CHAPTER – ONE

INTRODUCTION

Stock Market

Stock market provides a channel for the borrowing and lending of long-term funds. This is designed to finance long-term investments by business, governments, and households. Trading of funds in the capital market makes possible the construction of huge establishments like: factories, school and highways. Financial instruments in the capital market have original maturities of more than one year. The principal suppliers and demanders of funds in the capital market are more varied then in the money market. Families and individuals, government, business of varied sizes, pension funds, mutual funds etc.

1.1 Background of the Study

The primary motive for buying a stock is to sell it subsequently at a higher price. In many cases, dividends will be expected also. Dividends and price changes are the principal ingredients in what investors regard as return or yield.

If an investor had impeccable information and insight about dividends and stock prices over subsequent periods, he would be well on his way to great riches. But the real world of investing is full of political, economic, social, and other forces that we do not understand sufficiently to permit us to predict anything with absolute certainty. Forces intermix and flow at crosscurrents. Nothing is static.

1.2. Financial Markets and Instruments

The major purpose of financial markets is to transfer funds from lenders to borrowers. They are the intermediary link in facilitating the flow of funds from savers to investors. By providing an institutional mechanism for mobilizing domestic savings and efficiently channeling them into productive investments they lower the cost of capital to investors and accelerate economic growth of the country. Financial markets are conduits through which those who do not spend all their income make their excess funds available to those

who want to spend more than their income (Ritter and Silbel, 19193:26). In response to the need for vast amounts of funds for capital investment by selling securities directly to savers (Richards et al., 1984:368). Participants in the financial market commonly distinguish between the "capital market" and the "money market", former referring to borrowing and lending for long-term investment purposes, and the latter term generally referring to borrowing and lending for periods of a year or less (Vishwanath, 2000:322-323; Cook and LaRoche, 1998:1). Accordingly, a country's money market is often referred as its "market for short term funds", and its capital market, the "market for long term funds" (Kent, 1972:243).

1.2.1 Money Market

Money markets are used to facilitate the transfer of short term funds to those with deficient funds. Money market deals with the short term financial needs. Here the investors find the instruments with the maturity of short period, usually less than a year. Such instruments with the maturity of short period, usually less than a year. Such instruments which have maturities within one year are referred to as money market securities / instruments (Madura, 1998:38).

Instruments that are traded in the money market have the characteristics like:

a. They are all debt obligations; they have maturities ranging from one day to a full year
b. They exhibit typically a high degree of safety of principal (they are subjects to negligible interest rate risk, and issued by generally high credit standing borrowers like: central bank), and
c. They have high degree of liquidity.

Some popular instruments of money market are:

a. Treasury bill
b. Commercial paper
c. Certificates of deposit
d. Banker's acceptance
e. Repurchase agreements
f. Short-term Municipal securities

g. Other instruments

1.2.3 Capital Market Instruments

Capital market provides a channel for the borrowing and lending of long-term funds. This is designed to finance long-term investments by business, governments, and households. Trading of funds in the capital market makes possible the construction of huge establishments like: factories, school and highways. Financial instruments in the capital market have original maturities of more than one year. The principal suppliers and demanders of funds in the capital market are more varied then in the money market. Families and individuals, government, business of varied sizes, pension funds, mutual funds etc. (Rose: 2000).

Popular instruments traded in capital market are:

a. Equity or Stocks (ownership instruments)

b. Bond (Debt instruments)

c. Mortgage Loans

d. Options and Futures – derivative financial instruments

It is very important to have sound knowledge in the capital market to invest in any stock of the company. Investors are required to analyze different factors before making any investment decision. Investors have different purposes for investment: some invest for regular income and some for speculation or capital gain. For the capital gain, they should possess ability to analyze which stock is overpriced or under priced. Analysis of various capital market performance indicators such as trading over, market capitalization, NEPSE Index, behavior of the share prices etc. is of paramount importance for potential investors. This study will help the potential investors to make the right investment decisions.

Companies in the developed countries have a long history but they do not have long history in Nepal. The government of Nepal passed the law relating to company registration and regulation in 1936 A.D. After the enactment of this law, Biratnagar Jute Mills Ltd. was established in 1936. The Company Act 1951 came into effect in 1951. The Company Act was repealed by Company Act 1965 on November 1964. After the

restoration of the democracy in 1990, the new Company Act 1996 came into effect in 1997.

History of Capital Market

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

Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993.

Role of Capital Market

Nepal is considered as one of the least developed countries in the world. The establishment of industries, high rate of investment accelerates the pace of the economic development. The low level of income and investment has hindered the establishment of the industries. The lack of the capital has seriously hurt the economic development of our country. It is the remittance which has bridged the gap between investment and saving. At the present context, it is the remittance which has supported our economy. The development of capital market helps to utilize the scattered resources which are in the hands of public. The corporations can raise required funds from the capital market by issuing securities. The issuance of the securities/shares, on one hand, provides ownership and opportunity to utilize money in the productive sector and on the other hand, provides required funds to the corporations.

The corporations can raise funds from internal as well as external sources. When the company is established, the promoters finance the required funds. The internal financing

has limited scope because of risk associates with it. External financing has become so popular for fostering the productive activities in the economy. Later, company raises the additional fund from external source which consists of equity (common stock and preference shares) and debt financing.

Stock market provides the best investment opportunities to the investors since it provides the liquidity to the securities. The liquidity affects the economic activities and thereby affecting the development of the country. The level of liquidity is influenced by the price formation of the stock in the stock market. So, in order to maintain the high liquidity in the stock, the stock market has to be efficient in pricing the shares.

In conclusion, mobilization of the funds is very crucial for the rapid economic development. The development of the capital market provides with the opportunities to both investors and corporations to fulfill needs of each other. The history of the capital market in Nepal is not long and it is till in infancy stage. Most of the investors do no have knowledge in capital market so they invest their money haphazardly. Many people in Nepal do not know that they can invest their money in shares and get good return. There are still majority of old people who have strong faith in public banks through they have negative net worth. Old people still prefer to keep their money in public banks though the interest rate is very low. There are very few rational investors who consider all the factors for analyzing the stock of the company.

1.2 Statement of the Problem

The asymmetry of information has hindered the investors from making right investment decisions. There are no institutions to help the investors to make the investment decisions. It is not possible to collect all the required information about the securities and capital market as an individual investor.

It was frequently heard that investors were not provided with the sufficient price earning information of the stock of the listed companies in time on regular basis. This was so because of unavailability and inability to use the modern instruments and communication

technologies in calculating and spreading the price earning related information to the investors.

The investors could not identify the good and bad stock because of asymmetric of information. It was identified by several researchers that asymmetric of information, whim and rumor had played significant role in share price movements. Many investors in Nepal invest their money on the basis of intuition, imagination and guesswork

Though, it is known that investors are the main source of capital and backbone of the securities market, none of the effective organized programs had been launched to initiate and develop the price awareness of the stocks to the investors in Nepal. The speculative behaviors of some investors also play crucial role in setting price of the stock in market. Inability in doing real stock value judgment for trading purpose is one of the serious problems for the development of the Nepalese stock market.

In an efficient market, the price is set by the interaction of demand and supply. The higher transaction volumes of shares represent the market efficiency. Liquid and efficient market requires a large number of interested and active investors. But the daily transaction made on NEPSE is very meager in comparison to the transaction volume in the securities market in other developing countries. So, it can not assume to guarantee that price set at this is competitive.

Considering this and the focus of the study in mind, this study has attempted to seek the answer of the following research questions:

- What is the behavior of NEPSE Index?
- What is the share price behavior of the companies taken into consideration?
- What is the impact of profit, net worth and dividend payment on market price of the stock of concerned company?
- How do the investors in Nepal make investment decision?

1.3 Objectives of the Study

The main objective of the study is to study the impact of the cash dividend, Net worth and Net profit on Market price of the share through multiple regression analysis. So far,

the impact of issuance of right share, declaration of stock dividend has been studied. This study also aims to identify the factors affection the MPS. It is very important to have sound knowledge in the capital market to invest in any stock of the company. Investors are required to analyze different factors before making any investment decision. Investors have different purposes for investment: some invest for regular income and some for speculation or capital gain. For the capital gain, they should possess ability to analyze which stock is overpriced or under priced. Analysis of various capital market performance indicators such as trading over, market capitalization. Nepse Index, behavior of the share prices, etc. are of paramount importance for potential investors. This study will help the potential investors to make the right investment decisions. The objectives of the study can be summarized in the following points:

- To study the behavior/fluctuation of the market price of stock of sampled companies.
- To identify the general factors affecting the market price of stocks.
- To explore the relationships between market price of the stocks with net profit, net worth and dividend per share
- To identify prominent problems existed in Nepalese capital market and provide recommendations to overcome those problems

1.4 Theoretical framework of the study

Every research is based on some theoretical frameworks. This study has attempted to study various aspects of the capital market. However, the main focus of this study is to study the impact of the cash dividend, Net worth and Net profit on Market price of the share through multiple regression analysis. The stocks of all listed companies are traded in the floor of the stock exchange on regular basis and the MPS goes ups and down daily. The performance of the concerned companies play major role in change in the market price of the stock. However, the demand and supply of the stocks determined the MPS of the stock in the trading floor. Since Nepal's capital market is not highly efficient, there are some cases where other factors other than just explained earlier are responsible for unexpected change in MPS. There are many factors like financial performance of the

individual company, macro economic variables, perception of the general investors affect the MPS. When the time comes to hold annual general meeting of the company, before AGM, the MPS of the stock will decline normally which is the seasonal effect. Taking constant all these factors contributing toward fluctuation of MPS, this study tries to study the impact of the cash dividend, Net worth and Net profit on Market price of the share through multiple regression analysis. So in this study, MPS (Y) is the dependent variables and cash dividend, Net worth and Net Capital has been taken as the independent variables.

It has been observed that most of the Nepalese investors are not rational investors and they don't possess knowledge about the capital market. So, main purpose of this study is to identify how they make investment decisions.

1.5 Limitation of the Study

The limitations of the study always hinder depth analysis in the concerned subject matter. Lack of time and budget will compel the researcher to take limited sample which will reduce the accuracy of the study. Following are the limitations of this research:

- Only the 8 commercial banks are taken to study the impact of profit, net worth and dividend payment on market piece of stock
- This research has been conducted for academic purpose.
- Only the data of six years are taken to analyze the impact of three independent variables on market price of stock
- Data of market price of 6 years are taken to explore the behavior of the stock price
- The questionnaires are distributed to 75 people to identify the factors affecting the share price and investment behavior of investors.

1.6 Research Questions

Every research is purposeful and this study also attempts to seek the answers of the some questions. It would be more meaningful and fruitful to translate the objectives of the study into some research questions which helps to make the objective more operational. The search for the answers for the research questions will fulfill the objectives of any

research. Considering this and the focus of the study in mind, this study has attempted to seek the answers of the following research questions:

- What is the behavior of NEPSE Index?
- What is the share price behavior of commercial banks taken into consideration?
- What is the impact of profit, net worth and dividend payment on market price of the stock of companies?
- How do the investors in Nepal make investment decision?
- What is the extent to which Nepalese capital market efficient?
- Are the stocks of the commercial banks correctly priced?
- What are the factors which pay prominent role in the fluctuation in MPS?

1.7 Significance of the Study

The capital market in Nepal is taking its pace slowly. Limited studies have been conducted on capital market in Nepalese context. The liberalization, privatization processes and growth of the capital market has enhanced the importance of such studies. Growing number of the investors, who want to invest in capital market due to limited investment opportunities in other sectors, increasing awareness about the capital market, marketability of the shares and debentures, growing arousal of interest of the investors, risk return character of the market, growing investment bankers, etc. has led toward need and essence of this study.

The study about the capital market and the individual stock provide important information to the investors to make the rational investment decisions. In Nepal, there are very few rational investors who make investment decisions considering all the factors. They invest haphazardly and moreover on the basis of the whim rather than right judgment since they have limited profitable investment opportunities.

Analysis of various capital market performance indicators such as trading over, market capitalization, NEPSE Index, behavior of the share prices, etc. are of paramount importance for potential investors. In conclusion, this study will add some literatures to

the capital market and help the investors to make rational investment decisions by analyzing the pricing of the stocks.

1.8 Organization of the Study

The Research consists of five chapters and it is organized as follows:

Chapter – One: The first chapter deals with brief background of title, statement of the problem, objectives, theoretical framework, importance, limitations and research question for the study

Chapter – two: the second chapter deals with the literature reviews which identify the limitations and outcomes of those studies conducted so far. It also provides the theoretical background of the capital market and theories related to the stock price behavior.

Chapter – Three: the third chapter deals with the research methodology which consists of research design, source of data, data gathering procedure and tools for analysis.

Chapter – Four: the fourth chapter deals with analysis and presentation of data which consists of financial and statistical analysis.

Chapter – Five: the final chapter summarizes the whole spectrum of the study and also comprises summary, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

This chapter deals with the review of articles. Journals, different books, some previous these related to present study. Since the capital market in Nepal is in infant stage and does not have long history, it is difficult to find enough related materials in the concerned subject matter. This chapter deals with t he related articles, journals and other materials in more detail and descriptive manner.

2.1 Conceptual Review

Financial Market

Financial market is a part of the financial system which provides a forum where suppliers of loans and investment can transact business directly. The two forms of financial market are money market and capital market. Transactions in short-term instruments or marketable securities are done in money market whereas long-term securities are traded in the capital market.

Capital Market

Capital market is a financial relationship created by a number of institutions and arrangements that allows the suppliers and demands of the long-term funds to make transactions. Capital market can be further divided into security market and non-security market. The term securities include long-term financial tools, which are used by the companies to gather that needed long-term fund.

Capital market includes:

- Activities relating to the organization, distribution and trading of securities
- Organization which facilities this activities
- Individuals and institutions which buy and sell securities
- Rules and regulations, customs and practices that control the organization and conduct of the business in the market

Securities are marketable financial instruments that bestow on their owners the right to make specific claims on particular assets. An individual security provides evidence of either creditor ship or ownership depending on whether it is a bond or a stock respectively. A bond is a loan that is paid off with interest; the investor lends money to the borrowing company that issued the bond. In contrast, stock ownership represents a cash investment in the future of the corporation; the investor owns a part of the corporation and shares in its profit.

A firm either may have debt and equity in its capital structure or only equity but no any firm can operate without equity. So, equity is compulsion of every corporation. The main characteristic of equity investment in that investor is liable only up to the amount they have invested.

Common stock has one important investment characteristic and one important speculative characteristic. Their investment value and average market price tend to increase irregularly but persistently over the decades as their net worth builds up through the reinvestment of undistributed earnings. However, most of the time common stock is subject to irrational and excessive price fluctuation in both decisions as the consequence of the ingrained tendency of most people to speculate or gamble, i.e. to hope, fear and greed.

Security Market

Security market can be divided into two parts: primary market and secondary market. Companies which want to raise required fund from the capital market issue the securities in primary market. This market facilitates the flow of the fund from surplus units to deficit units. The further buying and selling of the securities takes place in the secondary market which does not increase the capital of the issuer companies. Investors, who want to have capital gain thorough buying at low and selling at high price, are involved in this market. In other words, secondary market does not provide with fresh capital to the issuing company by does provide liquidity to the investors. The market can be viewed as a “used” security market. The development of the securities market enables the efficient

transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them more productively with lesser risk.

The stock exchange is the secondary market. It is intricately interwoven in the fabric of the nation's economic life. It is generally thought that a stock exchange serves only to those who have money to invest and securities to sell. This is understatement for a stock exchange.

2.2 Theories of Stock Price Behavior

There are two theories of stock price behavior:

a) Conventional Approach (CA)
b) Efficient Market Theory (EMT)

Conventional Approach (CA)

Conventional approach or theory assumes that the market is inefficient. This approach includes technical analysis theory and fundamental analysis theory.

2.2.1 Technical Analysis Theory

Technical analysis rests upon the assumption that history tends to repeat itself but the large part of the methodology of technical analysis lacks strictly logical explanation. If certain pattern of activity in the past has produced certain results in almost all times then the likelihood of the same outcomes will become strong whenever these patterns appear in the future. So, the technicians often end to look backward. They think little about future earning and dividend and usually attempt to predict short-term price movement and thus make recommendations concerning the timing of purchase and sale of specific stock. So, it is sometimes said that technical analysis is designed to answer the question "when"?

The technicians believe that the forces of supply and demand are reflected in the pattern of price and volume of trading and that price fluctuation reflect logical and emotional

forces. Technical analysts are often called chartists because of their reliance upon graphs and charts of price movements. They are not interested in estimating the intrinsic value of the share. The charts used by chartists are used to detect the pattern of 'resistance' for shares on the way up and 'support' for the shares of the way down.

The technical analysis is based on published market data. The technician should identify the trend and recognize when one trend comes to an end and prices start in the opposite direction. The focus of technical analysts is timing and the emphasis is given to the likely price changes. The technical analysts focus on the internal factors by analyzing movements in the stock. The central problem in this process is to distinguish between reversals between tend and real changes in the trend itself.

The technicians view price changes and their significance mainly through price and volume statistics. His bag of tools or indicators helps him to measure price-volume, demand-supply relationship for the overall market or for individual stock. They seldom rely upon a single indicator and place reliance upon reinforcement provided by group of indicators.

The main assumptions of the technical analysis theory are:

- Price is determined by the interaction of demand and supply.
- Demand and supply are governed by various factors, both rational and irrational
- Series of price contain trends that persist for appreciable length of time
- The change of trends caused by shifts in demand and supply are detectable in the analysis of past price and volume data, and the pattern tend to repeat itself

Technical analysis records historical financial data on charts, study these charts in an effort to find meaningful pattern and use these pattern to predict the future price. Technical analysts try to forecast short run shift in supply and demand that will affect the market price of one or more securities.

The technical school of thought believes that it is a waste of time to look the intricacies of the internal management of a firm because they believe that the prices of stock fluctuate around the true intrinsic value of stocks but the method of finding out the intrinsic value

is very difficult and the dealing with financial statement is inconsistent with the presentation of data.

Some of the theories, techniques and methods of stock prices that are considered by technical analysts besides the charts and diagrams are given below.

2.2.2 The Dow Theory

This theory predicts trends in the market for individual and total existing securities. It shows the reversals in stock prices. This theory always has three movements, which are simultaneous in nature. The three movements of stock price are:

The Narrow Movements

These movements occur from day to day which is called “fluctuations” and it is also called ‘random wiggles’

The short Swing

This movement usually moves for short time like two weeks and extends up to a month. The short swing is better known as secondary movements. Secondary movements last only for a short while and they are known as corrections.

The Main Movements

This movement is also called primary trend and it covers four years in duration. This movement is the main movement in the stock market and it is also called ‘Bears’ and ‘Bulls’ market.

According to the Dow Theory, the price movement in a market can be identified by the means of time chart. In this chart, the technical analysts should plot the price of the share. The peak price of the stock is called the resistance area. After that the stock price moves downwards. If the price rises above the peak, it breaks its level of resistance and moves upwards under the power of bullish momentum.

The support area shows the previous low price of stock. The price goes below previous support area then it penetrates support and stock will continue to fall. According to technical analysts, an investor should buy when prices go higher than the peak level and sell when the price is lower than previous low price.

Breadth of the Market

The breadth if the market is calculated by subtracting the number of the issue whose prices have increased or advances that is by measuring the volatility by slack prices. Line charts are used to show the breadth of the market. The breadth of the market moves in the same direction as the market average. This indicator measures the strength of decline or advances in the stock market.

Relative Strength

Relative strength is formulated to show that those securities, which have continued to stable historically, in the past, will give an investor a higher return because the security has stability and is able to withstand both the depression and peak periods.

According to the analysts, the investors should make a choice of investing in those securities, which have constant strength in the market. This can be done by comparing the prices of those securities, which rise and fall faster than the price of other securities. The relative strength can be calculated by measuring the rate of return of the securities by classifying the securities, by finding out the high average return of securities and by using the ratio analysis.

Trading Volume

Another indicator to find out the behavior of stock prices in the market is by checking the daily list of stock exchange quotations. The volume, according to the technical analysts, measures the intensity of the emotions of the investor. Technical analysts measure the volume of trading of stocks by carefully watching the demand and supply of securities whenever there is a change in equilibrium.

Moving Average

The technical analysts also forecast the prices of shares by using the statistical method of moving average. The moving averages smoothen the daily fluctuation and show the trend for individual securities as well as for market index. Moving average show daily prices when the average show the continuous fall there is a downward penetration and it is sign to sell and vice versa.

Technical Analysts asserts the superiority of their methods over fundamental analysis by pointing out that technical analysis is easier and faster, and can be applied to more stocks simultaneously than fundamental analysis. They also point out that chart drawing and reading is faster, cheaper and easier to learn than fundamental analysis.

2.2.3 Fundamental Analysis Theory

Fundamentalists are primarily interested in analyzing factors such as influences, industry factors and pertinent company information such as product demand, earnings, dividends, and management in order to calculate the intrinsic value of the firm's securities. The principle decision variables ultimately take the form of earnings and dividends.

The fundamentalists reach an investment decision by comparing the value with a risk return framework based upon earning power and the economic environment. The fundamentalists tend to look forward. They are concerned with such matters as future earnings and dividends. It is sometimes said that fundamental analysis is designed to answer the question "what?"

Fundamental analysts focus on economic and political factors, which are the forces external to the market itself. Fundamentalists have substantial interest in the intermediate and long run. Fundamentalists claim that an individual stock has an intrinsic value at any pint of time which is equal to the present value of the future cash flows of the securities discounted at appropriate risk adjusted discount rate. But it seems impossible to anticipate the values exactly in uncertain situation when the exact future income and the appropriate discount rate of a particular security are unknown.

