

**STOCK PRICE DETERMINANTS OF COMMERCIAL BANKS
IN
NEPAL STOCK EXCHANGE**



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RECOMMENDATION

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I hereby, declare that the work reported in this thesis entitled “**Stock Price Determinants of Commercial Banks in Nepal Stock Exchange**” submitted to the research department of Shankerdev Campus Putali Sadak Tribhuvan University is my original work done in the form of partial fulfillment of the requirements for the Master of Business Studies(MBS), under supervision of Mr. Kishor Maharjan, Lecturer of Shankerdev Campus Tibhuvan University.

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Capital market development process is in very primitive stage in Nepal. Over the years, I have noticed that the stock investors face great difficulty for trading stocks due to lack of knowledge on stock pricing determinants and mechanism. I have attempted to fill that gap with this thesis. It is however, only a modest attempt. This thesis is prepared for the Masters of Business Studies Program undertaken by Tribhuvan University.

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ABBREVIATION

AD	:	Anno Domini (Abbreviation of Christian era)
AGM	:	Annual General Meeting
AM	:	Arithmetic Mean
AMEX	:	American Stock Exchange
BOK	:	Bank of Kathmandu Limited
BPS	:	Book-value Per Share
BS	:	Bikram Sambat (Abbreviation of Bikram Era)
CIO	:	Closing
CV	:	Coefficient of Variation
DDM	:	Dividend Discount Model
DPS	:	Dividend per Share
EPS	:	Earning Per Share
EW	:	Equally Weighted
GON	:	Government /Nepal
IMF	:	International Monetary Fund
IRR	:	Internal Rate of Return
Ltd	:	Limited
Market Cap	:	Market Capitalization
MBA	:	Masters of Business Administration
MBS	:	Masters of Business Studies
MPS	:	Market Price of Share
NBL	:	Nabil Bank Limited
NIBL	:	Nepal Investment Bank Limited
NPV	:	Net Present Value
NYSE	:	New York Stock Exchange
OE	:	Organized Exchange
OTC Market	:	Over the Counter Market
PE	:	Price Earnings
Prof	:	Professor
r	:	Simple coefficient of correlation
r ²	:	Coefficient of Simple Determination
Re	:	Rupee
RS	:	Rupees
SBI	:	Nepal SBI Bank
SEBO/N	:	Security Board of Nepal
TU	:	Tribhuvan University
US\$:	United States Dollar
USA	:	Union of Soviet Socialistic Republic

CHAPTER I

INTRODUCTION

1.1. Background of the Study:

Nepal is one of the poor and land locked country situated between two newly formed economic giants, China and India on of the southern lap of the Himalayas in the south Asian region of the world map. “Nepal’s neighbors’ china and India grew respectively by 11.4 percent and 9.2 percent in 2007 and are projected to record respective growth rates of 9.3 percent and 7.9 percent in 2008 .South Asia, which growth rate of 8.6 percent in 2007 is expected to rise by 7.5 percent in 2008. Nepal registered noticeable acceleration in the economic growth rate during FY 2007/08 GDP at the basic prices expected by 5.6 percent the highest during the last seven year”. Nepal is in the slow pace of economic development more than 31% of its people living below the poverty line that happens because of late development of trade and commerce.

The world out put growth rate in 2007 was 4.9 percent with the advanced economic rising by 2.7 percent and the emerging and developing economic recording a growth of 7.9 percent. The world out put growth in 2008 is projected at 3.7 percent, with the growth rate of the advanced economies at 1.3 percent and that of the emerging and developing economies at 6.7 percent.

Nepal has dualistic economy. Agriculture play the dominant role for economic development in the past but recent year non agriculture sector contributing more .The economic development history of Nepal has very slow track record .There is lack of awareness and knowledge of modern trend of the trade and commerce among the people. The traditional concept of trade and commerce is deep rooted in the mind of the people. However the restoration of multiparty democracy in 1990 A.D. and global trend of

economic liberalization, Nepal is slightly entering in to the market economy by means of economic liberalization and privatization. After the revival of democracy, the government made and implements the liberal economic policy. By the result of government policy many public and private companies were established in different sector like industrial, tourism, transportation and mostly in finance sector with the objective of balance regional development, public welfare, employment generation, import substitution and to export promotion for dissemination of the development activities according to national priorities.

Industrial development is the back bone of the development of the nation it is in primitive stage in Nepal. The industrial development process started in 1937 with Biratnagar Jute mills and Nepal banks limited. Company act was firstly introduced in 1964, and the government issued bond on the same year (firstly). Most of the institutions (manufacturing and processing service, trading hotel etc) have been established as private limited companies and government own organization. Especially, after the restoration of democracy, the industrial development took a pace but that could not sustain. Some of the industries have been shut down, and some are suffering illness.

