## DETERMINANTS OF STOCK PRICE IN NEPALESE CAPITAL MARKET

Submitted by
Shree Bhakta Maharjan
Shanker Dev Campus
Ramshah Path, Kathmandu
T.U. Regd. No. 7857-95
Campus Roll No.: 602/060
Exam Roll No.: 5686

A Thesis Submitted to: Office of the Dean Faculty of Management Tribhuvan University

In Partial Fulfillment of the Requirement for the Degree of Master of Business Studies (M.B.S.)

Kathmandu, Nepal April, 2010

#### RECOMMENDATION

This is to certify that the thesis:

#### **Submitted by:**

### Shree Bhakta Maharjan

#### **Entitled:**

# DETERMINANTS OF STOCK PRICE IN NEPALESE CAPITAL MARKET

has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

#### **Research Committee**

Shree Bhadra Neupane (Supervisor)	Prof. Bishweshwor Man Shrestha (Research Department Head)	Asso. Prof. Dr Kamal Deep Dhaka (Campus Chief)
Kamal Prakash Adhikari (Supervisor)		
Date: -		

#### **VIVA-VOCE SHEET**

We have conducted the viva-voce of the thesis presented by

By

### Shree Bhakta Maharjan

#### Entitled

## DETERMINANTS OF STOCK PRICE IN NEPALESE CAPITAL MARKET

and found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement for the Master of Business Studies (MBS)

#### **VIVA-VOCE COMMITTEE:**

Chairperson, Research Committee:	
Member (Thesis Supervisor):	
Member (Thesis Supervisor):	
Member (External Expert):	
Date:	

## **Tribhuvan University**

Faculty of Management Shanker Dev Campus

## **DECLARATION**

I hereby declare that this entitled, "Determinants of Stock Price in Nepalese Capital Market" submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work completed for the partial fulfillment of the requirement of the degree of Master of Business Studies (M.B.S.) under the supervision of Mr. Shree Bhadra Neupane and Mr. Kamal Prakash Adhikari.

Shree Bhakta Maharjan Researcher Roll No. 602/060

Date:

ACKNOWLEDGEMENT

The completion of the present study is a result of help and support of several

hands. Therefore, I would like to express my heartfelt gratitude to all those

respondents for their support and help.

I am highly indebted to my thesis supervisor Shree Bhadra Neupane & Kamal

Prakash Adhikari for his valuable suggestion and constant guidance in preparing

this thesis. This thesis work would not have materialized at the present form

without his incisive observation and intellectual direction in the course of the

thesis. I express my sincere gratitude to him.

I am equally thankful to my friends and colleagues who gave me their valuable

suggestion and time for preparing my thesis. I would like to express special thanks

to all my teachers of Shanker Dev Campus.

I would like to deeply thank Sunil Malakar who had provided me the invaluable

information and suggestions through my survey reports which helped me to finish

my thesis. I would like to express my heartiest thanks to my wife for their constant

suport to finish my thesis.

I would like to thank to Mr. Durka Man Maharjan of Durka Computer System,

Kirtipur for his excellent computer typing and printing in timely.

Thank you,

Shree Bhakta Maharjan

Date:

## **TABLE OF CONTENTS**

Viva	a-Voce Sheet	i
Rec	ommendation	ii
Dec	laration	iii
Ack	nowledgements	iv
Tab	le of Contents	V
List	of Tables	ix
List	of Figures	xii
Abb	previations	xiii
	Pa	ge No.
CHA	APTER I: INTRODUCTION	1-8
1.1	Historical Background	1
1.2	Statement of the Problem	2
1.3	Focus of the Study	4
1.4	Significance of the Study	5
1.5	Scope of the Study	5
1.6	Limitation of the Study	6
1.7	Organization of the Study	6
CHA	APTER II: REVIEW OF LITERATURE	9-50
2.1	Conceptual Framework	9
	2.1.1 Common Stocks	10
	2.1.2 Financial Market	14
	2.1.3 Relationship between Primary and Secondary Market	18
	2.1.4 Common Stock Valuation	21
	2.1.5 Market Efficiency	22

	2.1.6 The Role of Securities Exchange	22
	2.1.7 Market Adjustment to New Information	23
	2.1.8 NEPSE Index	23
2.2	The Relevant Theories and Approaches	24
	2.2.1 Stock Valuation Some Valuation Convention	24
	2.2.2 The Basic Stock Valuation Equation	24
	2.2.3 Relationship between Earnings and Stock Prices	28
	2.2.4 Behaviour of Stock Market Prices	29
	2.2.5 Theories of Stock Price Movement	31
2.3	Review of Related Studies	42
	2.3.1 A Review of Major Studies in Nepal	42
	2.3.2 Review of Different Master's Thesis	46
CHA	APTER III: RESEARCH METHODOLOGY	51-70
3.1	Introduction	51
3.2	Research Design	51
3.3	Variables	52
3.4	Population	52
3.5	Sample	52
3.6	Nature and Sources of Data	55
3.7	Data Collection Techniques	55
3.8	Data Anal;ysis Tools	56
	3.8.1 Statistical Tools	56
	3.8.2 Financial Tools	60
	3.8.3 Methods of Data Collection	65
	3.8.4 Profile of the Sample Company	65
CHA	APTER IV: DATA PRESENTATION AND ANALYSIS	71-145
4.1	Introduction	71
4.2	Analysis of Financial Indicators of Commercial Banks	72