The actual price of the security is considered to be a function of anticipation and the price act as the function of this anticipation which in turn change as a result of new information. Some of these anticipations are company's sales, profit, dividends, and management competency and the economic and industrial factors. The other new information includes a major order, a labor dispute or a revised profit forecast and the like.

Fundamental analyses represent an attempt to determine the present discounted value of all the payments a stockholder will receive from each share of stock. If that value exceeds the stock price, the fundamental analysts would recommend purchasing the stock.

Fundamental analysts usually start with a study of past earnings and an examination of company balance sheets. They supplement this analysis with further detailed economic analysis; the firm's standing within its industry and the prospects for the industry as a whole. The hope is to attain insight into future performance of the firm that is not yet recognized by the rest of the market.

"Fundamental analysts use different models like Top-down versus bottom-up forecasting, probabilistic forecasting econometric models, financial statement analysis etc. to estimate the value of security.

Intrinsic value is different for each investor and to find out the intrinsic value the fundamental analysis overlook financial statement analysis. This analysis gives them an insight into the performance of the company and helps to identify its efficiency and profitability. "After extensive analysis, the investor derives and estimates of the 'intrinsic' value of the security, which is then compared to its market price. If the 'value' exceeds the market price, the security should be acquired and vice-versa."

Although many investors use technical analysis, fundamental analysis is far more prevalent. Technical analysis is frequently used as a supplement to fundamental analysis rather than as a substitute for it. Thus technical analysis frequently confirms findings

based on fundamental analysis. So, the number of investors using fundamental analysis is much larger than the number using technical analysis.

Efficient Market Theory (EMT)

The market is assumed to be perfect, complete, able to meet social obligations and able to maximize the shareholders wealth. The perfection of the market is described as being the efficient.

A market is said to be efficient if it is impossible to make abnormal profits by using the particular sets of information to formulate buying and selling decisions. In a perfectly efficient market, each security sells for its fair value at all times and any attempt expect to make only normal profits and earn a normal rate of return on their investment.

NEPSE is a weak form of market because of the reason that in the age of the age of the internet, very few people in Nepal have computers and communication is not very efficient and trading is still done through open-out-cry system. Investors do not thoroughly analyze all the financial indicators of the listed company while making investment decisions. Most of the investors in Nepal do not possess adequate information about capital market and companies and invest their money haphazardly and on the basis of whim. The rumors have played significant role in share price movement and it does not show any definite pattern. To improve this situation and enhance the efficiency in the trading of shares, the concerned bodies are trying to initiate different reforms related to the stock trading. One of the efforts is in the maintenance of Central Depository System (CDS) in the NEPSE trading floor.

Efficient Market Hypothesis (EMH)

The notion that stocks already reflect all available information is referred to as the efficient market hypothesis. An efficient share market is one where shares are always correctly priced and it is not possible to outperform the market consistently, except by luck. The measure of efficiency is seen in the extent to which the market reflects new information rapidly in the share price.

Market efficiency evolved form the notion of perfect competition. It assumes free and instantly available information, rational investors with no taxes or transaction costs. Market efficiency as reflected by the efficient market hypothesis may exist at three levels. They are:

I. Weak form
II. Semi-strong form, and
III. Strong form

I. Weak form

The weak form of efficient market hypothesis states that the current share prices fully reflect all information contained in the past price movements. The stock price will not follow any pattern what is known as random walk. The stock price will fluctuate less or more randomly. So, there is no value in trying to predict future price by analyzing post price movement trends as it do not offer any clues because the market has no memory.

"Weak efficiency are markets in which past price provide no information about future prices that would allow a short-term trader to buy and hold strategy". The weak form hypothesis implies that trend analysis is fruitless because the stock price already reflects all information that can be derived by examining market trading data such as the history of past price, trading volume or short interest.

II. Semi-strong form

The semi-strong form of efficient market hypothesis states that current market prices also reflect all publicly available information besides all past price movements. There is no benefit to analyze existing information as the current share price. The person who can access to the information prior to its general release can earn superior or abnormal returns over the normal return expected for the associated degree of risk.

The semi-strong hypothesis stated that all publicly available information regarding the prospects of a firm must be reflected already in the stock price. Such information includes, in additional to past prices, fundamental data on the firm's product line, quality

of management, balance sheet composition, patens held, earning forecasts and accounting practices.

III. Strong form

The strong form of efficient market hypothesis states that current market prices reflect all the relevant information even if privately held. “Strongly Efficient Markets are markets in which all information (not just publicly available information) is reflected in security prices.” The Marker prices reflect the true or intrinsic value of the share based on underlying future cash flows and no one can beat the market i.e. no one earn abnormal profit in that market. In the real world, the strong form of market does not exist at all.

The strong form of market in most of the developed countries appears in semi-strong form of efficient market hypothesis (EMH). The stock market in the developing countries seems to be weak form of the EMH. The stock prices in such market walk randomly and do not follow a definite practice in the price movements.

The weak efficient and semi-strong efficient market hypotheses are well supported by the facts. But the strongly efficient market hypothesis is not supported by the fact because it states not only that the stock price reflect all information relevant to the firm but also including the information available only to company insiders.

The forms of markets are determined on the basis of how publicly available information is reflected in the market price of the shares. The EMH focuses on historical information to determine the market price of shares. But, different countries might have different set of regulations regarding the behavior of the stock exchange and trading of shares. Table no. 1 presents basic difference of three level of market.

Efficient Market

Popular terms like ‘breadth, depth and resiliency’ or ‘fair and orderly’ are generally accepted as the basic requirements for good markets. Depth and breadth mean that sufficient interest exists on both the sell side and the buy side for traders to be able to

execute a large number of transactions in a short period of time. Resiliency means that there is large countervailing order flow whenever transaction prices change because of temporary order imbalances.

The characteristics of a liquid market are depth, breadth and resiliency. A market has depth if buy and sell orders are forthcoming around the price at which the share is transacting. A market that lacks depth is sallow. Further the orders forthcoming should be in adequate volume, which gives breadth to the market. If adequate volume needed to provide liquidity is not there, the markets are called thin markets. The response or orders of price change renders the market resilient.

Technically bid depth is the number of shares that the specialists is willing to buy at the current bid price and ask depth is the number of shares that the specialist is willing to sell at the current ask price. From the perspective of market liquidity, depth indicates the number of shares that can be traded with no effect on market price whereas in shallow market, even a relatively small trade can affect price.

Empirically, liquidity is measured by the number of days the company's share is traded out of the number of days in year during which market is open. Normally a share is considered actively traded and liquid if it is traded on 50 of the days when the market is open. Liquidity of the market is also measured by the variation of price from one trade to another. If the different between lowest asked or offered price and highest bid price is wide, the market is said to lack depth and is considered shallow actually, the bid – asked spread is an inverse measure of liquidity.

Liquid market possesses the qualities of depth, breadth and resiliency, in various degrees. A market has depth if buying and selling orders exist (or can be easily uncovered) both above and below the price at which the security is transacting. A market lacks depth is said to be shallow. Breadth is related to depth. A market has breadth if buy and sell orders exist in volume.

Markets that lack the volume of orders needed to provide liquidity are called thin markets. A market has resiliency if new orders pour in immediately in response to price changes caused by temporary orders imbalances. A speedy price discovery process is an essential precondition for a resiliency market.

The two characteristics of efficient market are external efficiency and internal efficiency. A market has external efficiency when buyers and sellers will trade securities at price reflecting a fair or equilibrium price. Internal efficiency characterizes a market if transaction costs and taxes are low enough so to distort the impact that new information provides about the value of the financial asset". External efficiency means that new information is widely, quickly and cheaply available to investors, that this information includes what is knowable and relevant for judging securities and is rapidly reflected in their prices".

Internal efficiency is achieved when the cost and time required to trade securities are reasonable. All the securities must be immediately marketable in order for a market to be internally efficient. Furthermore, the brokerage commission charged for trading securities must not be so high as to make it hard for transactions to be made with the frequency necessary to reflect current conditions in the market.

Continuous Equilibrium

If securities markets are working, as they should, the market will be in what has been called continuous equilibrium. This continuous equilibrium will change through time. However, as a new piece of information is released, securities' intrinsic value will change and the securities' market prices will adjust towards the new values. It is the speed of this price-adjustment process that reveals how efficient a market is.

A perfectly efficient market is a continuous equilibrium-that is, market prices equal intrinsic values at all times.

The indicators of a continuous market are:

- Frequency of sales
- Narrow spread between bid and offers
- Prompt execution of orders
- Minimum price changes between transactions as they occur

2.3 Factors to be considered while investing into stock

Price, in real sense, is to be affected by the company's operation, activities, future prospects, investment, projected earning per share, timing of the earning streams, risky ness of these projected earnings, use of debt and dividend decision. But in Nepal, the other factors, other than company's performance, also seemed to have predominant role in the price formation of the stocks. They are:

- Government attitude towards individual entrepreneur
- Foreign investment
- Image of the promoters

An investor of the stock, in particular, should focus the following factors while analyzing the share of the particular company:

Management

A company's management will act as the main driving force behind corporate performance. Only the sound management will take right decisions regarding investment, future programs and other important areas. There are many companies which have reached at the apex of the success due to the effective management and many have collapsed due to poor management. So any investor should get information regarding the management team of that company because the success and failure of any business depends upon the qualities of management team.

Size of the Company

Larger companies generally offer better investment opportunities than the smaller ones. Larger companies normally generate larger surplus. As a result, investment in large companies normally generate safer and generate more stable return than in smaller

companies. There is no any rule of thumb to identify small and large companies but equity capital may be the good basis of calculating large and small companies. Larger companies can have more qualified experts and they can generate more safe investments opportunities. As a result, they can offer more stable and higher return than small companies.

Growth of the Company

The growing companies can provide higher return than the companies whose growth is stagnant. The company can grow and there will be appreciation in the price of the stock only if they have investment opportunities with positive Net Present Value. So the investor should consider the present as well as the possible future growth of the company. The future growth of the company will determine the return that the company will provide in the coming days. They should invest in those companies which have good future prospects. So the growth of the company is also one of the major factors to be considered while investing in the stock of particular company.

Retained Profit and Reserve

After the deduction of all expenses including the taxes, the net profit of the company are spilt into two parts: dividend and retained earning. The earning which is retained by the company and added to the reserve is called the retained earning. Higher retained earning will also lead towards the appreciation of share price since shareholders have claim on the retained earning. The company can use the fund available in the retained earning to finance any profitable investment opportunities. It is the cheapest source of fund since company does not have to pay any interest in it. So any investor should consider the volume of retained earning since one of the factors leading towards higher value of the stock is higher retained earning.

Dividend Distribution

Except the speculator investor, the primary objective of general investors of investment in stock is to earn dividend, then they have to see whether the company is distributing dividend on the regular basis. Dividend can be taken as the regular income for the

investors. In addition to the regularity in the payment of dividend, the amount of the dividend paid should also be considered. The investors should invest on the stocks of the company which is offered higher dividend on regular basis. The future dividend payment should also be predicted and it can be done on the basis of past and future performance of the company.

2.4 Review of Related Studies

The study performed by Gopal Prasad Bhatta, 1995 on "Assessment of the performance of listed companies in Nepal" is based on ten listed companies' date using five years from 1990 to 1995. The one of the objectives of this study was to analyze the performance of listed companies in terms of risk and return. In this study, he has concluded highly significant positive correlation between risk and return and also ranked the companies in terms of risk and return.

He further concluded that the companies which have higher share price need to satisfy the investors for risk premium since they have higher beta than others. Likewise, required rate of return, which reveals efficiency of management of the companies and internal rate of return, an indicator to measure the performance of the companies was also analyzed, which showed a conflicting result. A high priced stock, for example, Bishal Bazar Co. in his study, has higher required rate of return but lower internal rate of return. So, his study revealed somewhat conflicting result.

Bhatta took only 10 companies for his study i.e. two from banking sector, one from hotel and insurance, three from manufacturing, and two from trading sector. He found that some companies having low earning per share have high price while some companies having high EPS do not reveal high market price.

In conclusion, his study showed highly positive correlation between risk and return and conflicting result in case of CPS and MPS. Some companies having high EPS have low MPS while others having low EPS have high MPS.

Bhatta (1997) in his study on "Dynamics of stock market in Nepal" analyzed the market prices of the shares of 10 companies four from manufacturing sector, one from hotel sector, two from trading sector, three from finance sector, and four from banking sector for his study. The objectives of his study were to analyze the trend of the market and market price of the listed companies whether they are correctly priced or not, to diagnose and compare the sector-wise financial status of the stocks in Nepalese stock market and to find out the impact of the secondary market on primary market and vice versa.

Bhatta has concluded that the liquidity in Nepalese stock market is very poor and the trading of only about fifty percent of the listed stocks takes place in the stock exchange when the market is in boom. The trading of the stocks is terms of number of transactions, number of shares traded and value of shares traded is very low. He found that the supply of funds was nearly three times the demand for funds in primary aspect of Nepalese stock market during the census period as the investors are interested to invest in the shares of corporate sector through the stock market.

Furthermore, the banking sector has attracted the maximum number of investors as observed in the over-subscription of the public issue by 12 times followed by three times subscription in the finance and insurance, 2.47 times in the trading and 0.87 times in the manufacturing sector. He further stated the following points in his findings:

- The EPS and ROE have the decisive effect on the market price of stock
- EPS, DPS and net worth per share have lagged effect on the market price of stock
- High volatility of stock price implies that there is high risk associated with the investment in shares of stock listed in NEPSE
- The extremely small size of the stock market has the implication of low liquidity of shares

Bhatta in his study said that the variation in the data was also found when comparing with different sources. He primarily based his study on secondary data and did not use any of the primary data collection tools. He tremendously used different rations to calculate the financial status of the companies under study.

Khatiwada (2000) in his study on "A study of impact on dividend and earning announcement on shareholders return and stock price in Nepal" in the year 2001 tried to find out the impact of earning and dividend announcement on shareholders return and price of stock. He also aimed to evaluate the performance of alpha, which indicated whether the securities are overvalued or appropriately valued.

In that research, he found that among the five commercial banks under study, four banks had positive beta and one had negative beta. It indicated that the price of the banking sector was under priced at most (i.e. four under priced and one over priced). He also concluded that the announcement of dividend did not affect on the price of stocks in Nepal, which could not be approved by theories.

Khatiwada had taken only 5 listed banks for the study. As obvious from the title itself, the questionnaire, interview and other primary data acquiring techniques are regarded to be necessary to test the level of investor's awareness towards the impact related to the earning and dividend announcement. But, he did not use any of them and totally based his research on secondary data. So, the dependence merely on the secondary data is regarded as one of many drawbacks of his study.

In conclusion, his study tried to explore the impact of earning and dividend announcement on ROE and MPS and concluded that dividend announcement had not any impact on stock price in general which does not seem easy enough to trust. So, it requires further depth research in this area.

Poudel (2001) in his study on "Share Price Movement of Joint Venture Commercial Banks in Nepal" on April 2001 concluded that the market value per share does not accommodate all the available historical information. He further stated that having good track records of the financial position and continuous declaration of the dividend, which may not be applicable to other type of non-banking firms, encouraged the potentials investors to buy the shares of joint venture commercial banks. Therefore, the shares of

joint venture commercial banks emerged as blue chips in the Nepalese stock market. His calculation of beta coefficient, which measures the risky-ness of individual security in relative terms, suggests that none of the share of eight banks, he studied, were risky.

Poudel in his study objectified to examine the form of the Efficient Market Hypothesis (EMP) that the NEPSE is in. He tried to judge whether the book value per share and other major financial ratios explain the share price movement. In his study, he had said that the study might not have long – term implication. He has taken seven joint venture banks for the case studies.

In his findings, Poudel has found that the market share and the growth rates of different banking indicators used are not captured by the market value of these banks. Since he had taken only join venture banks in his study, it can not give a general concept of overall price movement of the listed companies in Nepalese stock market. He had only analyzed the data from 1995 to 1990 to conduct his study.

Sherpa (2002) in his study objectified to obtain an insight on corporate information disclosure with special reference to Nepalese stock market and its listed companies. To attain the mentioned objective, the following specific objectives were set:

- To highlight the corporate disclosure practice in Nepal
- To identify the extent of disclosure of each of the item of information and to develop the information disclosure index
- To check the quality of corporate disclosure of Nepalese listed companies measured by company characteristics namely asset size number of shares outstanding and earning margin
- To see the relationship between corporate information disclosure and stock price

His research study began with the construction of disclosure index for which he collected 59 information items, classified them according to their importance and calculate mean value after collecting primary data. Thereafter, he selected 33 listed companies, used their

annual reports and calculated disclosure scores, which was followed by the use of various statistical tools like regression, correlation etc. to attain the mentioned objectives.

From the detailed analysis, he found that most of the companies do not disclose adequate and qualitative information on their annual reports and most of disclosed information consisted of only financial information that is statutorily required.

Furthermore, he found positive relationship between disclosure scores and variables like earning margin, asset size etc. The important finding of his research is that there is positive relationship between disclosure scores. In other words, the companies having greater disclosure had the higher price of stock.

Thapa (2003) in his study on "Impact of bonus share announcement on share price of stock" concluded that the immediate share price rise after bonus share announcement of banking sector is significant. Bonus share announcement of banking sector is considered positively by the investors but given less important to the non-banking sectors. None of the case has been observed under banking sector that the price decreases immediately after bonus announcement.

He has further explored that the share price, in most of the cases, does not decrease after the distribution of bonus share according to bonus ratio as theory says. For this, he attributed that investors could not interpret the information and data. The important finding of this study was that the share price of the Non-banking sector showed inconsistency as compared to the banking sector. He found that there was a great misconception about bonus share that the general investors think that they receive extra / additional share with same value. The major findings of this study can be summarized in the following points:

- Nepalese capital market is speculative-oriented; therefore it takes more consciously bonus share announcement that cash dividend announcement.

- The companies announce bonus share without frequently cash dividend distribution ultimately faces drastic fall in their share prices.
- The relationship between bonus share ratio and immediate price rise is positively correlated. High bonus ratio leads high magnitude of immediate price rise.

Khadka (2004) in the study on "Right offering and its impact on share price" has drawn the mixed result and it is different for each company. She has suggested that the share price movement due to the impact of right offering can not be generalized. She has explored that the companies which have good investment prospects and sound financial positions in the past, their announcement of right offering serve as happy news to the existing shareholders and they respond it positively leading towards increment in share price and higher rate of subscription.

She has tested the hypothesis using t-statistics to measure the immediate impact of right offering on share price of the stock. He has drawn the following company specific result:

- In case of Nepal Bank Ltd. there is sharp decline in the share price of the stock after the announcement of the right issue.
- In case of Necon Air Ltd., it can be concluded that the share price of the stock has increased significantly after the announcement.

From her study, it can be concluded that right offering does not have any impact on the share price of the stock as the theory suggests in the context of Nepal. It can be attributed to various factors like immature and inefficient capital market, irrational and less knowledgeable investors, asymmetric of information.

Atma Ram Ghimire (2004) on his article "Nepali Share Market an Investor's Prospective" published on June, 2001 stated that the unexpected and unpredicted fluctuations in the NEPSE index (from 545.25 on December 2000 to 334.29 on May 17, 2001) were not periodic and cyclic movements, but the results of mismanagement of the share market by the authorities and manipulations by big share holders/company promoters and stock brokers. The major reason behind the movement in the index is the

domination of banking sector scrip in Nepali stock exchange's transactions. The price changes in bank shares have mostly no justification.

The other component in the market is Nepal Stock Exchange Ltd. He has suggested privatizing this institution immediately to sustain the interest of the public in capital market and for its healthy growth. Investors must receive the financial information before they make investment and act rationally. This will avoid the typical crashes the market experienced in the past which were largely created by unnatural activities of the institutions and individuals concerned.

Bhaskar Sharma on his article "Investors flock Stock Exchange" publish on 1 March, 2001 in Kathmandu Post sated that the agitated investors accused brokers and Nepse officials of joining hands and manipulating prices. They claim that the drop in the share price was precipitated by lack of communication facilities between the buyers and sellers and non transparent operations by Nepse. According to his article, investors blamed the Nepse officials and brokers of joining hands with nig gamblers.

Joshi (2004) General Manager of Nepse attributed absence of information institutional investors and lack of research and analysis, for leading to unstable stock prices. And the same is at the root of the recent stock price setback.

Damber Dhungel, Chairman of Securities Board, the regulatory body that oversees the stock market highlighted that investors spent considerable amounts expecting bonus shares and rights issue, after the central bank ordered the commercial banks to increase their base to Rs 500 million and less than expected return has caused share demand to go down, pulling down its price.

Dr. Monohar K. Shrestha (2005) in his article named "How Efficient is the Stock Market?" concluded that our stock market is not efficient enough since all the listed companies do not make past information available to shareholders. Then comes the semi-strong form of market efficiency based on the assumption that stock prices reflect all the

publicly available information about the companies. In the case, too, many listed companies do not produce annual reports or financial statements that are very crucial for investors to analyze and judge the performance of the companies.

Lastly, a strong form of market efficiency exists if stock prices reflect all information that is known about a company, even that which is not available to the public. Private information, often called inside information, is made public to ensure rational and competitive behavior of then stock market under strong form of market efficiency. But misuse of inside information is prohibited by the provisions of the Securities Exchange Act and the regulating authorities can make no advance notice of how there is the use of inside information.

