings per share and price earnings ratio are the major determinants of share price of Nepalese commercial banks. The results of this study uncovered new evidence in Nepalese perspective, which are considered to be valuable to the market participants. Thus, findings of this study seems to be particularly useful for equity investors and fund managers as they can watch out for these significant factors while estimating stock returns and predicting share prices. The regression model is as MPit =1985.7+166.15 DPSit +34.67 EPSit +7.84 PEit + ei.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter presents the brief summary of the entire study and highlights the major findings of the study. In addition, the major conclusions are discussed in another section of this chapter which is followed by some implications and recommendations regarding link between credit management and cost efficiency. Finally, this chapter ends with the scope of the future study in the same field.

5.1 Summary

The Nepalese capital market is in growing stage. Average citizens and investors have not proper ideas about the capital market, share, book value, par value, market price, pricing mechanism and the factors affecting the market price of shares. They are willing to invest, but are not able to do so due to lack of knowledge, in this subject. In spite of that, the listed companies in the capital market are suffering. The policy and view of every major party who ruled the government have different towards capital market. Hence, policy and priority has also changed with changed in government.

The study is focused on the determinants of stock price in commercial banks. The major objectives of the study are to identify factors affecting share price, to analyze correlation among various financial indicators and to identify qualitative factors affecting the stock price listed in NEPSE.

To meet the desired objectives, the correlation of the quantitative factors, eps, dps, p/e with mps by correlation analysis is identified. The regression of factors eps, dps and bs with mps were employed for the analysis and interpretation of the collected secondary data. Whereas, to identify the qualitative factors affecting the market price of shares, the primary data has been used that was collected from the research questionnaire. From the secondary data analysis, it is known that there is not consistent performance in the relationship of mps with eps, dps and bs for the 5 sampled banks.

Based on regression analysis shows a dividend yield has an inverse relationship with that of market price.

There is a positive relationship between eps and mp. This is evident in the t-statistics value of (t-statistics = 14.196 and the p value < .01). The results can be explained as that an increase in earnings per share will invariably bring about a significant increase in the market prices of equity shares. Another empirical finding from the regression analysis shows that there is positive relationship between p/e ratio and mp. The coefficient of p/e ratio is 7.843 which mean that when there is 1-unit increase in price to earnings ratio, the share prices will increase by rs.7.843.dps have insignificant impact on mp. This indicates that dps have no explanatory power toward stock price movement

5.2 Conclusion

The findings of the study over the period 2017-2021 revealed that earning per share and price-earnings ratio have the significant positive association with share price while dividend yield showed the significant inverse association with the share price of the banks. The study concludes that dividend yield; earnings per share and price earnings ratio are the major determinants of share price of Nepalese commercial banks. The results of this study uncovered new evidence in Nepalese perspective, which are considered to be valuable to the market participants. Thus, findings of this study seems to be particularly useful for equity investors and fund managers as they can watch out for these significant factors while estimating stock returns and predicting share prices.

5.3 Implications

The study of the determinants of equity share prices has been a subject of great interest these days. Moreover, it is a subject of immense curiosity especially a banking sector to identify the factors that influence share prices. The shares of commercial banks offer the investment opportunities to Nepalese investors because these shares are more frequently traded in the market than as compared to others in Nepalese context. Specifically, this study examined the effects of dividend per share, earning per share, price- earnings ratio and eps on the share price of banks listed on Nepal stock exchange limited. Few studies have been made on the securities listed in NEPSE. Most of the studies made up to present on capital market are related to financial performance evaluation, capital structure analysis, dividend policy, risk and return etc. However, none of the researches has yet been made on the core perspectives of the determinants of the stock price. Therefore, the present study will be of substantial importance for investors, planners, researchers, students and policy makers to meet their personal and organizational objectives.

Further, this study is also hoped to be useful to academicians as a source of knowledge for further research. The study is concentrated on only three factors an thus, further study should be carried out on the topic to point out the other factors that enhance mitigation of significant factors while estimating stock return.

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APPENDIX 1

Data of the banks selected for the study

Bank	Year	Mps	Dps	P/e	Eps
Sanima bank	2016/17	14775	30	39.5	59.2
	2017/18	1090	30	25.4	59.8
	2018/19	879	12	18.6	51.8
	2019/20	681	12	15.82	50.5
	2020/21	1425	33.5	21.15	36.1
	2021/22	1080	33.6	40.48	33.5
Civil Bank	2016/17	290	16	26.6	22.4
	2017/18	380	10	15.2	25.5
	2018/19	422	16	12.2	23.6
	2019/20	320	12.4	11.1	26.4
	2020/21	298	14	13.2	17.9
	2021/22	251	10	22.9	19.25
NMB Bank	2016/17	339	26	28.3	28.3
	2017/18	385	20	19	23
	2018/19	413	9.47	19	16.6
	2019/20	875	10	13.	34.2
	2020/21	726	18	17.3	31.8
	2021/22	610	0	35.2	28.1
Nepal investment bank	2016/17	700	20	35.5	29.3
	2017/18	649	15	26.3	29.3
	2018/19	566	18	17.4	35.4
	2019/20	390	10.5	19.6	26.4
	2020/21	515	13	25.3	17
	2021/22	270	12.61	20.9	22
Nepal bank	2016/17	410	20	14.5	52.7
	2017/18	350	20	13.7	31.5
	2018/19	369	6	8.5	36.9
	2019/20	417	6	9.5	42.8
	2020/21	499	15	12.2	31.4
	2021/22	317	20	16.4	29.1