Banking sector play an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector which deals with the process of canalizing the available in the intermediary between the deficit and surplus of financial resource. Financial system contains two components, depository financial institution and non depository financial institution .commercial banks , development banks , finance companies etc are the example of depository financial institution , where as employee provident fund insurance companies etc are the example of non-depository financial institution . All the economic activities are directly or indirectly canalized through the bank and institutions.

The history of commercial bank of Nepal in more then seven decades .The first ever bank in Nepal is Nepal Bank Limited which was established in 1994 BS, in initiation of Udhog Parisad. However NBL still giving contribution bring country towards industrialization .After the establishment of NBL, Nepal Rastra Bank was establish in

2013 BS as a central bank and took a responsibility of establishment and development of commercial banks in Nepal. In 2022 BS Rastriya Banijaya Bank was established as a second commercial bank. When Nepal adopted open market and liberalized economy several joint venture banks were started to establish NABIL Bank was established as the first joint venture bank in 2041 BS there were 24 commercial banks in Nepal licensed by NRB as of 2007. Now we can say that the development of commercial banks in seven decades is satisfactory.

The capital market is also regarded as the financial market and security market. It is the market where financial assets having a time to maturity of typically more than one year are traded. Organized stock exchanges over the counter market, third market fourth markets are the major capital markets. Capital market is the mechanism designed to facilitate the exchange of financial assets by bringing order buyer and seller of securities together. The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd 1937 in Nepal.

Investment is the act of buying property, shares in a company etc in the hope of making a profit. In other words investment is the sacrifice of the current rupees (money) for further (possibly uncertain) rupees (money). Thus investment bears risk by sacrificing current certain rupees for further uncertain rupees. This risk bearing is for return. Higher the risk associated with investment, higher will be the expected return. The investment can be categorized into real and financial investment. The real investment generally involves some kind of tangible assets such as land, machinery and factories. Financial investment involves contract written on a piece of paper, such as common stock, bonds. The financial investments are made in primary market (initial offering), and in secondary market. Organized stock exchange (OE), and over the counter market (OTC market), are the major junctions for the trade of securities in the secondary market. In securities market investors buy and sell securities between themselves, the issuer never gets any cash flow from the trade. Organized stock exchange is a central physical location where trading of securities is done under a set of rules and regulations. New York stock exchange (NYSE), London stock exchange, Tokyo stock exchange, Paris stock exchange, Frankfurt stock exchange, Toronto stock exchange are the biggest organized

stock exchange of the world . Mumbai stock exchange is the largest OE in south Asia and Nepal stock Exchange (NEPSE) is the organized stock exchange of Nepal.

1.2 Nepal Stock Exchange Limited (NEPSE)

In Nepal, Nepal stock exchange Ltd (NEPSE) is the only organize stock exchange where stocks are traded through registered brokers under the set of rules and regulations. For the development of capital market, Nepal securities exchange center was established in 1976 and changed in to NEPSE in 1993. NEPSE is non-profit making organization, operating securities exchange act 1983. The basic objective of the NEPSE is to impart of free marketability and liquidity to the government and corporate securities by facilitating in its trading floor through market intermediaries, such as brokers, market etc. NEPSE open its trading floor on 13th January 1994 through licensed members. Government of Nepal, Nepal Rastra Bank Nepal industrial development corporation and licensed members are share holder of NEPSE. It has helped to collect the found required for mega projects from small investors by means of stock investments .It has crucial role for making investment environment for large number of middle class families and collect the scattered lifeblood for industrial development i.e. capital .

NEPSE is adopting an automated screen based trading system, for securities trading of the listed companies through registered brokers. From 24th august 2007, at first open out cry system was adopted. It means transactions of securities are conducted by computer network. The stock price is determined the equilibrium point of supply and demand. Various factors affect the supply and demand of the stock. Till December 2008 NEPSE has 148 listed companies. Which are classified to 9 groups, 17 companies fall in commercial banks, 18 manufacturing and processing organization? 4 hotels, 4 trading organization, 59 finance companies, 24 development banks, 3 hydropower,17 insurance, and 2 others. Among those 148 listed companies, this study covers only commercial banks. This study tries to find out the determinants factor of stock price of commercial banks

1.3 Commercial Bank under Study

In this study five commercial banks listed with NEPSE are taken for analysis. The brief introduction of those banks is presented below.