He stated that Nepalese stock market is imperfect and inefficient, and attributed it to the failure to maintain any level of market efficiency. The imperfect and inefficient market has let towards the present unfavorable incidence of stock price downturn, which has had a severe impact on the financial fortunes of the investors. In Nepal's stock market, it is very difficult to ascertain whether stock price reflects all the past information about the listed companies' performance. The current dubious and hazardous movement of stock prices has no sound fundamental backing of analysis and relationship to the past results revealed in limited available financial statement. It is because the Stock Price has crossed the boundary of the calculated dividend yield, net worth and Price earning multiples.

He emphasized that the present turmoil in the Nepal Stock Exchange has led to a drastic fall in NEPSE index from 560 to 373, making investors suffer huge losses. And this is mainly due to deficiency in publicly available information under semi-strong form of market efficiency on one hand and active inside trading of private information about targeted companies under strong form of market efficiency on the other.

While investing in the securities, people mostly over-concern to either the return factor of the risk factor while ignoring the significance of other factors. People do not readily seem to accept risk in a normal condition especially when the return in comparison to risk is

very low. People are not always risk-averse or even risk neutral. Millions of the people engage in regular risk-seeking activities, such as buying lottery tickets.

The acceptance level of risk also differs from person to person that is why different people are interested in different stocks, which has its unique risk-return characteristics. “In 1938 Daniel Bernaulli noted that people behave as if they are risk averse. Prior to Bernaulli most scholars considered it normative behavior to value a gamble as its expected value.

The over confidence nature of the people make them overestimate their own contributions to past positive outcomes recalling information related to their success more easily that related to their failure. This tendency makes them react readily on coming situations, which resemble that past successful situation of a particular investor and help to increase market depth.

When an investor gets some information related to the stock price, he generally assumes that he has got the full information and act in a specific manner. But generally in more cases, a trader’s information is more precise that is actually is. The investors almost in every situation overweigh the information because of the overconfidence that no other has got the same precious and the latest information as he got. The weighting of information also depends on the nature of the information.

People are found to overweight information that is consistent with their existing beliefs, are prone to gather information that supports these beliefs and readily dismiss information that does not. “People are found more intended to overestimate that theoretical and logical information which is easily comprehendible in nature and underestimate the technical base information which requires some intellectual understanding to comprehend.

Price of the stock does not remain static. It changes according to the increase/decrease in buying and selling orders, which arrive at the market place as the environment evolves through time. When one buy order is matched with sell order the trade is executed and it

passes through certain procedures within a definite time period. Time is not required not only for the clearing process itself but also for orders to reach the market place. Many investors revise their orders not continuously but also periodically. All these factors affect to the effectiveness of price formation.

One should expect that when the current price is lower that the current underlying equilibrium value there would be excess demand that would drive price upwards an when the current price is higher than the current equilibrium value an excess supply will drive the price downward. Furthermore, the lower the price is (relative to the assets' current underlying value), the higher would be both expected excess demand and the expected rate of price increase; and vice versa. The confidence level of the investors is also seen to influence their rationally.

2.5 Review of Thesis

There are many dissertations written by various researchers in past years. Among them some dissertations are reviewed here for analysis of literature.

Timilsina (2006) Conducted research on the topic of "Dividend and Stock Price". The study was carried out by the data for 16 enterprises from 2001 to 2005.

The objectives of the study were as follows:

- To test the difference between dividends per share and stock prices.
- To determine the impact of dividend policy on stock price
- To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.

To explain the price behaviour, the study used simultaneous equation model as developed by Friend and Puckett (1964). The main findings of his study were as follows:

- The difference between dividend per share and stock prices is positive in the sample companies.
- Dividend per share affects the share prices variedly in different sectors.

- Changing the dividend policy or dividend per share might help to increase the market price of share.
- The difference between stock prices and retained earnings per share is not prominent.
- The difference between stock prices and lagged earnings ratio is negative.
- Though there were above-mentioned studies in the context of Nepal, it has overcome necessary to find out whether their findings are still valid.

Timilsina's study was based on 45 observations. The number of companies included in the sample was only 16, which is quite low. Studies on dividends conducted in the context of Nepal are based on secondary data only. No study has been conducted on dividends by using primary data as yet. There is a need to conduct a survey of financial executives in order to find out more qualitative facts on dividends which can not be determined though the use of secondary data (Timilsina, 1997: 80-92).

Joshi (2006) Conducted research on the topic of "Dynamics of Stock Market in Nepal", the objectives of the research were as follows:

- To analyze the trend of the Nepalese stock market.
- To diagnose and compare sector-wise financial status of the stocks in Nepalese stock market.
- To analyze the market share prices of Nepalese stock market.
- To find out the impact of secondary on primary market and vice versa.
- To recommend for the improvement of stock market in Nepal.

The main conclusion of his research was:

The stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the latter. The stock market raises and mobilizes the invest-able resources to finance the long-term large projects in the economy. The stock market, therefore, can be regarded as a heart of economy.

The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. Management capability of the entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management capability of the entrepreneurs, which may contribute to raise the return from the investment.

Development of the manufacturing sector is the backbone of an economy, which, in turn, assists to foster banking, finance and insurance sectors. Unfortunately, the manufacturing sector does not have a good performance in Nepalese economy. Almost all firms in this sector have a sustained loss.

The secondary aspect of the stock market is not also functioning well in Nepal. There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sector.

Although it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has good prospect for the resource mobilization to finance the productive enterprises in Nepalese economy.

Shrestha (2007) Conducted research on the topic of "Stock Price Behavior in Nepal"; this study aims to examine the efficiency of the stock market in Nepal.

The specific objectives of the study were:

- To examine the serial correlation of the successive daily price changes of the individual stocks.
- To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli process.
- To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in the Nepalese stock market.

- To provide feedback policy input towards institutional development of efficient market.

The main findings of the study were:

The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and runs of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for the 30 sample stocks listed in the Nepal stock exchanges ltd. (NEPSE). Therefore, the random walk theory is not a suitable description for the stock market price behaviour in Nepal.

The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price changes of the previous days. It implies that the information of the past price changes is helpful in predicting future price changes in a way that the speculation through technical analysis can make higher expected profit than they would be under native buy-and-hold policy (i.e. average market return). Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the findings of this study. It is realized that mostly the native investors have dominated in the market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices which establish independence of successive price changes.

He analyzed 30 listed companies' stock price and found that the successive price changes are dependent. He finally concluded that he NEPSE is not efficient in pricing shares even in its weak form. Shrestha too had used autocorrelation and run test to detect the dependence among the stock price series. The outcomes of both the models were found to be similar and rejecting the null hypothesis that the successive price changes is independent. Though his research was not based on the total market return movement, the result drawn from analyzing the movement of major stocks traded in the market can be generalized for efficiency level of overall NEPSE. Moreover this research work with the

analysis of total market return and baking sector stock return will be useful to verify his findings as well.

Sherpa (2007) Conducted research on the topic of "Corporate Information Disclosure and its Effect on Share Price". The primary objectives of this study were to obtain an insight on corporate information disclosure with special reference to Nepalese stock market and its listed companies. To attain the mentioned objectives, the following specific objectives were set.

- To highlight the corporate disclosure practice in Nepal.
- To identify the extent of disclosure of each of the item of information and to develop the information disclosure index.
- To check the quality of corporate disclosure of Nepalese listed companies measured by company characteristic namely asset size, number of shares outstanding and earning margin.
- To see the relationship between corporate information disclosure and stock prices.

His research study began with the construction of disclosure index for which he collected 59 informational items, classified according to their importance and calculated mean value after the collection of primary data. Thereafter, he selected 33 listed companies, used their annual reports and calculated disclosure scores, which was followed by use of various statistical tools like regression, correlation etc. to attain the mentioned objectives.

From the detail analysis, he found that most of companies do not disclose adequate and qualitative information on their annual reports, and most of disclosed information consisted of only relationship between disclosure scores and variables like earning margin, asset size etc. The important finding of his research is that there is positive relationship between market price of share and disclosure score. In other words, the company having greater disclosure score had the higher prices of stock.

Baral (2008) Conducted research on the topic of "Current Problems and Prospects of Securities Market in Nepal", the trend of the Nepalese stock market and present state of

primary and secondary market as well as problems and prospects of Nepalese stock market.

The main findings of her study were:

- The development of stock market primarily depends on program and their implementation.
- In Nepal, the overall policy environment has not been conductive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- Lack of investor's confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM.
- Restriction on foreign portfolio investment hindered market development.
- NEPSE does not have appropriate policies, memberships and fee structure to attract member outside the Kathmandu.
- In Nepal, banks dominate primary market in government debt instruments, OTC trading is not permitted; therefore, secondary market is totally inactive.
- Lack of necessary provisions in the laws and regulation for the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).

She did point out the transparency and openness of transaction, quality professional services, in adequate corporate financial disclosures and improved legal, regulatory, and supervisory framework are the urgent needs of Nepalese stock market. Therefore, it is important that the basic assumption in any effort for protecting investors interest or boosting their confidence or developing the stock market is that business, which should be enable to operate in an environment that remains conductive to growth and expansion but complete replication of any tailor made model, as applied anywhere, may not work because the specific in Nepalese stock market is different from other developed market.

Regarding political instability, she was absent to indicate the Maoist activities which have made the status / condition of country very poor. These activities have not only affected the political environment but also have affected the tourism; hotel management

etc. or we can say that all financial as well and non-financial activities within the country are very poor.

Joshi (2008) Conducted research on the topic of "Role of Nepal Stock Exchange in the secondary Market". The main objectives of this study were:

- To assess the past and present behaviour of business operation in the Nepal Stock Exchange Market.
- To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
- To prescribe ways and means by which secondary market would be more effective and meaningful.

The main recommendations in her study were:

- NEPSE should introduce digital technology and online marketing in its trading procedure.
- The rules and regulations should be up to date.
- Privatization process needs to be carried out effectively in order to develop Nepalese stock market.
- Tax system should be reformed which should encourage and stimulate capital formation.

The main purpose of the study performed by Gopal Prasad Bhatta, 1995 on "Assessment of the performance of listed companies in Nepal" was to analyze the performance of listed companies in terms of risk and return. In this study, he has concluded highly significant positive correlation between risk and return he found that some companies having low earning per share have high price while some companies having high EPS do not reveal high market price.

GC (2008) in his study on "A study of impact on dividend and earning announcement on shareholders return and stock price in Nepal" tried to find out the impact of earning and dividend announcement on shareholders return and price of stock. He also aimed to

evaluate the performance of alpha, which indicated whether the securities are overvalued or under valued or appropriately valued.

In that research, he found that among the five commercial banks under study, four banks and positive beta and one had negative beta. It indicated that the price of the banking sector was under priced at most. He also concluded that the announcement of dividend did not affect on the price of stocks in Nepal, which could not be approved by theories.

2.5 Research Gap

Efficient Capital Market is not only the output of the rules and regulations imposed by the regulators. Banks and financial institutions can do a lot by imposing self governance rather than corporate governance. In this regard this research has tried pretty more to reflect the self governance practices adopted by the sample companies in maintaining their market prices and the awareness of the Investors, which is quite new and challenging in it but is an opportunity to learn and identify the strength and weaknesses of the abovementioned commercial banks. This research work is different than of other researches carried out in this regard because of the new directives of NRB regarding the paid up capital of commercial Banks. NRB has directed all the banks and financial institutions to upgrade their paid up capital as 2000 million by the year 2009 in one hand and most of the banks and financial institutions has already started to implement BASEL II by this year on the other hand. This research work is probably the first one to reflect the stock price behavior and investment decision of the investors in the changed context of Nepalese Capital Market. The Global financial crisis perceived in the month of October 2008 has affected our capital market too in some context. So this research study also tries to assess the impact of this crisis on Nepalese investors and capital market.

CHAPTER – THREE

RESEARCH METHODOLOGY

Research methodology is the process of arriving to the solutions of the problem through planned and systematic dealing with the collection, analysis and interpretations of facts and figures. The research methodology includes the nature and sources of data, its presentation, and the analysis techniques. The study depends upon both secondary and primary source of data. It is descriptive as well as exploratory research because the study explains the various theories related to stock behavior and concept of capital market.

3.1 Research Design

Both exploratory and descriptive research designs are to be followed in the study. This type of design has become necessary keeping in view the quantity and quality of information and data that is available.

3.2 Sample and Frame and Population

Even though the Nepalese financial market is small, there are 26 commercial banks established so far but all of them are not listed in the stock exchange. There are altogether 149 companies of different sectors listed so far. However, the concentration of this study is stocks of the listed commercial banks, so all the listed commercial banks are sample frame and population of this study.

3.3 Sample Size and Sampling Method

Eight commercial banks will be taken as samples and random sampling method will be used to choose the samples. The random sampling is taken to eliminate biasness and its simplicity to choose the samples. This method is less time consuming and easier to implement.

3.4 Nature and Source of Data

Both primary (questionnaire and interview) and secondary source of data will be used for the study. The secondary data had been collected from the published materials of different organizations such as: NEPSE, SEBO/N, Nepal Rastra Bank etc. Most of the data were taken from trading reports of SEBO and financial statements of the banks under study. Six years data will be collected.

3.5 Tools for Analysis

Trend analysis is done to see the trend in NEPSE Index and market capitalization. Regression analysis is done to see the relationship between profit and market price of the stock. Standard deviation is calculated to see the fluctuation in the share price of the stock of the sampled company. CAPM (Capital Asset Pricing Model) is used to see whether stock is correctly priced in the secondary market.

3.6 Data Collection Procedures

Questionnaires have been distributed for the collection of the primary data to find out the various factors affecting the stock price and investment behavior of the investor. Likewise, frequent visits to Nepal Rastra Bank, SEBON/N, Stock Exchange and interviews with the concerned personnel are method to gather primary data.

3.7 Tools for Analysis

Statistical tools: The collected and processed data have been analyzed using statistical tools and techniques such as average return, standard deviation, coefficient of variation, coefficient of correlation, trend analysis and regression analysis.

3.7.1 Average Rate of Return

The average rate of return of stock is calculated by dividing the six years total rate of return by total number of years. Likewise, the average market return is also calculated by dividing total market return by the total number of years, which is six in this case.

$$\text{Average } (\overline{X}) = \frac{\phi X}{N}$$

3.7.2 Standard Deviation of Stock

The standard deviation of a random variable is a measure of the dispersion or spread of possible values the random value can take on. It is an estimate of the likely divergence of an actual return from an expected return. It is calculated as:

$$\text{Standard Deviation } (\pm_h) \text{ X} \sqrt{\frac{(R_h \text{ Z} \overline{R}_h)^2}{n \text{ Z} 1}}$$

3.7.3 Variance of Stock

The variance is a measure of the dispersion from the average value. It is the squared deviation from the mean deviation divided by the number of observation less one. We divide by (n-1) since the deviations are measured from the mean, so one degree of freedom is lost.

$$\text{Variance} = (\pm_h)^2$$

3.7.4 Median

Median divides the whole observations into two halves. One half comprising all the values greater and the second half comprising all the values smaller than median. It is denoted by Md. The formula for computing the median is as under:

$$\text{Median} = \left[\frac{n+1}{2}\right]^{th} \text{ item}$$

3.7.5 Mode

Mode is that variant value which repeats maximum number of times. It is used to calculate the most frequent number of observations regarding some questions. Mode is denoted by Mo.

3.7.6 Covariance

Covariance is a statistical measure of relationship between two random variables. It measures how two random variables such as return on securities j and market returns are relates to each other. A positive value for covariance indicates that the securities' returns

tend to move in the same direction with other. A negative covariance indicates a tendency for the returns to offset one other. A relatively small or zero value for the covariance indicates that there is little or no relationship between the returns for the two securities. It is calculated as:

$$\# \text{Cov}(R_i, R_m) = \frac{(Ri \, Z\overline{R_i}) \; (R_m \; Z\overline{R}_m)}{n \, Z1}$$

3.7.7 Correlation

The Greek letter 'rho' denotes the correlation coefficient between return on tow securities. The correlation coefficient is defined as the covariance between the dependent and independent variables, dividing by the product of their standard deviation. When assets have zero correlation with each other, they are unrelated in anyway and have zero variance. Positive correlation implies positive covariance. The correlation coefficient (pij) rescales the covariance to facilitate comparison with corresponding values for other pairs of random variables. It always lies between -1 and +1. A value of -1 represents perfect negative correlation and a value of +1 represent perfect positive correlation.

$$\text{Correlation } (\rho_{im}) = \frac{Cov(R_i, R_m)}{\pm_i \pm_m}$$

3.7.8 Beta

Beta is considered as a measure of undiversified risk. Although not exactly the same as $b^2\text{VAR}(R_m)$, which is the exact definition of undiversifiable risk, beta is a measure of individual risk because for a given VAR (R_m), it provides a one-for one correspondence.

If the returns on the individual's investment fluctuate by exactly the same degree as the returns of the market as a whole, the beta for the security is 1. In this situation the required rate of individual investment is the same as the required return on the total market. If the undiversifiable or systematic risk is the return of an investment is greater than one, and its risk adjustment factor is greater than the risk adjustment factor for the market as a whole. The required return on an individual investment depends on the size

of its beta, which measures the covariance of its return in relation to the return on the market.

Beta measures the systematic risk of a company's stock and it assumes that total market risk is equal to 1. Beta indicates the risk associated with the company's stock in comparison with the market risk. If the beta is positive, it indicates that the company's risk and return tends to move positively with the market risk and return with calculated percentage. If the beta is negative, it indicates that the company's risk and return tends to move negatively with the market risk and return with calculated percentage. Beta is denoted by B_j and calculated as:

3.7.9 Coefficient to Variation

The coefficient to variation is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. The risk per unit of expected return can be measured by the coefficient of variation (CV). The formula used for calculating the coefficient of variation is as below:

3.7.10 CAPM/SML

The capital asset pricing model (CAPM) provides a measure of the risk of an individual security, which is consistent with portfolio theory. It enables us to estimate the ndiversifiable risk of a single asset and compare it with the undiversifable risk of a well diversified portfolio. The CAPM equation is written as:

$E(R_j) = R_f + (R_m - R_f)B_j$

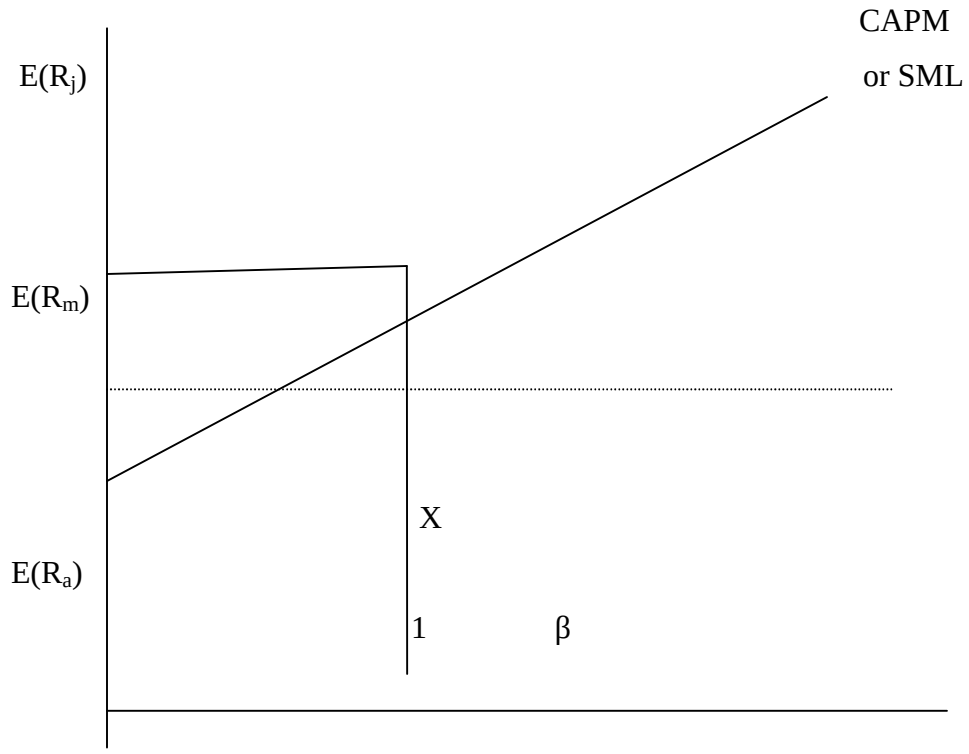
Where,

$E(R_j)$ = the expeted or ex-ante return on the jth risky asset

R_f = the rate of return on a risk less assest

$E(R_m)$ = the expected or ex-ante return on the market portfolio

B_j = a measure of the undiversifiable risk of the ^{j}th security



When CAPM is graphed, it is called SML. All the securities must be priced correctly so that they fall on the security market line. The SML may be used to explain the required rate of return on all securities whether or not they are efficient. The SML provides a unique relationship between diversified risk and expected return. Hence, if we can accurately measure the beta of a security, we can estimate its equilibrium risk adjusted rate of return.

The logic of SML equation is that the required return on any investment is the risk free return plus a risk adjusted factor. The risk adjusted factor is obtained by multiplying the risk premium required for the market return by the risky ness of the individual investment. The CAPM is an equilibrium theory of how to price and measure risk. It has many applications for the decision making under uncertainty.

The capital market line may be used to determine the required rate of return only for those efficient portfolios that are perfectly correlated with the market portfolio because they fall on the CML, but the SML may be used to explain the required rate of return on

all securities whether or not they are efficient. We use covariance for the risk measurement of individual security instead of standard deviation while using SML.