	4.3	Preser	ntation and Analysis of Secondary Data	72		
	4.4	Relationship of MPS with Earning Price Per Share (EPS) and Dividend Per				
		Share	(DPS)	72		
		4.4.1	Regression and Correlation Analysis of Himalayan			
			Bank Ltd.	73		
		4.4.2	Correlation and Regression Analysis of NABIL			
			Bank Limited	77		
		4.4.3	Correlation and Regression Analysis of Nepal			
			Investment Bank Ltd.	80		
		4.4.4	Correlation and Regression Analysis of Nepal SBI			
			Bank Ltd.	84		
		4.4.5	Correlation and Regression Analysis of Standard			
			Chartered Bank Ltd. (SCBNL)	87		
		4.4.6	Correlation and Regression Analysis of Development			
			Credit Bank Ltd.	90		
		4.4.7	Correlation and Regression Analysis of Nepal			
			Nirdhan Utthan Bank Ltd.	94		
		4.4.8	Correlation and Regression Analysis of Siddhartha			
			Bank Ltd.	98		
		4.4.9	Correlation and Regression Analysis of Citizen			
			Investment Trust	101		
		4.4.10	Correlation and Regression Analysis of Nepal Housing			
			and Merchant Finance Ltd.	104		
		4.4.11	Correlation and Regression Analysis of Nepal Share			
		Market and Finance Limited	108			
		4.4.12	Correlation and Regression Analysis of Peoples			
			Finance Limited	111		
		4.4.13	Correlation and Regression Analysis of Universal			
			Finance Limited	114		

4.5	Analysis of Stock Market Sensitivity	117
	4.5.1 Beta Coefficient of Sampled Companies	117
4.6	Empirical Analysis	121
	4.6.1 Higher the Cash Dividend Higher the Share Price	122
	4.6.2 Higher the EPS Higher the Share Price	123
	4.6.3 Relationship between Growth Rate and Share Price	124
	4.6.4 Present Number of Stock Brokers	125
	4.6.5 Relationship between Interest Rate and Share Price	126
	4.6.6 Strikes, Political Instability Reduces the Share Price	127
	4.6.7 Lower Tax Rate Reduces the Share Price	127
	4.6.8 Seriousness of the Listed Companies Towards the Sha	areholder's
	Interest	128
	4.6.9 Better the National Economic Condition better the	
	Share Price	129
	4.6.10 Impact of Market Demand and Supply to Share Price	Determination
		130
	4.6.11 Appropriateness and Effectiveness of the Present	
	Regulatory System of the Nepalese Capital Market	131
	4.6.12 Open Out-Cry Trading System Discourage the	
	Stock Brokers	132
	4.6.13 Communication and Information Technology	
	Affects the Share Price	133
	4.6.14 Transparency in the Performance of the Listed	
	Companies	134
4.7	Major Findings of the Study	135
CHA	APTER V: SUMMARY, CONCLUSION AND	
	RECOMMENDATIONS	146-154
5.1	Summary and Conclusions	146

5.2	Recommendation	150
BIBL	IOGRAPHY	i-iv
APPI	ENDICES	v-lx

## LIST OF TABLES

Table No.	Title	Page No.
Table 3.1	: Listed Companies and Proportion	53
Table 3.2	: No. of Sample Observation Companies	54
Table 4.1	: Synopsis of Performance Indicators of Himalayan	
	Bank Ltd.	73
Table 4.2	: Relationship of MPS with EPS and DPS	74
Table 4.3	: Synopsis of Performance Indicators of Nabil	
	Bank Limited	77
Table 4.4	: Relationship of MPS with EPS and DPS	77
Table 4.5	: Synopsis of Performance Indicators of Nepal	
	Investment Bank Ltd.	80
Table 4.6	: Relationship of MPS with EPS and DPS	80
Table 4.7	: Synopsis of Performance Indicators of Himalayan	
	Bank Ltd.	84
Table 4.8	: Relationship of MPS with EPS and DPS	84
Table 4.9	: Synopsis of Performance Indicators of Standard	
	Chartered Bank Nepal Ltd.	87
Table 4.10	: Relationship of MPS with EPS and DPS	87
Table 4.11	: Performance Indicators of Development Credit Ban	k Ltd. 90
Table 4.12	: Relationship of MPS with EPS and DPS	90
Table 4.13	: Synopsis of Performance Indicators of Nepal Nirdha	an
	Utthan Bank Ltd.	94
Table 4.14	: Relationship of MPS with EPS and DPS	94
Table 4.15	: Synopsis of Performance Indicators of Siddhartha	
	Bank Ltd.	98