1 Bank of Kathmandu Limited (BOK)

Bank of Kathmandu limited was incorporated in 1993, after the restoration of democracy in 1990, under the company act 1964. SIAM commercial bank of Thailand was the joint venture partner of BOK. Nepalese managers, from the very beginning to till date are managing this bank. In very competitive and small market of Nepalese commercial bank, BOK is struggling for betterment. THE SIAM commercial bank diluted its holdings to the Nepalese citizens in 1998. After that Nepalese public holds 97.72% of the equity share of BOK remaining share hold by financial institution (0.9%) and organized institutions (1.38%), Thus BOK is Regarded as the bank of Nepalese. BOK is accepting de[posit]s and providing loan to industry , commerce ,agriculture ,as well as home loan and hire purchase loan its various branches . the bank is able to earn significant profit.

2. Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Ltd (NIBL) previously called as Nepal Indosuez Bank Ltd Was established in 1986 as a joint venture between Nepalese and its French partner credit Agricole Indosuez, a subsidiary of largest banking group in the world, with the decision of credit Agricole Indosuez to divest a group of companies comprising of bankers, professional industries and businessman. Has acquired on April 2002 the 50% shares holding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd and the bank has following share holding structure: A group of companies holding 50% of capital. Rastriya Banijya Bank holding 15% of the capital, Rastriya Bema Sasnthan holding 15% of capital and the remaining shares being held by general public .NIBL has 18 branch offices and its head office is in Durbarmarg Kathmandu.

3. Nepal SBI Bank Limited.

Nepal state bank limited (SBI) is an Indo – Nepalese joint venture between state bank of India employee provident fund and agriculture development bank of Nepal. The share structure of the bank is as follows: Fifty percent held by the state bank of India fifteen percent by the Employee provident fund Five percent by the Agriculture Development bank and thirty percent by general public. The bank commenced its operation on 7 July 1993 and has been providing a wide range of commercial service since its operation. The bank has 22 branches Through out Nepal and its head office is located in Hattisar Kathmandu.

4. NABIL Bank Limited (NBL)

Nabil; Bank Limited (NBL) previously known Arab Bank is one of the leading commercial Banks of Nepal The bank was founded in 1984 as a first joint venture bank in collaboration with a commercial bank of UAE . Nabil was incorporated with the objective of extending international standard modern banking service to various sector of the society. Pursuing its objective, Nabil provides a full range of commercial banking services. The bank has nineteen branch offices across Nepal and its head office is situated in Kathmandu.

5. Standard Chartered Bank Nepal Limited (SBC)

Standard chartered bank Nepal Limited, formerly Nepal Grindlays Bank, was in 1985 as a joint venture bank under the company act 1964. ANZ Grindlays Bank PLC is the Foreign Joint venture partner with 50% equity investment. ANZ Grindlays Bank PLC is managing the bank under joint venture and technical service agreement signed between ANZ Grindlays Bank PLC and Nepalese promoters in July 19, 2000 SCB Group took over ownership by taking 50% share from ANZ Grindlays Bank PLC and the name of the bank changed to standard chartered Bank Nepal Limited. The main objective of the bank is to collect deposits and to provide loans for industry, commerce and agriculture but to increase in competition the bank has started to provide home loan and hire purchase loans too. SCB is providing modern banking service such as any banking, any time banking e-banking etc. This bank is able to

earn a very significant profit. SCB claims that it is sincere for its social responsibility and expanding its activities for the social being in current days.

1.4 Focus of the Study:

Financially, it is difficult for an average Nepalese to launch a project or a mega project. But raising the scattered funds from a large numbers of investors by issuing shares, such project launched, since there are a large number of middle class families. The small investors can invest by purchasing shares of such projects in primary market (during initial public offering) or in secondary market. But the general public and investors do not have good knowledge of capital market and its pricing mechanism. The price of the stock is determined by the demand of buyer and supply of seller in NEPSE.

The investment in stock is highly risky being an ownership capital. It bears purchasing power risk; bull-bear risk management risk default risk, liquidity risk, liquidity risk, taxability risk, political risk etc. But the investor like to risk avert. There are various factors affecting the price of share. Some factors are quantitative and their effect of such factors on share price can not be quantified.

These studies focus the sensitivity of the stock price in NEPSE towards various factors. In other words this study intended to determine the factors affecting the price (i.e. market value of stock). This study also focuses on the capital market development in Nepal and the investment opportunities for small investors to reduce the foreign dependency on development process.