CAPM utilizes the historical data and all the returns in the SML can be different depending on the time period selected for the measurement. The CAPM set forth a theory of the relationship between the risk of an asset and required risk adjustment factor. The relationship is expressed in the SML as

$R_j = R_f + (R_m - R_f) B_j$

3.7.11 Required Rate of Return

The required rate of return is calculated to find out the status of the share of company by comparing it with the expected rate of return of the company. The expected rate of return is average return of the company whereas the required rate of return is calculated as:

$R_j = R_f + (R_m - R_f) B_j$

3.7.12 Karl Pearson's Coefficient of Correlation:

It is a statistical tool for measuring the intensity or magnitude of linear relationship between the two variables series. Karl Pearson's measure, known as Pearsonian Correlation coefficient between two variables (series) X and Y, usually denoted by "r(x,y)" or rxy or simply 'r' can be expressed as,

$$r\ X \frac{n \quad xy - \quad x \ . \quad y}{\sqrt{\{n \quad xy^2\ Z(\quad x)^2\} \mid \{n \quad y^2\ Z(\quad y)^2\}}}$$

Where,

N= No. of observation in series X and Y

^{x} = Sum of observations in Series X

^{y} = Sum of observations in Series Y

x^2 = Sum of squared deviations in Series X

y^2 = Sum of squared deviations in Series Y.

xy = Sum of the product of observations in Series X and Y.

The value of the correlation coefficient 'r' lies between ‹ 1 i.e. Z1 ™r ™1. If r=1, there is perfect positive relationship and if r=-1, there is perfect negative relationship or if r=0, then there is no relation at all.

The closer the value of 'r' with 1, the closer the relationship between the variables and the closer 'r' is to 0 the less close relationship. (shrestha and Manandhar, 1992:234)

3.7.13 Multiple regression analysis:

The factors that affect estimates of the MPS may be quantified and estimated econometrically using multiple regression analysis. Multiple regression analysis is a statistical tool, which facilitates in estimating or predicting the value of dependent variable from the value of independent variable. It is a mathematical measure of the average relationship between two or more variables in terms of the original units of the data. And then estimates the value of unknown variable (dependent) on the basis of other known variable (independent). The variable whose value is influenced or is to be predicted is called dependent variable and the variable which influences the values or is used for prediction, is called independent variable.

Generally, in multiple regression analysis, methods of least square, standard error of estimate and multiple coefficient of determination are computed for this purpose.

The multiple regression equation is

$$MPS X a \Gamma b_1 EPS \Gamma b_2 DPS \Gamma b_3 DWPS \Gamma b_4 CG \Gamma \mu$$

Where,

a= Regression intercept, which indicates MPS does not go below this point even if other variables have zero value.

b's = Multiple regression coefficient.

μ = Unexplained error, which indicates that the estimation of MPS may vary by this amount.

3.7.14 Application of computer software:

This study has covered six years data of 5 commercial banks, 3 insurance companies and 2 insurance companies. To carry out the multivariate correlation analysis and multiple regressions with four independent variables, the most popular statistical software- SPSS has been used. Data will be presented in tabular firm, after plotting the tabulated data in graph, correlation coefficients will be calculated by this software and finally these variables shall be inserted in pre-defined regressions model in SPSS software. It is too difficult to carry out such calculations manually therefore this software is used to arrive at concrete conclusions.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4. 1 Introduction

This chapter is devoted to the presentation, analysis, interpretation and scoring the empirical finding out of the study through definite course of research methodology. To achieve the stated objective of the study and also to make the reader easier to understand the findings qualitative as well as quantitative data and information has been analyzed. The fist part of the chapter includes the analysis of secondary data and second part primary data.

Classification of Listed Companies

Out of 159 listed companies, NEPSE classified 66 companies (48.52 percent) consisting of 21 commercial banks, 29 development banks, 61 finance companies, 17 insurance companies and 18 manufacturing and processing company under group "A" and the rest under group "B", as per the provision of "Securities Listing Bye-laws", 1996. As per the provision of "Securities Listing Bye-laws, 1996" those listed companies which have profit track record for the last three years, book value higher than paid up value, submitted its financial statement to NEPSE within three months after the expiry of fiscal year, paid up capital exceeding Rs. 20 million, have at least 1000 shareholders falls on category "A". The commercial banks which fall on category "A" are given below:

Table 4.1

Listed Commercial Banks under Group "A"

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

(Source: www.nepalstock.com)

4.1.1 Analysis of Individual Company

From among the listed companies, the researcher has chosen 6 listed private commercial banks that fall in group 'A'. The summary of last seven years the financial data of the sampled listed companies are presented in the following table. These data include Market Price of Share [MPS], Dividend per Share [DPS], Book Value Per Share [BVPS], Earning Per Share [EPS], and Market Capitalization.

Table 4.2

Presentation of data

(Market Capitalization in Million Rs.)

Year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
1 SCBNL							
MPS	1162	1985	2144	1550	120	1745	2315
DPS	80	100	100	100	267	110	120
BVPS	282.26	298.88	327.5	363.86	403.15	399.25	422.37
EPS	105.86	115.62	126.88	141.13	149.3	143.55	143.55
MC	3945.56	6740.04	7279.93	5263.01	5568.6	6537.47	8785.32
2 NABIL							
MPS	700	1400	1500	735	735	1000	1505
DPS	50	55	40	20	50	65	70
BVPS	237.81	238.92	232.06	23318	267.30	30137	337.16
EPS	67.84	83.79	59.26	55.25	84.66	92.61	103.45
M C	2749.57	5499.14	5891.94	3608.81	3608.81	4909.95	7389.47
3 BOKL							
MPS	285	980	850	254	198	295	430
DPS	15	31	0	10	5	10	15
BVPS	56.93	111.94	117.64	112.21	124.93	140.37	155.47
EPS	24.7	39.29	27.97	2	17.72	27.5	30.10
MC	513	1796.4	1989	594.36	917.89	1367.56	1993.40
4 HBL							
MPS	1000	1700	1500	1000	836	810	920
DPS	75	75	57.5	35	25	20	31.58
BVPS	209.99	194.19	210.20	220.03	247.82	246.93	239.53
EPS	86.07	83.08	93.57	60.26	49.45	49.05	47.91
MC	1200	4080	4500	3000	3586.44	4410	4830

5 EBL							
MPS	407	980	750	430	445	680	870
DPS	15	20	0	20	20	20	20
BVPS	120.97	169.04	144.22	150.74	150.10	171.53	169.15
EPS	21.3	34.84	31.56	32.91	29.9	45.58	37.54
MC	488.4	1176	1080	619.2	1171.29	2142	2740.5
6. NIBL							
MPS	822	1401	1150	760	795	940	800
DPS	30	50	0	30	20	15	12.50
BVPS	273.63	278.09	276.43	307.94	216.23	246.88	199.83
EPS	33.76	53.68	33.18	33.59	39.56	51.7	39.31
MC	1112.58	1896.26	1945.66	1285.78	1881.33	2775.75	2362.34
7. NSBI							
MPS	562	1165	1500	401	255	307	335
DPS	10	35	0	0	8	0	0
BVPS	164.22	187.53	165.75	131.88	134.05	146.8	159.54
EPS	13.98	41.74	8.69	9.61	11.47	14.26	13.29
MC	674.4	1395.9	2156.76	577.44	1100.72	1325.18	1446.04
8. NICBL							
MPS	0	550	399	250	180	218	366
DPS	0	0	10	0	0	0	5
BVPS	98.59	102.32	103.82	105.19	110.42	124.08	136.84
EPS	1.42	4.93	9.66	1.36	5.19	13.65	22.75
MC	0	2750	1995	1250	900	1090	1830

Source: Annual Reports of the listed companies, NEPSE & SEBON

Note:

MPS = Market price per share

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

BVPS = Book value per share

EPS = Earning per share

MC= Market Capitalization

4.2 Relationship between EPS, DPS & BVPS to MPS

To analyze the relationship of EPS, DPS and BVPS to MPS, it is assumed that the market price of share changes with the changes in EPS, DPS and BVPS. So, MPS is the dependant variable; whereas BVPS, EPS & DPS are independent variables. Here in this section, relationship of EPS, DPS & BVPS with MPS is determined separately to each of the sampled listed companies. The correlation analysis is performed to determine the relationship of EPS, DPS, & BVPS with MPS. To determine the effect of DPS, EPS & BVPS on MPS, simple correlation as well as their coefficient of determination are calculated. For the test of hypothesis of simple and multiple coefficient; calculated t-value are compared with the tabulated t-value at 95 percent level of confidence. To determine the magnitude of the effects of the independent variables to the dependant variable, simple and multiple regression analysis are made and the magnitude is identified after determining the regression equations. In addition to that, multiple correlation coefficient, multiple coefficient of determination (MPS being dependant variable and DPS, BVPS and EPS being independent variables), Standard errors of estimate are analyzed during the correlation and regression analysis.

4.1.2 Correlation & Regression Analysis of SCBNL

Table 4.3 and Table 4.4 summarizes the financial performances of SCBNL over last 7 years and figure 4.1 shows the relationship (correlation) of EPS, DPS & BVPS to MPS along with the significance of such relationship.

(Appendix – II)

Table 4.3

Summary of the Financial Performance of SCBNL

Year	MPS (a)	DPS (b)	BVPS (c)	EPS (d)
2000/01	1162	80	282.26	105.86
2001/02	1985	100	298.88	115.62
2002/03	2144	100	327.50	126.88
2003/04	1550	100	363.86	141.13
2004/05	1640	120	403.15	149.30
2005/06	1745	110	399.25	143.55
2006/07	2315	120	422.37	143.55
Total	12541	730	2497.27	925.89
Mean	1791.57	104.28	356.75	132.27
SD	390.61	13.97	54.88	16.47
CV	21.80	13.39	15.38	10.94

Source: Annual Reports of the related Company

Table 4.4

Correlation of BVPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rab	0.597	0.357	1.6447	2.571	Not Significant
rac	0.381	0.145	0.9213	2.571	Not Significant
rad	0.412	0.169	1.0106	2.571	Not Significant

Where,

T–table value is at 95 percent level of significance (n-2=6-2=4 degree of freedom)

r_{ab} = correlation coefficient of 'a' & 'b'

r^2 = coefficient of (simple) determination

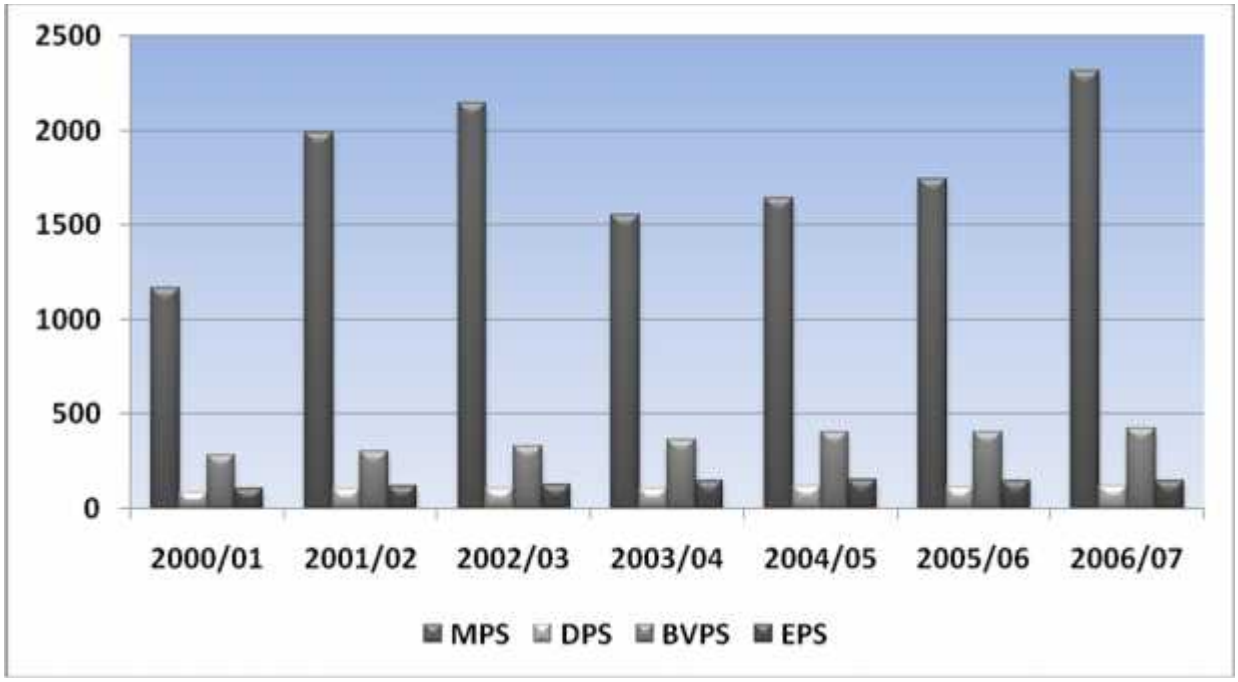
SD = standard deviation

CV = coefficient of variation

Mean = arithmetic mean

Figure 4.1

Relation ship of MPS with DPS, BVPS, EPS of SCBNL



For SCBNL, it is found from the table 4.2 and figure 4.1 that the BVPS and EPS are in the increasing trend till the year 2004/05 and have slightly decreased in 2005/06. DPS and EPS are very less volatile with 10.94 percent coefficient of variation (CV) of EPS and 13.39 percent CV of DPS. In comparison to these, BVPS is little bit more volatile with 15.38 percent of CV where as MPS is highly volatile with 21.80 CV in the last seven years period. Looking at the simple correlation analysis, MPS of SCBNL is positively correlated with DPS, EPS, BVPS meaning that increasing the DPS, BVPS and EPS increases MPS. However, there is low degree of correlation. The coefficient of simple determination shows that 35.70 percent of changes in the MPS is explained by DPS, where as only 14.5percent and 16.90 percent of the changes in the MPS is explained by BVPS and EPS respectively. Even though, the MPS is affected by DPS, BVPS and EPS, the degree of correlation are not significant at 95 percent level of confidence.

Similarly, while comparing SCBNL with Industrial benchmark It is revealed that for MPS, mean MPS of SCBNL is greater (1791.57) than industrial mean of MPS (873.07), Standard deviation of MPS is lesser (390.61) than industrial standard deviation (499.58) and Coefficient of Variation is lesser (21.80) than industrial CV (60.62). This result

shows that MPS has very good performance. For DPS, its mean is higher (104.28) than industrial average (36.41), coefficient of variation is lesser (13.39) than industrial average (107.81) and standard deviation is lesser (13.97) than industrial SD (35.63), thus, is very good performance. However, it is not risky than industrial average DPS. For BVPS of SCBNL mean is greater (356.75) than industrial average mean (204.98), standard deviation is lesser (54.88) than industrial average SD (89.30) and less Coefficient of variation (15.38) is lesser than industrial CV (43.54). It proves that SCBNL' BVPS is satisfactory. Finally, for EPS, SCBNL mean EPS is greater (132.27) than industrial average (50.03), standard deviation is lesser (16.47) than industrial average (42.49) and CV is also lesser (10.94) than industrial average (86.12). Thus, EPS has very good performance. Thus, in overall, SCBNL has very good performance in the last seven yea Rs. The linear relationship of DPS, EPS, BVPS and MPS of SCBNL is presented in the figure 2.1.

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

MPS on DPS

$MPS = \alpha + \beta DPS$

MPS = 50 + 16.70 DPS

The coefficient for DPS 16.70 implies that when DPS increases by Rs.1, MPS increases by Rs.16.70 and vice versa.

MPS on BVPS

$MPS = \alpha + \beta DPS$

MPS = 823.88 + 2.712 BVPS

The regression constant 823.88 implies that when BVPS is zero, MPS is 823.88. The coefficient for BVPS 2.712 implies that when DPS increases by Rs.1, MPS increases by Rs. 2.712 and vice versa. The simple correlation coefficient is 0.381 with 395.60 standard error of estimate. It shows that when there is an increase in the DPS, the MPS simultaneously increases as there is a positive correlation between DPS and MPS

MPS on EPS

MPS = 1189.44 + 12.04 EPS

The regression constant 1189.44 implies that when EPS is zero, MPS is 1189.44. The constant for EPS 12.04 implies that when EPS increases by Rs.1, MPS increases by Rs.12.04 and vice versa. The simple correlation coefficient between MPS and EPS is 0.412 with 436.01 standard error of estimate. The multiple regression analysis of SCBNL gives the multiple regression equation (MPS being dependant variable and DPS, BVPS & EPS being independent variables) as:

MPS on DPS, BVPS & EPS

MPS = 460.76 +40.038 DPS -1.532 BVPS – 17.375 EPS

The above simple linear relationship between average market price, dividend, and earning per share shows that the customary strong dividend and very weak book value per share and earning per share effect. The dividend coefficient is statistically significant indicating attractiveness of dividends amongst Nepalese Investors. The negative coefficient obtained for book value per share and earning per share is questionable.

The equation implies that the multiple regression constant (a) is 460.76 which suggest that when DPS, BVPS and EPS are zero, MPS would be 460.76. The constant for DPS is 40.038 implies that when Dividend Per Share increases by Rs. 1, Market Price Per Share increases by Rs. 40.038, the constant for BVPS is -1.532, implies that when BVPS increases by Rs. 1, MPS will decreases by Rs 1.532 and the constant for EPS is 17.375, implies that when EPS increases by RS. 1, MPS increases by Rs. 17.375 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.737 and coefficient of multiple determinations 0.543 with 373.55 standard error of estimate. The multiple correlation coefficients are not significant at 95 percent level of significance.

4.2.2 Correlation and regression analysis of NABIL

Table 4.5 and summarizes the financial performances of NABIL over last 7 year Rs and table 4.6 shows the relationship (correlation) of EPS, DPS & BVPS to MPS along with the significance of such relationship.

Table 4.5

Summary of the Financial Performance of NABIL

Year	MPS (a)	DPS (b)	BVPS (c)	EPS (d)
2000/01	700	50	237.81	67.84
2001/02	1400	55	238.92	83.79
2002/03	1500	40	232.06	59.26
2003/04	735	20	233.18	55.25
2004/05	735	50	267.30	84.66
2005/06	1000	65	301.37	92.61
2006/07	1505	70	337.16	103.45
Total	7575	350	1847.80	546.86
Mean	1082.98	50	263.97	78.12
SD	375.98	16.58	40.92	17.85
CV	34.74	33.16	15.50	22.84

Source: Annual Reports of the related Company

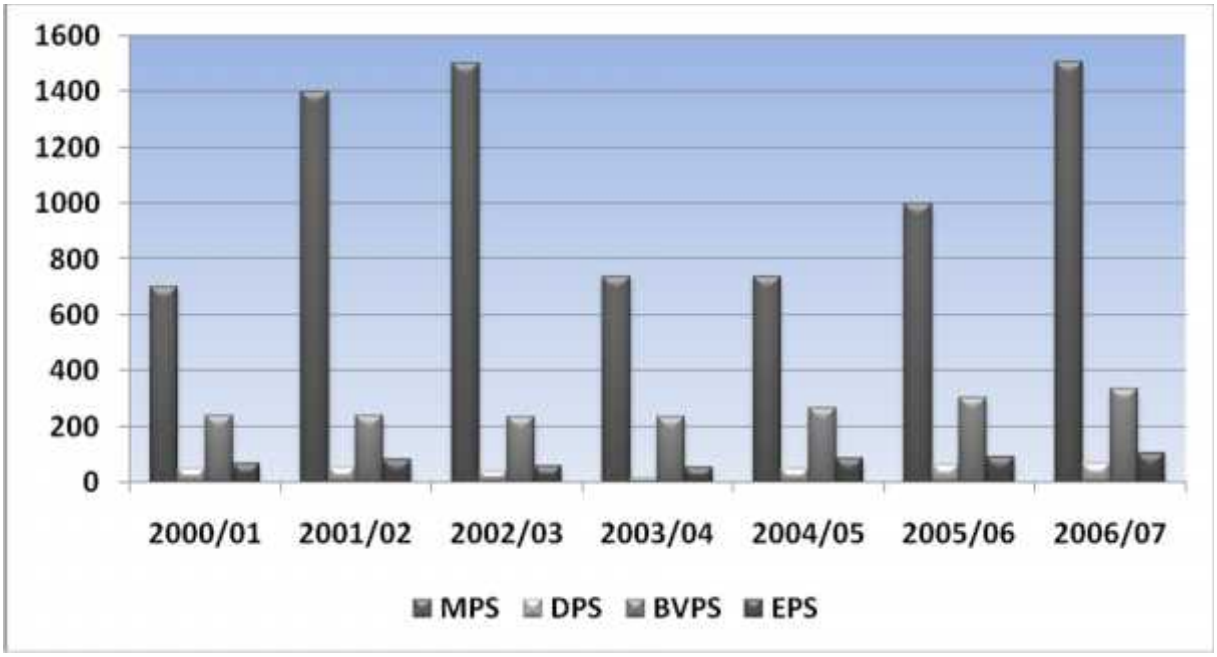
Table 4.6

Correlationship of BVPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
Rab	0.402	0.162	0.9820	2.571	Not Significance
Rac	0.283	0.080	0.6597	2.571	Not Significance
Rad	0.324	0.105	0.7658	2.571	Not Significance

Figure 4.2

Relation of MPS with DPS, BVPS, EPS of NABIL



It is revealed from above tables and figure 4.2 that the NABIL has not consistent performance over the seven years period. MPS is more volatile with 34.74 percent of CV. In comparison to MPS, DPS and EPS are less volatile with 33.16 percent CV of DPS and 22.84 percent CV of EPS. On the other hand, BVPS has relatively consistence performance with lower CV of 15.50 percent. The simple correlation analysis reveled that the MPS is positively correlated with the independent variables DPS, BVPS and EPS which indicates that on increasing DPS, BVPS and EPS, MPS also increases and vice versa. DPS is more correlated to MPS than the EPS. The coefficient of determination shows that the 16.20 percent of changes in the MPS is explained by DPS, 8.0 percent of changes in the MPS are explained by BVPS and this ratio to EPS is 10.50 percent. The simple correlation of coefficients of DPS, BVPS and EPS with MPS are not significant at 95 percent level of significance.