Table 4.17:	Synopsis of Performance Indicators of Citizen	
	Investment Trust	101
Table 4.18:	Relationship of MPS with EPS and DPS	101
Table 4.19:	Synopsis of Performance Indicators of Nepal Housing	
	and Merchant Finance Ltd.	104
Table 4.20:	Relationship of MPS with EPS and DPS	105
Table 4.21:	Synopsis of Performance Indicators of Nepal Share	
	Market and Finance Limited	108
Table 4.22:	Relationship of MPS with EPS and DPS	108
Table 4.23:	Synopsis of Performance Indicators of Peoples	
	Finance Limited	111
Table 4.24:	Relationship of MPS with EPS and DPS	111
Table 4.25:	Synopsis of Performance Indicators of Universal	
	Finance Limited	114
Table 4.26:	Relationship of MPS with EPS and DPS	114
Table 4.27:	Beta Coefficient of the Sampled Companies on the Basis	
	of MPS and EPS	118
Table 4.28:	Beta Coefficient of the Sampled Companies on the Basis	
	of MPS and DPS	120
Table 4.29 :	Responses by Groups	122
Table 4.30:	Higher the Cash Dividend Higher the Share Price	122
Table 4.31:	Higher the EPS Higher the Share Price	123
Table 4.32 :	Relationship between Growth Rate and Share Price	124
Table 4.33:	Present Number of Stock Brokers	125
Table 4.34:	Relationship between Interest Rate and Share Price	126
Table 4.35 :	Strikes, Political Instability Reduces the Share Price	127
Table 4.36 :	Lower Tax Rate Reduces the Share Price	128

Table 4.37: Seriousness of the Listed Companies Towards the	
Shareholder's Interest	129
Table 4.38: Better the National Economic Condition better the	
Share Price	130
Table 4.39: Impact of Market Demand and Supply to Share	
Price Determination	131
Table 4.40: Appropriateness and Effectiveness of the Present	
Regulatory System of the Nepalese Capital Market	132
Table 4.41: Open Out-Cry Trading System Discourage the	
Stock Brokers	133
Table 4.42: Communication and Information Technology	
Affects the Share Price	134
Table 4.43: Transparency in the Performance of the	
Listed Companies	135

## LIST OF FIGURE

Figure No.	Title		Page No.
Figure 4.1:	The Linear	Relationship of MPS with EPS and DPS	75
Figure 4.2:	The Linear	Relationship of MPS with EPS and DPS	78
Figure 4.3:	The Linear	Relationship of MPS with EPS and DPS	82
Figure 4.4:	The Linear	Relationship of MPS with EPS and DPS	85
Figure 4.5:	The Linear	Relationship of MPS with EPS and DPS	92
Figure 4.6:	The Linear	Relationship of MPS with EPS and DPS	96
Figure 4.7:	The Linear	Relationship of MPS with EPS and DPS	99
Figure 4.8:	The Linear	Relationship of MPS with EPS and DPS	103
Figure 4.9:	Relationshi	p of MPS with EPS and DPS of Nepal	
	Housing an	d Merchant Finance Limited	106
Figure 4.10:	The Linear	Relationship of MPS with EPS and DPS	109
Figure 4.11:	The Linear	Relationship of MPS with EPS and DPS	112
Figure 4.12:	The Linear	Relationship of MPS with EPS and DPS	116

#### **ABBREVIATION**

% = Percentage

CIT = Citizen Investment Trust

CV = Coefficient of Variation

DCBL = Development Credit Bank Limited

DPS = Dividend Per-share

EPS = Earning Per-share

etc. = etcera

FY = Fiscal Year

HBL = Himalayan Bank Limited

i.e. = that is

Ltd. = Limited

MPS = Market Per Share

NABIL = Nepal Arab Bank

NEPSE Ltd. = Nepal Stock Exchange Limited

NH&MFL = Nepal Housing and Merchant Finance Limited

NIBL = Nepal Investment Bank Limited

NIDC = Nepal Industrial Development Committee

No. = Number

NRB = Nepal Rastra Bank

NSBI = Nepal State Bank of India

NSMFL = Nepal Share Market Finance Limited

NUBL = Nirdhan Utthan Bank Limited

NWPS = Net Worth Per-share

PFL = People's Finance Limited

SCBNL = Standard Chartered Bank Nepal Limited

SD = Standard Deviation

SDB = Siddhartha Development Bank

SEBO/N = Security Board Nepal

UFL = Universal Finance Limited

UNDP = United Nation Development Programme