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

For MPS of NABIL, mean MPS is higher, SD is lesser, and CV is also lesser than that of industrial average indicates clearly that MPS of NABIL is satisfactory. For DPS, mean

DPS is nearly same, SD and CV are lesser than industrial; average meaning that it is also satisfactory. For BVPS, NABIL has higher mean of BVPS, and lesser SD and CV, So, BVPS can be taken as a good performer. And finally for EPS of NABIL, mean EPS is greater, and SD and CV are lesser than that of industrial average, meaning that is also good. Thus, it is revealed from above analysis that NABIL has good performance in last seven years.

The linear relationship of DPS, BVPS and EPS to MPS of NABIL are presented in figure 4.2

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

MPS on DPS

MPS 626.55 + 9.121 DPS

The regression constant 626.55 implies that when DPS is zero, MPS is 626.55. The constant for DPS 9.121 implies that when DPS increases by RS.1, MPS increases by RS. 9.121 and vice versa. The simple correlation coefficient is 0.402 with 485.5 standard error of estimate.

MPS on BVPS

MPS = 395.983 +2.599 BVPS

The regression constant 395.983 implies that when BVPS is zero, MPS is 395.983. The constant for BVPS 2.599 implies that when BVPS increases by RS.1, MPS increases by RS. 2.599 and vice versa. The simple correlation coefficient is 0.283 with 395.062 standard error of estimate.

MPS on EPS

MPS = 549.055+ 6.824EPS

The regression constant 549.055 implies that when DPS is zero, MPS is 549.055. The constant for EPS 6.824 implies that when EPS increases by RS.1, MPS increases by RS. 6.824 and vice versa. The simple correlation coefficient is 0.324 with 389.68 standard error of estimate.

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

MPS on DPS, BVPS & EPS

MPS = 712.85+ 15.35 DPS +0.841 BVPS – 7.937 EPS

The above simple linear relationship between average market price, dividend, and earning per share shows that the customary strong dividend and comparatively weak book value per share and very weak earning per share effect. The dividend coefficient is statistically significant indicating attractiveness of dividends amongst Nepalese Investors regarding the stock of NABIL. The negative coefficient obtained for earning per share is questionable.

The equation implies that the multiple regression constant (a) is 712.85which suggest that when DPS, BVPS and EPS are zero, MPS would be 712.85. The constant for DPS is 15.35 implies that when DPS increases by RS. 1, MPS increases by RS. 15.35, the constant for BVPS is 0.841, implies that when BVPS increases by RS. 100, MPS will increases by RS. 84.10. And the constant for EPS is – 7.937, implies that when EPS increases by RS. 1, MPS decreases by RS. 7.937 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.420 and coefficient of multiple determinations 0.176 with 482.64 standard error of estimate. The multiple correlation coefficients are not significant at 95percent level of significance.

4.2.3 Correlation and regression analysis of BOK

Table 4.7 and 4.8 summarizes the financial performances of BOK over last 7 years and Figure 4.3 shows the relationship (correlation) of EPS, DPS & BVPS to MPS along with the significance of such relationship.

Table 4.7

Summary of the Financial Performance of BOK

Year	MPS (a)	DPS (b)	BVPS (c)	EPS (d)
2000/01	285	15	56.93	24.7
2001/02	980	31	111.94	39.29
2002/03	850	0	117.64	27.97
2003/04	254	10	112.21	2.00
2004/05	198	5	124.93	17.72
2005/06	295	10	140.37	27.50
2006/07	430	15	155.47	30.10
Total	**3292**	**86**	**819.49**	**169.28**
Mean	470.29	12.29	117.07	24.18
SD	314.00	9.83	30.95	11.71
CV	66.77	80.01	26.43	48.42

Source: Annual Reports of the related Company

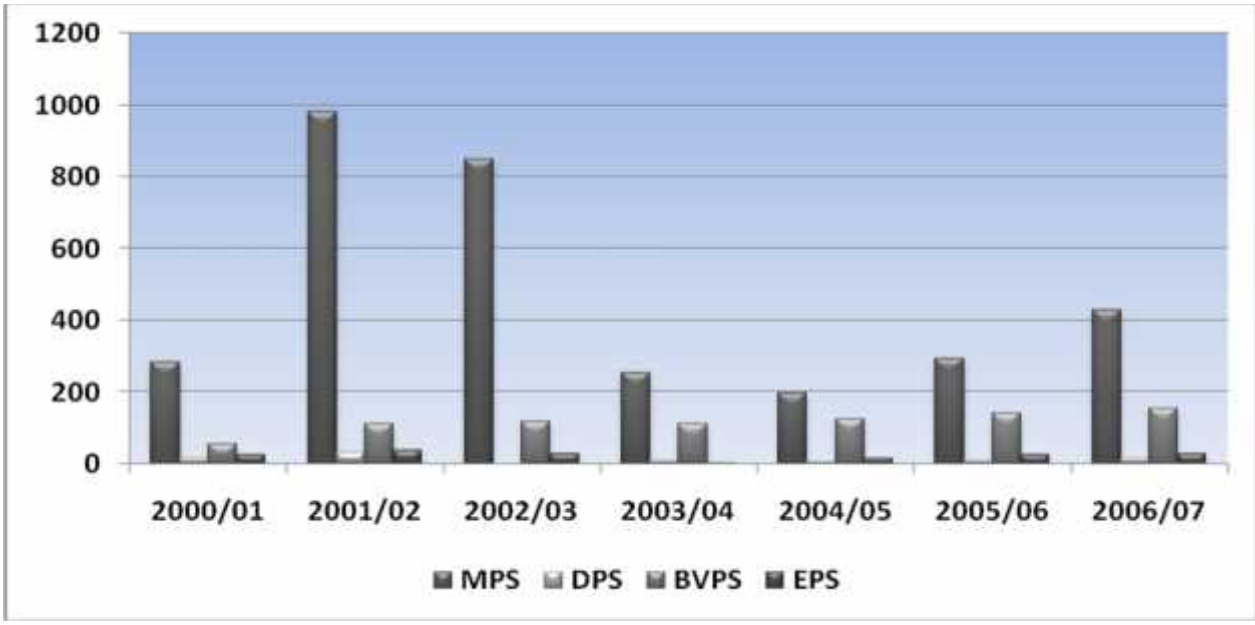
Table 4.8

Correlationship of BVPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rab	0.386	0.149	0.9356	2.571	Not Significance
rac	0.035	0.001	0.0783	2.571	Not Significance
rad	0.670	0.449	2.0183	2.571	Not Significance

Figure 4.3

Relation of MPS with DPS, BVPS, EPS



It is revealed from above tables and figure 4.3 that the BOK has not consistent performance over the seven years period. DPS is highly volatile with 80.01percent of CV. In comparison to DPS, EPS and MPS are less volatile with 48.42percent CV of EPS and 66.77percent CV of MPS. On the other hand, BVPS had relatively consistence performance with lower CV of 26.43percent. The simple correlation analysis reveled that the MPS is positively correlated with all the independent variables (i.e. DPS, BVPS & EPS) which indicates that on increasing DPS, BVPS and EPS, MPS also increases and vice versa. MPS is more correlated to EPS than the DPS and BVPS. The coefficient of determination shows that the 14.90 percent of changes in the MPS is explained by DPS, 0.1percent of changes in the MPS is explained by BVPS and this ratio to EPS is 44.90percent.The simple correlation of coefficients of DPS, BVPS and EPS with MPS are not significant at 95 percent level of significance even EPS is more positively correlated with MPS than others.

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

For MPS of BOK, mean, SD is less than industrial average but CV is more than industrial average and more volatile. For DPS of BOK, mean, SD is less than industrial average, risk level as well as CV is also less. Similarly, looking at BVPS, all the factors mean, SD and CV are less than that of industrial average. Finally, the EPS shows the same result as BVPS. Thus, in overall, BOK does not have good performance in the last seven years. The linear relationship of DPS, BVPS and EPS to MPS of BOK are presented in figure 4.3

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

MPS on DPS

MPS = 318.886 + 12.323 DPS

The regression constant 318.886 implies that when DPS is zero, MPS is 318.886. The constant for DPS 12.323 implies that when DPS increases by RS.1, MPS increases by RS. 12.323 and vice versa. The simple correlation coefficient is 0.386 with 317.363 standard error of estimate.

MPS on BVPS

MPS = 429.040 + 0.352BVPS

The regression constant 429.040 implies that when BVPS is zero, MPS is 429.040. The constant for BVPS 0.352implies that when BVPS increases by RS.100, MPS increases by RS35.20 and vice versa. The simple correlation coefficient is 0.035 with 343.766 standard error of estimate.

MPS on EPS

MPS = 35.826+ 17.966 EPS

The regression constant 35.826 implies that when DPS is zero, MPS is 35.826. The constant for EPS 17.966 implies that when EPS increases by RS.1, MPS increases by RS. 17.966 and vice versa. The simple correlation coefficient is 0.670 with 255.3634 standard error of estimate.

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

MPS on DPS, BVPS & EPS

MPS = 328.30725 + 67.307DPS + 1.934 BVPS -0.326 EPS

The above result indicates that dividends are relatively more attractive than other variables like book value per share and earning per share. The above simple linear relationship between average market price, dividend, retained earning and earning per share shows that the strong dividend and very weak earning per share effect. The dividend coefficient is statistically significant indicating attractiveness of dividends amongst Nepalese Investors regarding the stock of BOK. The negative coefficient obtained for earning per share is questionable. It can be said that Nepalese stock market has not started recognizing the impact of earning per share.

The equation implies that the multiple regression constant (a) is328.30725 which suggest that when DPS, BVPS and EPS are zero, MPS would be -328.30725. The constant for DPS is 67.307 implies that when DPS increases by RS. 1, MPS increases by RS. 67.307, the constant for BVPS is 1.934, implies that when BVPS increases by RS. 100, MPS will increases by RS1.934 and the decreases by RS.32.6 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.673 and coefficient of multiple determinations 0.453 with 328.3072 standard error of estimate. The multiple correlation coefficients are not significant at 95percent level of significance.

4.2.4 Correlation and regression analysis of HBL

Table 4.9 and 4.10 summarizes the financial performances of BOK over last 7 years and Figure 4.4 shows the relationship (correlation) of EPS, DPS & BVPS to MPS along with the significance of such relationship.

Table 4.9

Summary of the Financial Performance of HBL

Year	MPS (a)	DPS (b)	BVPS (c)	EPS (d)
2000/01	1000	75	209.99	86.07
2001/02	1700	75	194.19	83.08
2002/03	1500	55.50	210.20	93.57
2003/04	1000	35	220.03	60.26
2004/05	836	26.32	247.82	49.45
2005/06	810	20	246.93	49.05
2006/07	920	31.58	239.53	47.91
Total	**7766**	**318.40**	**1568.69**	**469.39**
Mean	**1109.43**	**45.49**	**224.09**	**67.06**
SD	**347.85**	**22.96**	**20.91**	**19.87**
CV	**31.34**	**50.47**	**9.33**	**29.63**

Source: Annual Reports of the related Company

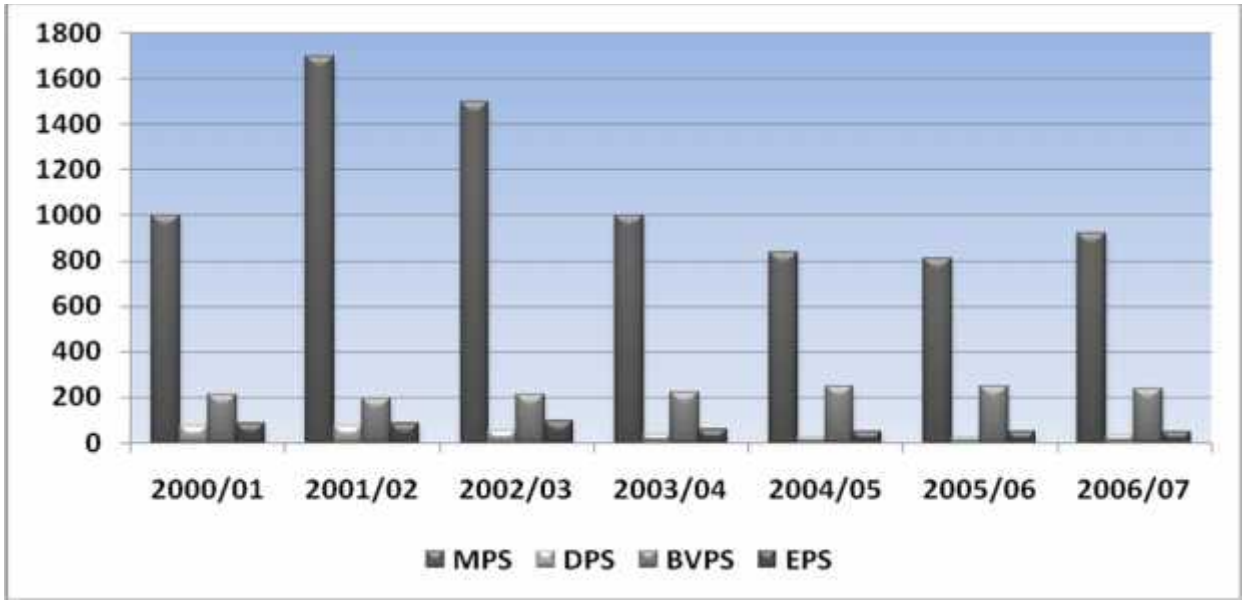
Table 4.10

Correlationship of BVPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rab	0.726	0.527	2.3604	2.571	Not Significant
rac	0.856	0.732	3.6974	2.571	Significant
rad	0.780	0.608	2.7858	2.571	Significant

Figure 4.4

Relationship of MPS with DPS, BVPS, EPS of HBL



It is revealed from above tables and figure 4.4 that the HBL has not consistent performance over the seven years period. DPS is highly volatile with 50.47 percent of CV. In comparison to DPS, EPS and MPS are less volatile with 29.63 percent CV of EPS and 31.34 percent CV of MPS. On the other hand, BVPS had relatively consistence performance with lowest CV of 9.93 percent. The simple correlation analysis reveled that the MPS is positively correlated with the independent variables DPS, BVPS & EPS which indicates that on increasing DPS,BVPS and EPS, MPS also increases and vice versa. MPS is a little more correlated to EPS than the DPS&BVPS. The coefficient of determination shows that the 52.70 percent of changes in the MPS is explained by DPS, 73.20 percent of changes in the MPS is explained by BVPS and this ratio to EPS is 60.80 percent. The simple correlation of coefficients of DPS, BVPS and EPS with MPS are not significant at 95 percent level of significance.

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

For MPS of HBL, mean MPS is higher, SD is lesser, and CV is also lesser than that of industrial average indicates clearly that MPS of HBL is satisfactory. For DPS of HBL,

mean is higher, SD is lesser, and CV is also lesser than that of industrial average indicates clearly that DPS of HBL is satisfactory. Like wise BVPS and is satisfactory and its level of consistence is very low and last but not least. Therefore, HBL in overall have satisfactory performance.

The linear relationship of DPS, BVPS and EPS to MPS of HBL are presented in figure 4.4

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

MPS on DPS

MPS = 609.430 + 10.992 DPS

The regression constant 609.430 implies that when DPS is zero, MPS is 609.430. The constant for DPS 10.992 implies that when DPS increases by RS.1, MPS increases by RS. 10.992 and vice versa. The simple correlation coefficient is 0.726 with 262.077 standard error of estimate.

MPS on BVPS

MPS = 4297.373 – 14.226 BVPS

The regression constant 4297.373 implies that when BVPS is zero, MPS is 4297.373. The constant for BVPS – 14.226 implies that when BVPS increases by RS.1, MPS decreases by RS 14.226 and vice versa. The simple correlation coefficient is 0.856 with 197.116 standard error of estimate.

MPS on EPS

MPS = 194.463 + 13.645 EPS

The regression constant 194.463 implies that when EPS is zero, MPS is 194.463. The constant for EPS 13.645 implies that when EPS increases by RS.1, MPS increases by RS. 13.645 and vice versa. The simple correlation coefficient is 0.780with 238.600 standard error of estimate.

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

MPS on DPS, BVPS & EPS

MPS = 5186.296 + -7.816 DPS + -18.047 BVPS + 4.815 EPS

Above relationship indicates that earning per share is relatively more attractive than other variables like book value per share and dividend per share. The above simple linear relationship between average market price, dividend, retained earning and earning per share shows that the strong EPS and very DPS and BVPS effect. The earning per share coefficient is statistically significant indicating attractiveness of earnings amongst Nepalese Investors regarding the stock of HBL. The negative coefficient obtained for DPS and BVPS is questionable.

The equation implies that the multiple regression constant (a) is 5186.296 which suggest that when DPS, BVPS and EPS are zero, MPS would be -5186.296. The constant for DPS is -7.816 implies that when DPS increases by RS. 1, MPS decreases by RS. 7.816, the constant for BVPS is -18.047, implies that when BVPS increases by RS. 1, MPS will decreases by RS18.047 and the constant for EPS is 4.815, implies that when EPS increases by RS. 1, MPS increases by RS. 4.815 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.877 and coefficient of multiple determinations 0.769 with 236.411 standard error of estimate. The multiple correlation coefficients are significant at 95percent level of significance.

4.2.5 Correlation and regression analysis of EBL

Table 4.11 summarizes the financial performances of EBL over last 7 years and table 4.13shows the relationship (correlation) of EPS, DPS & BVPS to MPS along with the significance of such relationship.

Table 4.11

Summary of the Financial Performance of EBL

Year	MPS (a)	DPS (b)	BVPS (c)	EPS (d)
2000/01	407	15	120.97	21.30
2001/02	980	20	169.04	34.84
2002/03	750	0	144.22	31.56
2003/04	430	20	150.74	32.91
2004/05	445	20	150.10	29.90
2005/06	680	20	171.53	45.58
2006/07	870	20	169.15	37.54
Total	4562	115	1075.75	233.63
Mean	651.71	16.43	153.68	33.38
SD	230.09	7.48	18.14	7.41
CV	35.31	45.53	11.81	22.22

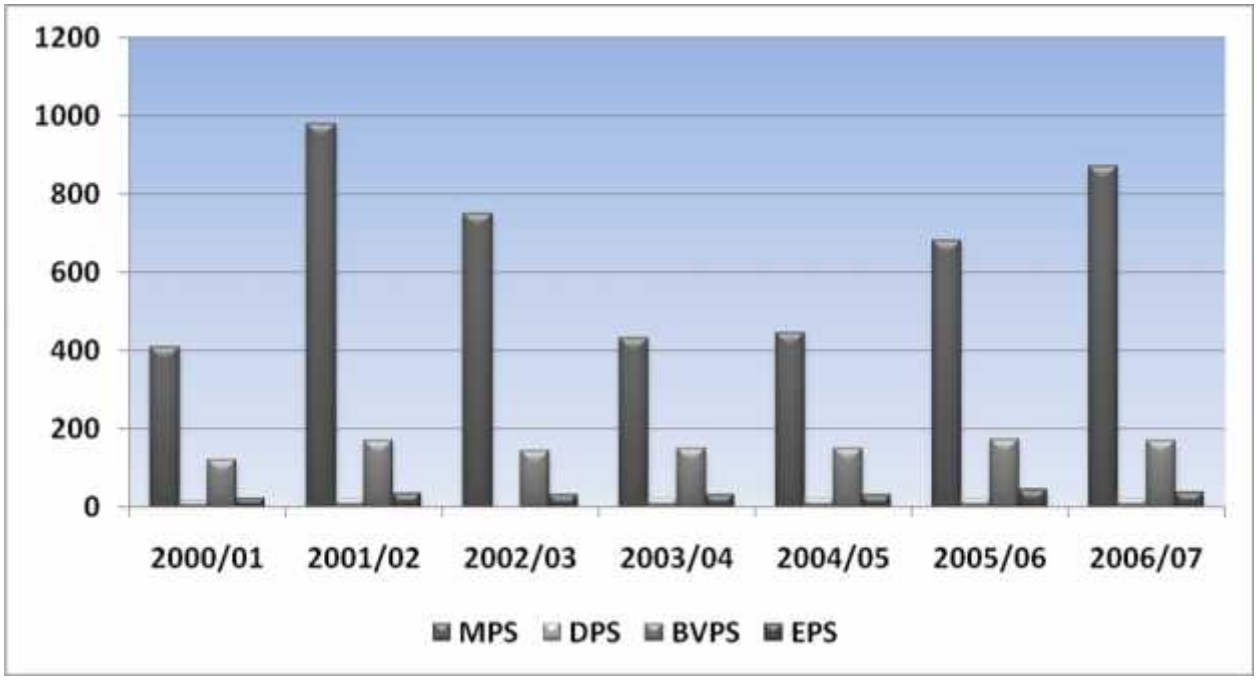
Table 4.12

Correlationship of BVPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rab	0.072	0.005	0.1614	2.571	Not Significant
rac	0.694	0.482	2.1562	2.571	Not Significant
rad	0.521	0.271	1.3645	2.571	Not Significant

Figure 4.5

Relationship of MPS with DPS, BVPS, EPS of EBL



It is revealed from above tables and figure 4.5 that the EBL has not consistent performance over the seven years period. DPS is highly volatile with 45.53 percent of CV. In comparison to DPS, MPS, EPS & BVPS are less volatile with 35.31 percent CV of MPS, 11.81 percent CV of BVPS as well as 22.22 percent CV of EPS. On the other hand, BVPS and EPS have nearly same level of volatility. The simple correlation analysis reveled that the MPS is positively correlated with all independent variables DPS, BVPS & EPS which indicates that on increasing DPS, BVPS and EPS, MPS also increases and vice versa. MPS is a little more correlated to BVPS than the DPS and EPS. On the other hand DPS is least correlated with MPS. The coefficient of determination shows that the 0.5 percent of changes in the MPS is explained by DPS 48.20 percent of changes in the MPS is explained by BVPS and this ratio to EPS is 27.10 percent. The simple correlation of coefficients of DPS, BVPS and EPS with MPS are not significant at 95 percent level of significance.

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

For MPS of EBL, its mean, CV, SD is lesser, than that of average otherwise good, for DPS, BVPS and EPS it is more similar to MPS. Thus, in overall, the good performance of EBL is lacked by lower mean of independent variables in the last seven years period.

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

MPS on DPS

MPS = 688.032 + -2.211 DPS

The regression constant 688.032 implies that when DPS is zero, MPS is 688.032. The constant for DPS -2.211 implies that when DPS increases by RS.1, MPS decreases by RS. 2.211 and vice versa. The simple correlation coefficient is 0.072 with 251.4012 standard error of estimate.

MPS on BVPS

MPS = -701.667 + 8.807 BVPS

The regression constant -701.667 implies that when BVPS is zero, MPS is -701.667. The constant for BVPS 8.807 implies that when BVPS increases by RS.1, MPS increases by RS. 8.807 and vice versa. The simple correlation coefficient is 0.694 with 181.3829 standard error of estimate.

MPS on EPS

MPS = 112.063 + 16.169 EPS

The regression constant 112.063 implies that when DPS is zero, MPS is 112.063. The constant for EPS 16.169 implies that when EPS increases by RS.1, MPS increases by RS. 16.169 and vice versa. The simple correlation coefficient is 0.521 with 215.1369standard error of estimate.

The multiple regression analysis of EBL gives the multiple regression equation (MPS being dependant variable and DPS, BVPS & EPS being independent variables) as:

MPS on DPS, BVPS & EPS

MPS =-1567.833 -17.657 DPS+ 22.539 BVPS -28.588EPS

The above simple linear relationship between average market price, dividend, retained earning and earning per share shows that the customary strong BVPS and comparatively weak EPS and very weak DPS effect. The book value per share coefficient is statistically significant indicating attractiveness of book value per share towards the Investors regarding the stock of EBL. The negative coefficient obtained for DPS and EPS is questionable.

The equation implies that the multiple regression constant (a) is -1567.833 which suggest that when DPS, BVPS and EPS are zero, MPS would be -1567.833 The constant for DPS is -17.657 implies that when DPS increases by RS. 1, MPS decreases by RS. 17.657, the constant for BVPS is 22.539, implies that when BVPS increases by RS. 1, MPS will increases by Rs. 22.539 and the constant for EPS is -28.588, implies that when EPS increases by RS. 1, MPS decreases by RS. 28.588 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.892 and coefficient of multiple determinations 0.795 with 147.2453 standard error.

4.2.6 Correlation and regression analysis of NIB

Table 4.13 and 4.14 summarizes the financial performances of NIB over last 7 years and Figure 4.6 shows the relationship (correlation) of EPS, DPS & BVPS to MPS along with the significance of such relationship.

Table 4.13

Summary of the Financial Performance of NIB

Year	MPS (a)	DPS (b)	BVPS (c)	EPS (d)
2000/01	822.00	30	273.63	33.76
2001/02	1,401.00	50	278.09	53.68
2002/03	1,150.00	0	276.43	33.18
2003/04	760.00	30	307.94	33.59
2004/05	795.	20	216.23	39.56
2005/06	940.00	15	246.88	51.70
2006/07	800	12.50	199.83	39.31
Total	6668	157.50	1799.03	284.78
Mean	952.57	22.50	257.00	40.68
SD	238.91	16.01	38.14	8.64
CV	25.08	71.15	14.84	21.24

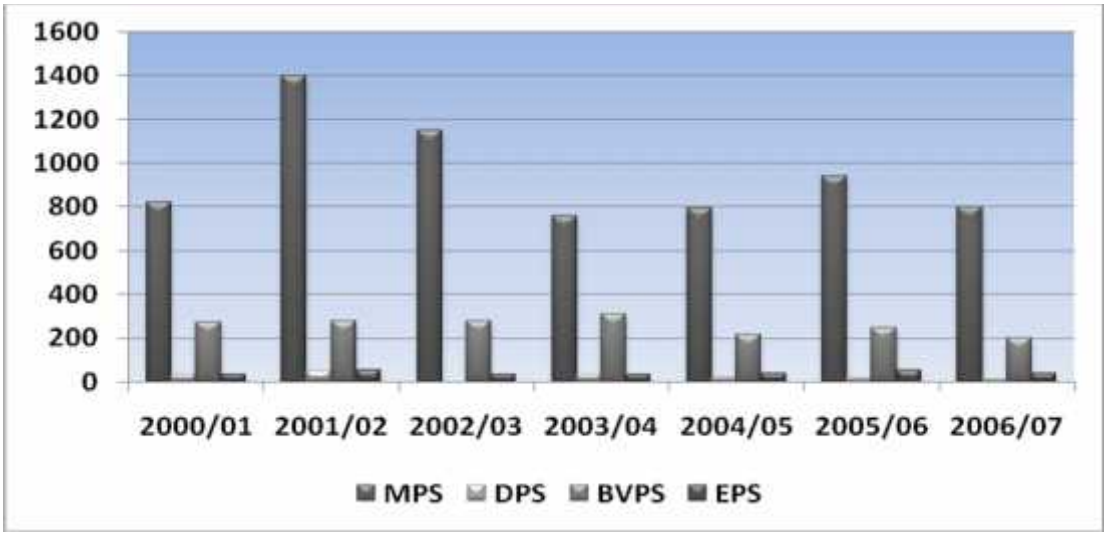
Table 4.14

Correlationship of BVPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rab	0.326	0.106	0.7709	2.571	Not Significant
rac	0.303	0.092	0.7110	2.571	Not Significant
rad	0.554	0.307	1.4881	2.571	Not Significant

Figure 4.6

Relationship of MPS with DPS, BVPS, & EPS of NIB



It is revealed from above tables and figure 4.6 that the NIB has not consistent performance over the seven years period. DPS is more volatile with 71.15 percent of CV. In comparison to DPS, MPS, EPS &BVPS are volatile in decreasing rate with 25.08 percent CV of MPS, 21.24 percent CV of EPS and relatively low degree of volatility i.e. 14.84 percent CV of BVPS. The simple correlation analysis reveled that the MPS is positively correlated with all independent variables DPS, BVPS & EPS which indicates that on increasing DPS, BVPS and EPS, MPS also increases and vice versa. MPS has moderate degree of correlation with EPS. On the other hand there is low degree of 10.60 percent of changes in the MPS is explained by DPS, 9.20 percent of changes in the MPS is explained by BVPS and this ratio to EPS is 30.70 percent. The simple correlation of coefficients of DPS, BVPS and EPS with MPS are not significant at 95 percent level of significance.

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

For MPS of NIB, mean, level of risk and volatility is less than the industrial average meaning that MPS does seem good. For DPS, mean and SD as well as CV is lesser than industrial average. BVPS is satisfactory. Finally, for EPS, mean, SD and CV are less than industrial average. The level of risk seems very lower. Thus, in overall, the NIB does not reach the industrial average of lower mean of independent variables.

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

MPS on DPS

MPS = 843.108 + 4.865 DPS

The regression constant 843.108 implies that when DPS is zero, MPS is 843.108. The constant for DPS 4.865 implies that when DPS increases by RS.1, MPS increases by RS. 4.865 and vice versa. The simple correlation coefficient is 0.326 with 247.42 standard error of estimate.

MPS on BVPS

MPS = 464.102 + 10.901 BVPS

The regression constant 464.102 implies that when BVPS is zero, MPS is 464.102. The constant for BVPS10.901 implies that when BVPS increases by RS.1, MPS increases by RS10.901 and vice versa. The simple correlation coefficient is 0.303 with 249.375 standard error of estimate.

MPS on EPS

MPS = 329.154 + 15.324 EPS

The regression constant 329.154 implies that when DPS is zero, MPS is 329.154. The constant for EPS 15.324 implies that when EPS increases by RS.1, MPS increases by RS. 15.324 and vice versa. The simple correlation coefficient is 0.554 with 217.839 standard error of estimate. The multiple regression analysis of NIB gives the multiple regression equation (MPS being dependant variable and DPS, BVPS & EPS being independent variables) as:

MPS on DPS, BVPS & EPS

MPS = -566.392 -2.398 DPS + 3.034 BVPS + 19.495EPS

Results indicate that BVPS and EPS relatively more attractive than other variable dividend per share. The above simple linear relationship between average market price, dividend, and earning per share shows that the strong EPS and BVPS and relatively weak DPS effect. The earning per share coefficient and book value per share coefficient are statistically significant indicating attractiveness of earnings and book value amongst

Nepalese Investors regarding the stock of NIB. The negative coefficient obtained for DPS and multiple regressions constant is questionable.

The equation implies that the multiple regression constant (a) is -566.392 which suggest that when DPS, BVPS and EPS are zero, MPS would be -566.392. The constant for DPS is -2.398 implies that when DPS increases by RS. 1, MPS decreases by RS. 2.398, the constant for BVPS is 3.034, implies that when BVPS increases by RS. 1, MPS will increases by RS. 3.034 and the constant for EPS is 19.495, implies that when EPS increases by RS. 1, MPS increases by RS. 19.495 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.697 and coefficient of multiple determinations 0.485 with 242.3796 standard error of estimate. The multiple correlation coefficients are not significant at 95percent level of significance.

4.2.7 Correlation and regression analysis of SBI

Table 4.15 and Table 4.16 summarizes the financial performances of SBI over last 7 years and figure 4.7 shows the relationship (correlation) of EPS, DPS & BVPS to MPS along with the significance of such relationship.

Table 4.15

Summary of the Financial Performance of SBI

Year	MPS (a)	DPS (b)	BVPS (c)	EPS (d)
2000/01	562	10	164.22	13.98
2001/02	1165	35	187.53	41.74
2002/03	1500	0	165.75	8.69
2003/04	401	0	131.88	9.61
2004/05	255	8	134.05	11.47
2005/06	307	0	146.80	14.26
2006/07	335	0	159.54	13.29
Total	4525	53	1089.77	113.04
Mean	646.43	7.57	155.68	16.15
SD	488.24	12.83	19.65	11.49
CV	75.53	169.49	12.62	71.13

Source: Annual Reports of the related Company

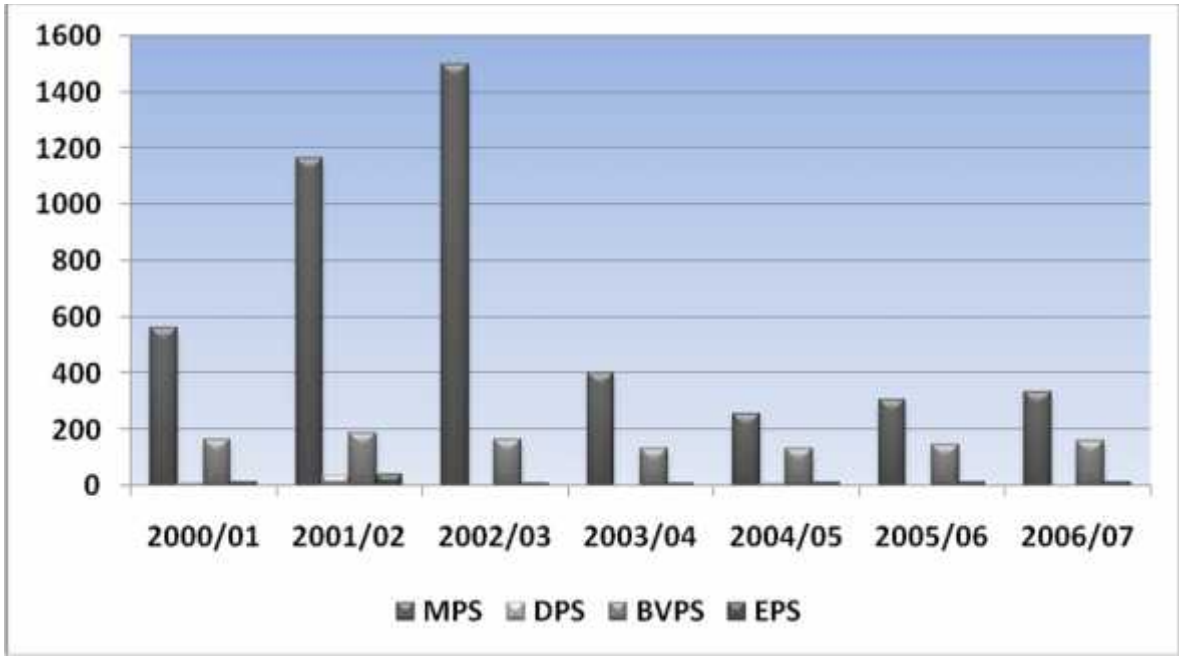
Table 4.16

Correlationship of BVPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rab	0.377	0.142	0.9101	2.571	Not Significance
rac	0.704	0.495	2.2152	2.571	Not Significance
rad	0.358	0.128	0.8558	2.571	Not Significance

Figure 4.7

Relationship of MPS with DPS, BVPS, & EPS of SBI



It is revealed from above tables and figure 47.7 that the NIB has not consistent performance over the seven years period. DPS is more volatile with 169.46 percent of CV. In comparison to DPS, MPS, EPS &BVPS are volatile in decreasing rate with 75.53 percent CV of MPS, 71.13 percent CV of EPS and relatively low degree of volatility i.e. 12.62 percent CV of BVPS. The simple correlation analysis reveled that the MPS is positively correlated with DPS, BVPS, EPS which indicates that on increasing DPS, BVPS and EPS, MPS also increases and vice versa. There is high degree of correlation with MPS and BVPS respectively. The coefficient of determination shows that the 14.20 percent of changes in the MPS is explained by DPS, 49.50 percent of changes in the MPS is explained by BVPS and this ratio to EPS is 12.80 percent. The simple correlation of

coefficients of DPS, BVPS and EPS with MPS are not significant at 95 percent level of significance. The comparison of SBI with industrial Benchmark gives the following information:

For MPS of SBI, mean and level of risk are less whereas CV is higher than the industrial average meaning that MPS does not seem good. For DPS, mean and SD as well as CV is more than industrial average. BVPS and EPS have lesser mean, CV, SD. Thus, in overall, the NIB does not have satisfactory performance than industrial benchmark.

MPS on DPS

MPS =537.774 + 14.351 DPS

The regression constant 537.774 implies that when DPS is zero, MPS is 537.774. The constant for DPS 14.351 implies that when DPS increases by RS.1, MPS increases by RS. 14.351 and vice versa. The simple correlation coefficient is 0.377 with 495.3524 standard error of estimate.

MPS on BVPS

MPS = -2075.751+ 17.486 BVPS

The regression constant -2075.751 implies that when BVPS is zero, MPS is -2075.751. The constant for BVPS 17.486 implies that when BVPS increases by RS.1, MPS increases by RS. 17.486 and vice versa. The simple correlation coefficient is 0.704with 379.9805 standard error of estimate.

MPS on EPS

MPS = 400.518+ 15.228 EPS

The regression constant 400.518 implies that when DPS is zero, MPS is 400.518. The constant for EPS 15.228 implies that when EPS increases by RS.1, MPS increases by RS15.228 and vice versa. The simple correlation coefficient is 0.358 with 499.341 standard error of estimate.

MPS on DPS, BVPS & EPS

MPS = -2632.127 + 16.765 DPS + 23.537 BVPS – 31.746 EPS

Results indicate that DPS and BVPS are relatively more attractive than other variable earning per share. The above simple linear relationship between average market price, dividend, and earning per share shows that the strong DPS and BVPS and relatively weak EPS effect. The dividend per share coefficient and book value per share coefficient are

statistically significant indicating attractiveness of dividend and book value amongst Nepalese Investors regarding the stock of NSBI. The negative coefficient obtained for EPS and multiple regressions constant is questionable in the above relationship. The equation implies that the multiple regression constant (a) is -2632.127 which suggest that when DPS, BVPS and EPS are zero, MPS would be -2632.127. The constant for DPS is 16.765 implies that when DPS increases by RS. 1, MPS increases by RS. 16.765, the constant for BVPS is 23.537, implies that when BVPS increases by RS. 1, MPS will increases by RS. 23.537 and the constant for EPS is – 31.746, implies that when EPS increases by RS. 1, MPS decreases by RS. 31.746 And vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.752 and coefficient of multiple determinations0.565with 455.2809 standard error of estimate. The multiple correlation coefficients are significant at 95percent level of significance.

4.2.8 Correlation and regression analysis of NIC

Table 4.18 summarizes the financial performances of SBI over last 7 years and Figure 4.8 shows the relationship (correlation) of EPS, DPS & BVPS to MPS along with the significance of such relationship.

Table 4.17

Summary of the Financial Performance of NIC

Year	MPS (a)	DPS (b)	BVPS (c)	EPS (d)
2000/01	0	0	98.59	1.42
2001/02	550	0	102.32	4.93
2002/03	399	10	103.82	9.66
2003/04	250	0	105.19	1.36
2004/05	180	0	110.42	5.19
2005/06	218	0	124.08	13.65
2006/07	366	5	136.84	22.75
Total	1963	15	781.26	58.96
Mean	280.43	2.14	111.61	8.42
SD	176.82	3.93	13.85	7.69
CV	63.05	183.59	12.40	91.06

Source: Annual Reports of the related Company

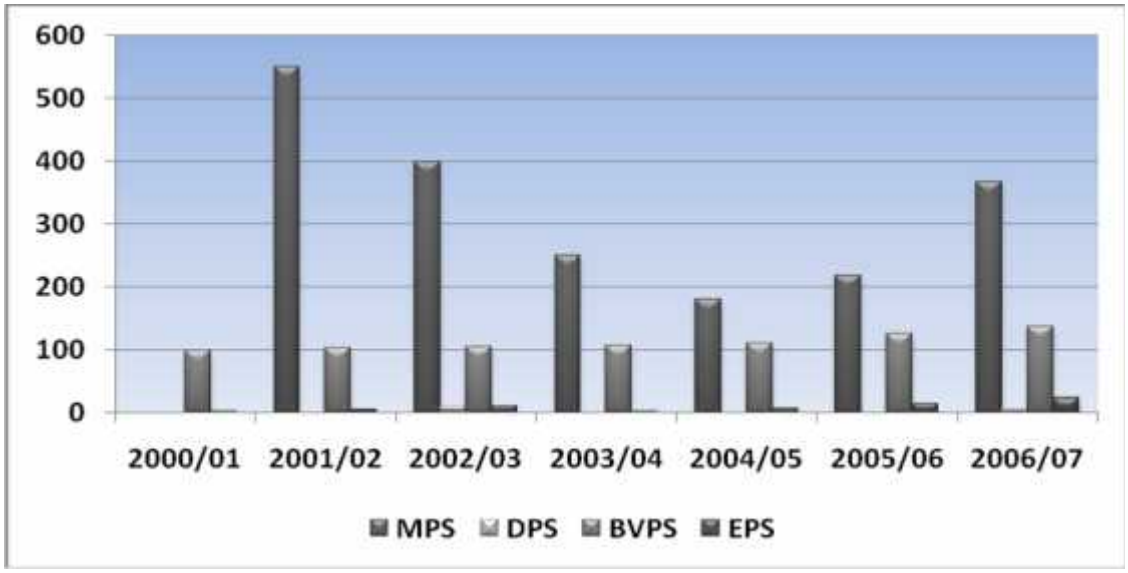
Table 4.18

Relationship of BVPS, EPS and DPS with MPS

Variables	r	r^2	t-cal	t-table	Remarks
rab	0.387	0.149	0.9381	2.571	Not Significant
rac	0.131	0.017	0.2955	2.571	Not Significant
rad	0.319	0.102	0.7527	2.571	Not Significant

Figure 4.8

Relation of MPS with DPS, BVPS, & EPS of NIC



It is revealed from above tables and figure 4.8 that the NIC has not consistent performance over the seven years period. DPS is more volatile with 183.59 percent of CV. In comparison to DPS, EPS, MPS & BVPS are volatile in decreasing rate with 91.06 percent CV of EPS, 63.05 percent CV of MPS and relatively very low degree of volatility i.e. 12.40 percent CV of BVPS. The simple correlation analysis reveled that the MPS is positively correlated with all of the independent variables (i.e. DPS, BVPS & EPS) which indicates that on increasing DPS, BVPS and EPS, MPS also increases and vice versa. There is low degree of correlation of MPS with DPS, BVPS and EPS respectively. The coefficient of determination shows that the 14.90 percent of changes in the MPS is explained by DPS, 1.70 percent of changes in the MPS is explained by BVPS and this

ratio to EPS is 10.20 percent. The simple correlation of coefficients of DPS, BVPS and EPS with MPS are not significant at 95 percent level of significance.

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

For MPS of NIC, mean and level of risk are less whereas CV is higher than the industrial average meaning that MPS does not seem good. For DPS, seems not satisfactory at all. The mean of BVPS is less however SD and CV are lesser. The level of risk and volatility seems quite lower than the industrial benchmark. Talking about the EPS, mean, SD are lesser than industrial benchmark but CV is more than industrial average. The level of risk seems rather satisfactory. Thus, in overall, the NIC does not have satisfactory performance than industrial benchmark.

MPS on DPS

MPS = 243.192 + 17.377 DPS

The regression constant 243.192 implies that when DPS is zero, MPS is 243.192. The constant for DPS 17.377 implies that when DPS increases by RS.1, MPS increases by RS. 17.377 and vice versa. The simple correlation coefficient is 0.387 with 178.6398 standard error of estimate.

MPS on BVPS

MPS = 94.426 + 1.667 BVPS

The regression constant 94.426 implies that when BVPS is zero, MPS is 94.426. The constant for BVPS 1.667 implies that when BVPS increases by RS.1, MPS increases by RS. 1.667 and vice versa. The simple correlation coefficient is 0.131 with 192.043 standard error of estimate.

MPS on EPS

MPS = 218.667 + 7.333 EPS

The regression constant 218.667 implies that when DPS is zero, MPS is 218.667. The constant for EPS 7.333 implies that when EPS increases by RS.1, MPS increases by RS. 7.333 and vice versa. The simple correlation coefficient is 0.319 with 183.562 standard error of estimate.

MPS on DPS, BVPS & EPS

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

MPS = 2125.246 + -10.661 DPS -19.510 BVPS + 42.202 EPS

Above relationship indicates that EPS is relatively more attractive than other variable like BVPS and DPS. The above simple linear relationship between average market price, dividend, earning per share shows that the strong EPS and relatively weak BVPS and DPS effect. The earning per share coefficient is statistically significant indicating attractiveness of earning amongst Nepalese Investors regarding the stock of NIC. The negative coefficient obtained for DPS in the above relationship indicates that the Nepalese investors are not that much aware about the dividend effect on MPS.

The equation implies that the multiple regression constant (a) is 2125.246 which suggest that when DPS, BVPS and EPS are zero, MPS would be 2125.246. The constant for DPS is -10.661 implies that when DPS increases by RS. 1, MPS decreases by RS. 10.661, the constant for BVPS is -19.510, implies that when BVPS increases by RS. 1, MPS will decreases by RS. 19.510 and the constant for EPS is 42.202, implies that when EPS increases by RS. 1, MPS increases by RS. 42.202 and vice versa, remaining intervening variables constant. The analysis shows that the multiple correlation coefficient 0.544 and coefficient of multiple determinations 0.2519 with 209.8897 standard error of estimate. The multiple correlation coefficients are not significant at 95percent level of significance.

4.3 Primary Data Analysis

This thesis involves primary data also which were collected through questionnaire (Annex-iii). During the course of collecting primary data, the researcher visited the private commercial banks as well as security brokers. Categorically, Yes, No question, multiple choice and Open End question are taken.

4.3.1 Factor affecting the determinant of stock price

`Form the primary responses it is found that 16 percent of the respondents were said that S.P affect by brokering service, 50 percent of the respondents were said that S.P affect by status of profit and loss of listed companies, 10 percent of the respondents were said that

S.P affect by regular holding of general meeting, 18 percent of the respondents were said that S.P affect by dividend declaration, 6 percent of the respondents were said that S.P affect by risk factor on the share price. From the table 4.10 it is clear that 50 percent of stock price affect by status of P&L of the listed companies.

Table 4.19

Factor affecting the determinant of Stock price

S.N.	Research Variable	No. of Investor	percent of Investors
a)	Status of profit & loss of listed companies	25	50
b)	Dividend Declaration	9	18
c)	Brokering Service	8	16
d)	Regular holding of general meetings	5	10
e)	Risk factor on share price	3	6
	Total	**50**	**100**

Sources: Field survey 2008

4.3.2 Factor that consider while analyzing the stock of a particular company

The responses of the respondents for this question is 22 percent is said that to analyze Stock management is essential factor, 20 percent said that regular dividend payment is essential, 6 percent said signaling factor affect it, 36 percent said that it was affected by growth of the company, 16 percent said that it was affected by size of the company. The following table 4.20 presents the facts.

Table 4.20

Factor which analyzed the stock of particular company

SN	Research Variable	No. of Investor	percent of Investors
a)	Growth of the companies	18	36
b)	Management	11	22
c)	Regular dividend payment	10	20
d)	Size of the companies	8	16
e)	Signaling factor	3	6
	Total	**50**	**100**

Sources: Field survey 2008

4.3.3 Preference of valuation method to value the share before transaction

Regarding the question of preference of investor to different valuation model before transaction 28 percent responded to net assets valuation method, 36 percent to earning model, 24 percent dividend valuation model and 12 percent do not use any model. From this it is found most of the investor use EVM method to valuation of the share.

Table 4.21

Valuation Method

SN	Research Variable	No. of Investor	Percent of Investors
a)	Earning Valuation Model	18	36
b)	Net Assets Valuation Model	14	28
c)	Dividend Valuation Model	12	24
d)	Do not use any	6	12
	Total	**50**	**100**

Sources: Field survey 2008

4.3.4 Trend of Stock Price

Regarding the suitability trend of the stock price movement different investors, NEPSE staff and brokers gave the different opinion about the trend on which 64 percent gave their opinion about Bullish Trend, 6 percent to Bearish Trend, 18 percent to Optimum Trend and 12 percent to non of the above. Following table 4.22 presents the facts.

Table 4.22

Trend of Stock Price

SN	Research Variable	No. of investor	Percent of Investors
a)	Bullish Trend	32	64
b)	Optimum Trend	9	18
c)	Non of the above	6	12
d)	Bearish Trend	3	6
	Total	**50**	**100**

Sources: Field survey 2008

4.3.5 Reasons for owing the share of the company

Different parties were asked for their interest on investment motives if they were interested with income, social status, and marketing and above all, 24 percent of the investor said as social status, 54 percent of the income, 16 percent of the investor said as marketing and 6 percent of the investor as above all. Following table represents the detailed information about this:

Table 4.23

Reasons for owing the share of the company

S.N.	Research Variable	No. of Investor	Percent of Investors
a)	Income	27	54
b)	Social status	12	24
c)	Marketing	8	16
d)	Above all	3	6
	Total	**50**	**100**

Sources: Field survey 2008

4.3.6 Sector for investment point of view

Regarding the sector of investment the investors are asked whether the investor are interested in which sector they are interested to invest, 70 percent of the investor are interested with banking sector 8 percent in manufacturing sector, 8 percent in Insurance, 8 percent in trading sector,8percent other sector and 2 percent above all are insecure. The following table 4.24 presents the fact:

Table 4.24

Sector for investment point of view

SN.	Research Variable	No. of Investor	% Investors
a)	Banking sector	35	70
b)	Manufacturing	4	8
c)	Insurance	4	8
d)	Trading Sector	4	8
e)	Others	2	4
f)	Above all are insecure	1	2
	Total	**50**	**100**

4.3.7 Tax effect on stock price

There are different types of tax imposed by government to investor. Among them capital gain tax and dividend gain tax is two types of tax which affect the investor to invest in share. A large amount of tax has to pay to government. Thus 72 percent said that capital gain tax and dividend gain tax reduce the interest, 18 percent said not and 10 percent said that don't know about this.

Table 4.25

Different types of tax imposed by government

SN	Research Variable	No. of Investor	Percent of Investors
a)	Yes	36	72
b)	No	9	18
c)	Don't Know	5	10
	Total	**50**	**100**

Sources: Field survey 2008

4.3.8 Environmental analysis

About the environmental factors that affect the Nepalese stock market or not, different individual investors, institutional investors, brokers, NEPSE staff and SEBON staff gave their own idea, among them 38 percent said that environment affect the NEPSE, 42 percent said it dose not affect, 20 percent said don't know .Following table 4.26 shows the clear vision about this:

Table 4.26

Environment analysis

SN	Research Variable	No. of Investor	Percent of Investors
a)	No	21	42
b)	Yes	19	38
c)	Don't Know	10	20
d)	No Response	-	-
	Total	**50**	**100**

Sources: Field survey 2008

4.3.9 Government's Policy for NEPSE

Regarding the Government's policy, it is not clear and perfect in Nepalese stock market. Different respondent replied their answer through questionnaire, among them 68 percent were replied that government policy of stock market is not clear and perfect, 16 percent of them replied that government policy of stock market is clear and perfect, 10 percent of the respondent replied that they are unknown the policy of government in the stock market, and remaining 6 percent doesn't gives any response about that. The following table 4.27 explains the facts:

Table 4.27

Government Policy Analysis on the NEPSE

SN	Research Variable	No. of Investor	% of Investors
a)	Yes	34	68
b)	No	8	16
c)	Don't Know	5	10
d)	No Response	3	6
	Total	**50**	**100**

Sources: Field survey 2008

4.3.10 Effect of Strikes, demonstration on share price

Form the primary responses it is found that 64 percent of the respondents were agreed that strike, demonstration etc. causes fall in the share price in market. Whereas, 18 percent were said that it doesn't affect 14 percent were said that they don't know and 4 percent have no response towards it. So, strike, demonstration etc. significantly decreases the market price of the share.

Table 4.28

Strikes, demonstration causes fall in the share price

SN	Research Variable	No. of Investor	Percent of Investors
a)	Yes	32	64
b)	No	9	18
c)	Don't Know	7	14
d)	No Response	2	4
	Total	**50**	**100**

Sources: Field survey 2008

4.3.11 Investors awareness

In this question the investors whether they are aware or not in the Nepalese stock market most of them i.e. 12 percent replied that they are aware about this, 70 percent replied that they are not, 8 percent doesn't know about this and remaining 10 percent show no response at all. Regarding the awareness most of the investors said that they were not familiar with stock market, brokers, trading mechanism. The following 4.29 depicts the facts:

Table 4.29

Investors Awareness Analysis

SN	Research Variable	No. of Investor	Percent of Investors
a)	No	35	70
b)	Yes	6	12
c)	Can't say	4	8
d)	No Response	5	10
	Total	**50**	**100**

Sources: Field survey 2008

4.3.12 Information related to future planning on time

When respondents asked the question that listed companies are making available the information related to the performance and future planning an time and appropriately the responses it found that 26 percent said that they get a appropriate information, 62 percent replied that they didn't get appropriate information and 12 percent replies that they don't know about it. This is clear from the given table 4.30

Table 4.30

Information related to future planning on time

SN	Research Variable	No. of Investor	Percent of Investors
a)	No	31	62
b)	Yes	13	26
c)	Don't know	6	12
	Total	**50**	**100**

Sources: Field survey 2008

4.3.13 Level of efficient market

The responses of the respondents for the level of extent 10percentof respondents says information is very high,22 percent said it is high,42 percent said it is moderate neither high nor low 12 percent said that it is low and 14 percent told the information is very low. Thus we know that the Security market is information ally efficient al moderate level it is clear from the following table 4.31

Table 4.31

Level of extent to think security market is information ally efficient

SN	Research Variable	No. of Investor	% of Investors
a)	Moderate	21	42
b)	Very low	14	28
c)	Low	12	24
d)	High	11	22
e)	Very high	5	10
	Total	**50**	**100**

Sources: Field survey 2008

4.3.14 Decision making to invest in security market

Regarding the decision to invest in shares in the secondary market, different respondents (broker, individual investors, institutional investors, NEPSE staff and others) 8 percent of the replied that they takes decision on the basis of family advice, no body said that they takes decision on the basis of rumor, 36 percent replied that they takes the decision on the basis of own analysis and 58 percent of the replied that they takes decision on the basis of market price. This statement is clear from following table 4.32

Table 4.32

Decision making to invest in security market

SN	Research Variable	No. of Investor	Percent of Investors
a)	Market price	29	58
b)	Own analysis	17	36
c)	Family advice	4	8
	Total	**50**	**100**

Sources: Field survey 2008

4.3.15 Difficulties in trading the share in Nepalese stock market

Regarding the question whether the trading the share in Nepalese market is difficult 50 percent of the investor replied that they have to face many difficulties while trading, 38percent of the investor replied that they have to face no problem, 12 percent replied that they don't know. Thus it is clear that some how the investor have problem while trading in security market. It is clear from table 4.33

Table 4.33

Difficulties in trading the share in Nepalese stock market

SN	Research Variable	No. of Investor	Percent of Investors
a)	Yes	25	50
b)	No	19	38
c)	Don't Know	6	12
	Total	**50**	**100**

Sources: Field survey 2008

4.3.16 Lower the BVPS, higher the share price

The responses of the respondents for lower the BVPS, higher the share price were found 4percent said yes it higher the share price, 76 percent said that it don't higher the share price, 12 percent don't know anything and 8 percent does not given any response. So, BVPS significantly affects the market price of the share and vice versa. It is clear from the given table 4.34

Table 4.34

Lower the BVPS, higher price the share

SN	Research Variable	No. of Investor	Percent of Investors
a)	No	38	76
b)	Can't Say	6	12
c)	No Response	4	8
d)	Yes	2	4
	Total	**50**	**100**

Sources: Field survey 2008

4.3.17 Experience about factors affecting the stock price in NEPSE

Many respondents have given their different types of view in these Questionnaires. They have different opinion some said that political stability, economic condition, Fundamental of company affect the share price in NEPSE, some said public saving, companies report, market trend , future plan affect the stock price.

4.4 Findings of the study

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

4.4.1 Findings from Secondary Data Analysis

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

- For standard Chartered Bank, MPS is positively correlated with DPS, BVPS and EPS. None of these relationships are significant at 95 percent level of significance. BVPS, EPS and DPS are less volatile except MPS. In overall, SCBNL has very good performance in the last seven years.

- For NABIL, MPS is positively correlated with DPS, BVPS and EPS. However, the relationship is not significant at 95percent level of significance. DPS, BVPS and EPS as well as MPS are less volatile. It is revealed from analysis that NABIL has good performance in last seven years.

- For BOK, MPS is positively correlated with all of the independent variables DPS, BVPS & EPS. However, the degree of correlation shows insignificant at 95 percent level of significance. The volatility of DPS, MPS and EPS are a little bit higher than that of BVPS which has a good performance. It does not reach the

industrial benchmark lacked of lower mean. In overall, BOK does not have good performance in the last seven years

- While analyzing the HBL, MPS is positively correlated with DPS, BVPS and EPS. The degree of correlation is significant to BVPS and EPS but insignificant to DPS at 95percent level of significance. BVPS is very much consistent where as MPS and EPS are not bad and DPS is a bit more volatile. It does reach the industrial benchmark due to higher mean. HBL in overall have satisfactory performance.

- For EBL, there exists lower degree of positive correlation of MPS with all independent variables. However, the degree of correlation shows insignificant at 95 percent level of significance. The performance of BVPS and EPS are good. MPS is a bit more volatile where as DPS is more volatile which is not good. It DPS reach the industrial benchmark due to higher mean but BVPS and EPS does not reach industrial benchmark. In overall, the good performance of EBL is lacked by lower mean of independent variables in the last seven years period.

- MPS has positive correlation with DPS, BVPS and EPS for NIB. However, these degrees of correlation are not significant at 95 percent level of significance. BVPS has good performance and EPS and MPS are less volatile than DPS, BVPS is less volatile. In overall, the NIB does not reach the industrial benchmark because of lower mean of independent variables.

- MPS has positive correlation with DPS, BVPS and EPS for SBI. MPS has high degree of correlation with DPS, low degree correlation with BVPS and negative correlation with EPS. However, these degrees of correlation are in significant at 95 percent level of significance. BVPS consistent and good where as EPS, MPS and DPS has higher volatility respectively. In overall, the SBI does not have satisfactory performance than industrial benchmark having lower mean.

- MPS has positive correlation with DPS, BVPS and EPS for NIC. However, these relationships are not significant at 95 percent level of significance. BVPS has very

low where as DPS has higher degree of volatility. MPS and EPS have got a bit higher inconsistency. In overall, the NIC does not have satisfactory performance than industrial benchmark having lower mean.

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

4.4.2 Findings from Primary Data Analysis

Analyzing the primary data the following result ate revealed that on analyzing the primary data major factor affecting the determinant of stock price is status of profit and loss of the listed companies. The major factors that consider while analyzing the stock price of the particular company is growth of the company. Investors replied that if companies rise the stock price rises. It is found that investors like earning valuation model before making transaction. It is found that investors like bullish trend of the stock price in Nepalese security market. It was found that most of the investor's investment was for income. On analyzing the primary data major portion of the investors would like to invest their money in banking sector. The investor's doesn't want to pay any type of tax to government. So, yes it adversely affects and reduces the investor to invest in the securities market. Many of the investors replied that environmental factors don't affect the NEPSE. It was found that the government policy is not clear and perfect about Nepalese stock market when analyzing the primary data. It is quite confusing type. Similarly, the political, economic and environmental factors such as instability of government, strike and demonstrations, cease-fire, national economy, tax rate, etc. Investors have poor knowledge and understanding about stock market it was found while analyzing primary data. No, the listed companies are not making available information related to the performance and future planning on time and appropriately it was found while analyzing the primary data. Security market information ally efficient in moderate extends. To invest in share price was determined by market price said by investors while analyzing primary data. Many of the investors said that there are many difficulties while trading share in Nepalese market. Lowering the BVPS doesn't higher the share price, it was found while analyzing primary data. Lastly in while asking personal experience many investors mainly said that economical, political, fundamental, legal factors affect the share price.

CHAPTER – V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Introduction

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

5.2 Summary

Financial market is the place where the instrument like share, debenture, and bond are traded. There are two types of financial market capital market and money market.

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

Security exchange center was established on 26may 1993 with the objectives of promoting and protecting the interest of investors by regulating the securities market. It also has responsibility for development of securities market in the country. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

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

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994. His Majesty's Government, Nepal Rastra

Bank, Nepal Industrial Development Corporation and members are the shareholders of the NEPSE.

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

Existing economic imbalance, political instability, ineffective implementation of liberal economic policy of the country have generated negative symbols in the economy.

After the restoration of democracy in 1990, NG initiated privatization and economic liberalization, the industrial development as well as the capital market development process took a pace. However, with the initiation of Maoist, armed revolution, having not responsible of self control, self judgment the industrial and capital market development process got slow down. Now being shanti samjhauta between Maoist and seven parties the citizen of Nepal imaging for new Nepal which bring peace and security.

The main objective of research is to identify the determinants of stock price in Nepalese capital market.

The research methodology includes research Design, Population and Sampling, Source and Collection Techniques. In this research many financial and staticals tools were used.

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

one hand, from the secondary data analysis it is found that, for some companies, the correlation coefficient of MPS with independent variables (i.e. DPS, BVPS & EPS) is significantly positive whereas in some other cases significantly negative at 95percent level of significance. It is found that when BVPS, EPS, DPS increases MPS increases and vice versa. Besides DPS, BVPS, EPS there are several others qualitative factors which effect the share price. Brokering service, status of profit and loss of the companies, size of the company, external and internal environmental factors, trend of stock price. Among other environmental factors affecting the share price are political stability, cease fire and peace talks, strikes/Banda, rumors and whims, national economy, demonstrations, demand and supply situations.

Even though DPS, BVPS & EPS affect the MPS positively, there are several other factors in the internal as well as external environment that affect the share price significantly. Theoretically, when earnings, dividends and book value per share increases, the market price per share also increases and vice versa. But in case of NEPSE, this theory does not seem to be true hundred percent meaning that there are various other factors too that affects the share price. While analyzing the effects of interest rate, retention ratio, stock dividend , cost of equity, tax rate, value of US $ exchange rate, gold price, global economy, market liquidity, season, day of the week, size of the organization, change in the management etc , it is found that these factors have nominal effects o share price.

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

Talking about the listed companies in the NEPSE, most of the companies are unable to meet organizational objectives. In the present context the only the satisfactory sector is

banking and financial institutions, service industries and manufacturing industries are suffering loss due to unbalance political situation of our country.

5.3 Conclusion

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

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

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

5.4 Recommendations

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

To Investors

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

To Brokers

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

To SEBO and NEPSE

Perfect markets require that all information concerning future risks and returns of securities be readily available to all investors. As there exists various market imperfections, relevant information are not easily available to the investors. They are often published in national dailies, but most of the information is highly aggregated and not reliable. Because of the lack of technical knowledge, majority of the investors is unable to analyze the available information. As such, a single buyer and a single seller can affect the price of securities. NEPSE has to insure listed companies relevant information. Similarly, NEPSE can expand its service to regional and local level so that it gives the equal opportunity to all the potential investors. The existing manual method of

security trading should be replaced with computerized method to ensure the accuracy and systematic. Investors should be provided with investment guidelines and relevant information through media. It should monitor the activities of brokers as well as listed companies.

To Listed Companies

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

To Government

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

To Further researchers

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

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Statistical Software Program – SPSS

APPENDIEX -I

RESEARCH QUESTIONNAIRE

I hereby request you to fill up the questionnaire designed for proposed survey of the surveyor. The precious views and opinions from your side will be helpful for facilitating the research entitled ***"STOCK PRICE BEHAVIOR ON NEPSE".*** The views expressed by you here in the questionnaire will be used for the research purpose only and kept confidential.

Name (Optional) :

Address :

Qualification :

Occupation :

1. Please consider the following financial instruments in Nepalese security market, Place a number that best describe your preference on a scale of 1 to 5 on the line before each of these securities.

1 2 3 4 5

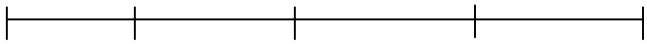
Most preferred Least preferred

1. Common stock _____
2. Preferred stock _____
3. Debentures/Bonds _____
4. Government Bonds _____

2. Following are the eight industrial sectors. In your opinion, which of the sectors is attractive so far as the matter of investing in securities is concerned? Please rank in order of their attractiveness as per the given scheme.

More attractive Least attractive

1 2 3 4 5



1. Bank…….. ( )
2. Development bank……. ( )
3. Finance……... ( )
4. Hotel …….. ( )
5. Manufacturing and Processing Company……... ( )
6. Insurance Company …… ( )
7. Trading Company ……. ( )
8. Others…… ( )

3. Which of the followings best matches with your investment purposes? Please rank in order of their importance to you.

1. Sufficient return……..……. ( )
2. Less risk……..……. ( )
3. Marketability……...……. ( )
4. Social status…….……. ( )
5. Other (please specify) …….……. ( )

4. Following are the some of the features of common stock. Please rank in order of their following importance to you.

1. Power to exercise rights…….……. ( )
2. Participation in management……..……. ( )
3. Sense of ownership……..… ( )
4. Participation in earnings……..… ( )
5. Bulk transaction……..……. ( )
6. Marketability……... ( )
7. Others (please specify) ……...……. ( )

5. In Nepalese capital market, financial instruments except common stock have not been used frequently. How far do you agree/disagree with the following reasons of not using debt and preferred stock as frequently a common stock? Please make a tick mark as the appropriate number as per the following scheme:

1= strongly agree, 2= agree, 3= don't know, 4= disagree, 5= strongly disagree

S. No	Statements	1	2	3	4	5
1	No provision of handsome return that compensates the perceived risk of investors.					
2	These financial instruments provides only certain return					
3	Overburden of legal formalities					
4	Due to the lack of professional practices.					
5	Lack of marketability and liquidity					
6	No legal protection on favor of investors					
7	Due to the lack of wide varieties in these kinds of securities					

6. Followings are some descriptions about different types of bonds. Which bond(s) do you prefer most? Please rank in order of their importance (If you prefer bond).

1. Bond that gets you participates in profit and loss.
2. Bond that adjusts promised interest rate according to the rate in the market.
3. Bond that is pledged against the firm's assets
4. Simple debt that pay regular interest.

7. Which of the following factors, in your opinion, is the most important factor to select securities to invest in? Please rank in order of their importance.

1. Earnings …….. ( )
2. Availability…….. ( )
3. Rumors……. ( )
4. Company's overall performance…….. ( )
5. Others (please specify) ……..... ( )

8. What may be the main attraction of government securities? Please rank in order of their importance.

1. Risk free/safe……... ( )
2. Advantages for portfolio construction…….……...…. ( )
3. High interest rate……..……...…….. ( )
4. Less legal formalities……..…….. ( )
5. Protection against mal practices……..…….. ( )
6. Others (Please specify) ……..…..….. ( )

9. When making investment decision, do you think, it is necessary to make risk and return analysis? Please make a tick mark in the box.

Yes ☐ 2. No ☐ 3. Don't know ☐

10. **Following are the general investment processes. Do you follow one or others process or processes please make a tick mark in the box.**

		Yes	**No**	**Don't know**
1.	Set investment policy	☐	☐	☐
2.	Analyze security	☐	☐	☐
3.	Portfolio construction	☐	☐	☐
4.	Portfolio revision	☐	☐	☐
5.	Portfolio Performance Evaluation	☐	☐	☐
		☐	☐	☐

11. While placing order of share through Broker Company, if you did not mention the time period of the order to remain outstanding. Which of the following legal provision is relevant in this regard?

1. The order will be assumed to remain outstanding for 15 days.
2. The order will be assumed to remain outstanding for 10 days
3. The order will be assumed to remain outstanding for 7 days.
4. The order will automatically be terminated.
5. The order is put aside to execute in the future.
6. Don't know.

12. What sort of information do you generally take after having filled the order specification? Please make a tick mark.

1. Certificate that describes you have submitted the order form to broker
2. Information as to the execution of order.
3. Financial aspects of the broker company.
4. Procedures of transaction of the securities.
5. Information about listed company.
6. Overall position of the Security market.

13. If you did not receive sales proceeds from the concerned broker company within which period do you report it to Stock exchange?

1. Within 7 or 8 transaction days.
2. Within 8 or 9 transaction days.
3. Within 11 days.
4. Within 23 days.
5. Don't know.

14. If your order is purchase order and you did not receive financial security within the given periods. Which of the following statement is true in this regard?

1. Such case should be reported to stock exchange within one month.
2. Such case should be reported to stock exchange within 8 days.
3. Such case should be kept secret.
4. Nothing one can do with such a case.
5. Don't know.

15. Are there any difficulties, in your opinion, to invest in financial security?

Please list them……...

……

……

……

16. If yes, do you have any idea that can be done to decrease or eliminate the difficulties?

……

……

……

……

THANK YOU FOR YOUR KIND COOPERATION.

APPENDIX - 2

Some Key Figures of Standard Chartered Bank Ltd

		Audited 2061/62 2004/2005	Audited 2062/63 2005/2006	Audited 2063/64 2006/2007	Unaudited 2064/65 2007/08
Financial Indicators					
	Net worth Per Share	422.38	468.22	512.12	472.25
	Earning Per Share	143.14	175.84	167.37	131.18
	Dividend Per share	120	120	80	0
	NPA %	0.00%	0.00%	0.00%	0.00%
	Earning Yield	33.89%	37.55%	32.68%	27.78%
	Price Earning Ratio	16.38	21.47	35.25	52.06
	Market Price	2345	3775	5900	6830
		Million Rs.	Million Rs.	Million Rs.	Million Rs.
Capital Structure					
	Authorized Capital	1000	1000	1000	1000
	Issued Capital	500	500	500	500
Liabilities					
	Paid up capital	374.64	374.64	413.25	620.78
	Reserve & Surplus	1207.78	1379.5	1703.1	2310.84
	Debenture	0	0	0	0
	Borrowings	27.55	0	400	0
	Deposits	19363.47	23061.03	24647.02	29743.88
	Others	808.24	952.18	1433.32	818.69
	Total	21,781.68	25,767.35	28,596.69	33,494.20
Assets					
	Cash & Bank Balance	887.65	1029.25	1992.18	2050.24
	Investment	12185.71	15062.82	15343.23	16100.36
	Loan & overdraft	8143.21	8935.42	10502.64	13964.41
	Fixed Assets	71.41	101.3	125.59	117.27
	Others	493.7	638.56	633.06	1261.92
	Total	21781.68	25767.35	28596.69	33494.2

Profit and Loss Account					
	Interest Income	1058.68	1189.6	1411.98	1591.2
	Other operating income	480.99	531.84	559.08	654.68
	Non operating income	34.25	52.11	24.74	42.38
	Total Income	1573.92	1773.56	1995.8	2288.25
Expenditures:					
	Interest Expenses	254.13	303.2	413.06	471.73
	Overhead Expenses	148.59	168.23	199.78	225.26
	Operating expenses	256.65	221.09	228.45	230.57
	Loan loss provision	27.73	47.73	36.81	47.99
	Provision for bonus	88.68	93.94	101.61	119.34
	Others				
	Total Expenditure	775.77	834.18	979.7	1094.88
	Profit before tax	798.15	939.37	1016.1	1193.37
	Tax provision	261.9	280.62	324.43	379
	Net profit after tax	536.24	658.76	691.67	814.37

Some Key Figures of NABIL Bank Ltd

		Audited 2061/62 2004/2005	Audited 2062/63 2005/2006	Audited 2063/64 2006/2007	Audited 2064/65 2007/08
Financial Indicators					
	Net worth Per Share	337.16	381.36	418.39	353.62
	Earning Per Share	105.79	129.21	137.08	108.31
	Dividend Per share	0	5	12.59	0
	NPA %	0.00%	0.00%	0.00%	0.00%
	Earning Yield	31.38%	33.88%	32.76%	30.63%
	Price Earning Ratio	14.23	17.34	36.84	48.7
	Market Price	1505	2240	5050	5275
		Rs. Million	Rs. Million	Rs. Million	Rs. Million
Capital Structure					
	Authorized Capital	500	500	500	1600
	Issued Capital	491.65	491.65	491.65	689.22
Liabilities					
	Paid up capital	491.65	491.65	491.65	689.22
	Reserve & Surplus	1165.98	1383.34	1565.4	1747.98
	Debenture	0	0	0	240
	Borrowings	17.06	173.2	882.57	1360
	Deposits	14586.61	19347.4	23342.29	31915.05
	Others	802.77	934.38	971.49	1180.51
	Total	17,064.08	22,329.97	27,253.39	37,132.76
Assets					
	Cash & Bank Balance	536.06	556.18	1383.82	2340.9
	Investment	5167.28	7987.5	9524.85	12222.38
	Loan & overdraft	10586.17	12922.54	15545.78	21365.05

	Fixed Assets	361.24	319.09	286.9	598.04
	Others	413.34	544.67	512.05	606.39
	Total	17064.08	22329.97	27253.39	37132.76
Profit and Loss Account					
	Interest Income	1068.75	1310	1587.76	1978.7
	Other operating income	369.7	406.68	448.11	450.17
	Non operating income	45.56	34.54	56.94	75.18
	Total Income	1484.01	1751.21	2092.81	2504.04
Expenditures:					
	Interest Expenses	243.54	357.16	555.71	758.44
	Overhead Expenses	199.52	219.78	240.16	262.91
	Operating expenses	190.3	182.7	188.18	220.75
	Loan loss provision	8.66	3.77	14.21	64.06
	Provision for bonus	84.2	89.8	99.5	108.9
	Others				
	Total Expenditure	726.22	853.21	1097.77	1415.05
	Profit before tax	757.79	898	995.05	1088.99
	Tax provision	237.67	262.74	321.09	342.52
	Net profit after tax	520.11	635.26	673.96	746.47

Some Key Figures of Everest Bank Ltd

		Audited 2061/62 2004/2005	Audited 2062/63 2005/2006	Audited 2063/64 2006/2007	Unaudited 2064/65 2007/08
Financial Indicators					
	Net worth Per Share	160.74	185.87	231.95	243.57
	Earning Per Share	32.47	45.81	57.22	54.14
	Dividend Per share	0	25	10	0
	NPA %	0.32%	0.08%	0.00%	0.00%
	Earning Yield	20.20%	24.65%	24.67%	22.23%
	Price Earning Ratio	26.79	30.1	42.47	57.85
	Market Price	870	1379	2430	3132
		Rs. Million	Rs. Million	Rs. Million	Rs. Million
Capital Structure					
	Authorized Capital	600	600	1000	1000
	Issued Capital	529.8	529.8	729.8	729.8
Liabilities					
	Issued and Paid up capital	518	518	518	831.4
	Reserve & Surplus	314.62	444.81	683.52	1193.65
	Debenture	300	300	300	300
	Borrowings	0	0	0	0
	Deposits	10097.69	13802.44	18186.25	23976.3
	Others	502.21	894.03	1744.81	1504.14
	Total	11,732.52	15,959.28	21,432.57	27,805.49
Assets					
	Cash & Bank Balance	972.26	1398.86	1713.19	2852.43
	Investment	2776.66	4421.58	5662.54	5407.16
	Loan & overdraft	7618.67	9801.31	13664.08	18836.43
	Fixed Assets	134.07	152.09	170.1	314.94

	Others	230.86	185.44	222.66	394.52
	Total	11732.52	15959.28	21432.57	27805.49
Profit and Loss Account					
	Interest Income	719.3	903.41	1144.41	1547.91
	Other operating income	136.69	160.14	214.09	299.13
	Non operating income	2.97	2.96	12.21	0
	Total Income	858.96	1066.51	1370.71	1847.04
Expenditures:					
	Interest Expenses	299.57	401.4	517.17	632.63
	Overhead Expenses	60.6	70.92	86.12	157.1
	Operating expenses	129.07	143.56	177.55	236.74
	Loan loss provision	88.93	70.47	89.7	97.74
	Provision for bonus	28.08	34.56	45.47	65.71
	Others				
	Total Expenditure	606.24	720.91	916	1189.93
	Profit before tax	252.72	345.6	454.71	657.11
	Tax provision	84.51	108.31	158.3	206.99
	Net profit after tax	168.21	237.29	296.41	450.12

Some Key Figures of Himalayan Bank Ltd

		Audited 2061/62 2004/05	Audited 2062/63 2005/206	Audited 2063/64 2006/07	Unaudited 2064/65 2007/08
Financial Indicators					
	Net worth Per Share	239.59	228.72	264.74	276.57
	Earning Per Share	47.91	59.24	60.66	64.57
	Dividend Per share	11.58	30	15	0
	NPA %	0.26%	0.15%	0.08%	0.12%
	Earning Yield	20.00%	25.90%	22.91%	23.35%
	Price Earning Ratio	19.2	18.57	28.69	30.67
	Market Price	920	1100	1740	1980
	current market price				2674
		Rs. Million	Rs. Million	Rs. Million	Rs. Million
Capital Structure					
	Authorized Capital	1000	1000	1000	2000
	Issued Capital	650	772.2	810.81	1013.51
Liabilities					
	Issued and Paid up capital	643.5	772.2	810.81	1013.51
	Reserve & Surplus	898.25	993.98	1335.69	1789.6
	Debenture	360	360	360	860
	Borrowings	146.05	144.62	235.97	10
	Deposits	24814.01	26490.85	30048.42	31939.87
	Others	556.35	698.74	728.26	2035.36
	Total	27,418.16	29,460.39	33,519.14	37,648.34
Assets					
	Cash & Bank Balance	1890.68	1401.68	1449.79	1396.72
	Investment	12257.21	12209.98	13840.56	13858.71
	Loan & overdraft	12424.52	14642.56	16998	20179.61
	Fixed Assets	295.82	540.82	574.06	997.91
	Others	549.92	665.34	656.73	1215.4
	Total	27418.16	29460.39	33519.14	37648.34

Profit and Loss Account					
	Interest Income	1446.47	1626.47	1775.58	1978.29
	Other operating income	311.42	415.9	385.19	463.21
	Non operating income	-85.46	55.55	100.26	124.62
	Total Income	1672.43	2097.92	2261.03	2566.11
Expenditures:					
	Interest Expenses	561.96	648.84	767.41	823.76
	Overhead Expenses	178.59	234.59	272.23	297.26
	Operating expenses	277.38	329.7	341.56	341.28
	Loan loss provision	73.9	145.15	90.69	52.97
	Provision for bonus	58.06	67.24	71.74	95.53
	Others				
	Total Expenditure	1149.89	1425.52	1543.63	1610.8
	Profit before tax	522.54	672.4	717.4	955.32
	Tax provision	214.27	214.94	225.58	300.92
	Net profit after tax	308.28	457.46	491.82	654.39

Some Key Figures of Nepal Investment Bank Ltd

		Audited 2061/62 2004/2005	Audited 2062/63 2005/2006	Audited 2063/64 2006/2007	Audited 2064/65 2007/08
Financial Indicators					
	Net worth Per Share	200.8	239.67	234.37	223.17
	Earning Per Share	3950.00%	5935.00%	6257.00%	5787.00%
	Dividend Per share	1250.00%	2000.00%	500.00%	0.00%
	NPA %	0.02%	0.00%	0.01%	0.00%
	Earning Yield	19.67%	24.77%	26.70%	25.93%
	Price Earning Ratio	20.25	21.23	27.63	42.33
	Market Price	800	1260	1729	2450
	Current Market Price				2860
		Rs. Million	Rs. Million	Rs. Million	Rs. Million
Capital Structure					
	Authorized Capital	590.59	590.59	801.35	1203.92
	Issued Capital	0	0	0	0
Liabilities					
	Paid up capital	587.74	590.59	801.35	1203.92
	Reserve & Surplus	592.43	824.85	1076.77	1482.87
	Debenture	300	550	800	1050
	Borrowings	50	0	0	0
	Deposits	14,254.57	18,927.31	24,488.86	34,451.73
	Others	278.8	437.39	423.87	684.79
	Total	16,063.54	21,330.14	27,590.84	38,873.31
Assets					
	Cash & Bank Balance	1154.51	2088.63	2145.34	3284.49
	Investment	4260.16	5920.76	7164.83	7344.48
	Loan & overdraft	10126.06	12776.21	17286.43	26996.65
	Fixed Assets	320.59	343.45	759.46	970.09
	Others	202.23	201.09	234.8	277.6
	Total	16063.54	21330.14	27590.84	38873.31

Profit and Loss Account					
	Interest Income	886.8	1172.74	1584.99	2194.28
	Other operating income	221.64	277.59	346.57	447.51
	Non operating income	37.18	11.09	68.2	108.62
	Total Income	1145.63	1461.43	1999.76	2750.41
Expenditures:					
	Interest Expenses	354.55	490.95	685.53	992.16
	Overhead Expenses	97	111.05	145.37	187.15
	Operating expenses	182.92	200.22	243.43	313.15
	Loan loss provision	140.41	103.81	129.72	135.99
	Provision for bonus	37.08	50.49	72.34	102
	Others				
	Total Expenditure	811.95	956.51	1276.39	1730.45
	Profit before tax	333.68	504.91	723.38	1019.96
	Tax provision	101.53	154.38	221.98	323.23
	Net profit after tax	232.15	350.54	501.4	696.73

Some Key Figures of Nepal SBI Bank Ltd

		Audited 2061/62 2004/2005	Audited 2062/63 2005/2006	Audited 2063/64 2006/2007	Unaudited 2064/65 2007/08
Brief Financial Indicators					
	Net worth Per Share	15954.00%	15344.00%	17958.00%	13302.00%
	Earning Per Share	1329.00%	1827.00%	3935.00%	2917.00%
	Dividend Per share	0.00%	500.00%	1259.00%	0.00%
	NPA %	0.12%	0.32%	0.04%	0.05%
	Earning Yield	8.33%	11.91%	21.91%	21.93%
	Price Earning Ratio	25.21	33.49	29.89	51.8
	Market Price	335	612	1176	1511
		Rs. In Million	Rs. In Million	Rs. In Million	Rs. In Million
Capital Structure					
	Authorized Capital	1000	1000	1000	1000
	Issued Capital	650	650	650	650
Liabilities					
	Paid up capital	431.87	640.24	647.8	874.53
	Reserve & Surplus	257.15	342.14	515.49	288.76
	Debenture	0.00	200.00	200.00	200.00
	Borrowings	469.63	612.43	815.37	1627.48
	Deposits	8,654.77	11,002.04	11,445.29	13,715.40
	Others	149.61	239	277.26	1660.69
	Total	9,963.02	13,035.84	13,901.20	18,366.86
Assets					
	Cash & Bank Balance	533.78	870.31	844.21	1347.57
	Investment	2920.76	4221.82	3287.93	3450.97
	Loan & overdraft	6213.88	7626.74	9460.45	12742.53
	Fixed Assets	66.45	66.71	97.22	120.21
	Others	228.15	250.26	211.39	705.58
	Total	9963.02	13035.84	13901.2	18366.86

Profit and Loss Account					
	Interest Income	578.37	708.72	831.12	966.91
	Other operating income	86.2	90.95	114.66	122.46
	Non operating income	54.42	51.25	78.26	27.77
	Total Income	718.99	850.92	1024.03	1117.14
Expenditures:					
	Interest Expenses	258.43	334.77	412.26	454.92
	Overhead Expenses	37.58	50.54	53.23	74.72
	Operating expenses	90.63	99.21	120.11	152.57
	Loan loss provision	193.24	146.66	59.38	39.45
	Provision for bonus	13.91	19.98	34.46	35.95
	Total Expenditure	593.79	651.16	679.44	757.61
	Profit before tax	125.19	199.76	344.59	359.54

Some Key Figures of Nepal Industrial & Commercial Bank Ltd

		Audited 2061/62 2004/2005	Audited 2062/63 2005/2006	Audited 2063/64 2006/2007	Unaudited 2064/65 2007/08
Brief Financial Indicators					
	Net worth Per Share	13684.00%	12774.00%	13909.00%	13972.00%
	Earning Per Share	2275.00%	1610.00%	2401.00%	2637.00%
	Dividend Per share	1000.00%	53.00%	150.00%	0.00%
	NPA %	0.07%	0.04%	0.01%	0.01%
	Earning Yield	16.63%	12.60%	17.26%	18.88%
	Price Earning Ratio	16.09	30.81	39.56	48.68
	Market Price	366	496	950	1284
		Rs. Million	Rs. Million	Rs. Million	Rs. Million
Capital Structure					
	Authorized Capital	1000	1000	1000	1600
	Issued Capital	500	600	660	950.4
Liabilities					
	Paid up capital	500.00	600.00	660.00	943.88
	Reserve & Surplus	184.19	166.46	257.99	374.93
	Debenture	0.00	200.00	200.00	200.00
	Borrowings	450.37	457.71	352.13	335
	Deposits	6,241.38	8,765.95	10,068.23	13,078.53
	Others	134.45	193.48	140.48	315.54
	Total	7,510.40	10,383.60	11,678.83	15,247.88
Assets					
	Cash & Bank Balance	907.08	594.96	444.34	1192.35
	Investment	1766.09	2987.61	1917.91	2471.47
	Loan & overdraft	4711.71	6655.96	8941.4	11264.68
	Fixed Assets	59.5	39.86	153.68	194.41
	Others	66.02	105.21	221.51	124.98
	Total	7510.4	10383.6	11678.83	15247.88

Profit and Loss Account					
	Interest Income	457.61	579.98	725.82	941.46
	Other operating income	60.89	75.08	106.47	120.93
	Non operating income	1.11	0.06	0.41	23.03
	Total Income	519.61	655.12	832.7	1085.43
Expenditures:					
	Interest Expenses	225.99	340.22	421.37	505.96
	Overhead Expenses	39	45.49	54.92	71.41
	Operating expenses	51.63	57.36	64.63	80.01
	Loan loss provision	19.95	60.91	37.77	25.41
	Provision for bonus	18.3	13.74	23.09	36.6
	Others				
	Total Expenditure	354.88	517.72	601.79	719.4
	Profit before tax	164.73	137.39	230.91	366.03
	Tax provision	50.97	40.8	72.43	117.09