1.5 Statement of the Problem:

After the establishment of the NEPSE in 1993, the concept of capital market had emerged and grow rapidly, with in a very short span of time period. The number of listed companies with the NEPSE reached 148. The shares of financial institute play a vital role

in the NEPSE index. The efficient market hypothesis states that three forms of stock markets prevail in theory.

-strong

-semi-strong

-weak

The form of market are determined on the basis of how publicly available information is reflected in the market price of shares. In the real world, the first form of the market does not exist. To say more precisely, the Nepalese stock exchange market is a weak form of market because of the investors do not thoroughly analyze the financial indicators of the public limited companies listed with the NEPSE. The rumor have significant role in share price movement.

Comparatively the shares of publicly quoted commercial banks seem to be the blue chips to the potential investors. The shares of commercial banks largely influence the overall index. The analysis and interpretation of financial statements have been under estimated in selecting and designing investment portfolio. The proposed study will try to explore the form of NEPSE with special reference to commercial bank's share traded in the NEPSE.

1.6 Objectives of the Study:

In Nepal, middle class families are in large number. They can't establish large business independently but can contribute actively to raise funds for mega projects by means of issue of shares. Such investors have less knowledge about share, share price, share transition , capital as well as revenue gain factor effecting the share price and relationships of such factors to the share price. As result, they are not interested on capital market. The study aims to identify the determinants of stock price of commercial banks in NEPSE and their relationship with stock price so that it will be easy to raise the

scattered fund from small investors for mega projects to foster the economic development of the nation.

More specific objective of the study is;

To determine the effect of earnings and book value to the stock price in NEPSE .

To determined the effect of dividend to the stock price in NEPSE

To identity qualitative as well as quantities factors affecting the stock price in NEPSE.

To suggest for the improvements, this should be initiated for development of capital market in Nepal.

1.7 Significance of the Study:

Organizational objective is share price (value) maximization, where in Nepal more than 20 listed companies in NEPSE have lower market price than the par value after the operation of many years. Some organization's market price is near to the par value. More than 50% of the listed companies in NEPSE failed to achieve the objective of value maximizations which is paralyzing the economy of the country, since organizational failure results to the less utilization of national resource only 71 companies among 148 listed companies in NEPSE are rated as a-grade. So small investors are not motivated to make investment in capital market on the other hand, Nepal is highly dependent on foreign loan and grant for investments in productive sector, but the huge amount of local fund with average Nepalese remained idle. Without investing in capital market and other productive sectors are cannot developed.

A few studies have been made on the securities listed in NEPSE. Most of the students made up to present on capital market are related to financial performance evaluation. Capital structure analysis, dividend policy, risk and return etc. But some researchers have been on the care perspectives of the determinants of the stock price. So the present study will be suitable importance for investors, planners, researchers, students and policy makers to meet their personal and organizational objectives. Finally the research intends

to help the national economy through mobilization of idle capital of average Nepalese in productive sectors to accelerate the economic growth and to reduce dependency on foreign assistance.

1.8. Limitation of the Study:

The study has been conducted with certain limitations. The time is one factor of limitation and money is another factor of limitation. Besides these common limitation other limitation are as follows.

-) Most of the data used in the research are of secondary nature; therefore there might be reporting errors.
-) The analysis of the study covers only the short period of 2003 to 2007 (Only five year period) that may not represent the whole
-) Difficult to collect all required data due to business secrecy.
-) Only certain selected bank are studied

1.9 Organization of the Study:

The whole study is divided in to five different chapters.

Chapter 1 Introduction

Chapter 2 Review of Literature

Chapter 3 Research Methodology

Chapter 4 Presentation and Analysis of Data

Chapter 5 Summary, Conclusion and Recommendation

Introduction chapter comprises background of the study, focus of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

Review of literature chapter comprises conceptual review of factor affecting the stock price and review of past thesis.

Research methodology deals with the methods of investigation and includes research design, nature of data collection procedure and tools used.

Data presentation and analysis of data deals with different statistical and financial tools that used in analysis of data

Last chapter includes summary, conclusion and recommendation of the study.

CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is the review of concepts as well as review of past researches in the relevant field of the study. The purpose of review of research is to know that out comes of the past research in the proposed area of studies where similar concept and methodology had been used successfully. Review of literature will help researcher to formulate satisfactory structure of the report. It also help to formulate satisfactory structure of the report. It also helps to familiarize with concept, characteristics, interpretation and terminology used in the report.

To review of related studies or researches in the field of stock price determinants of commercial banks related research work and studies were reviewed by reviewing books, articles and dissertations etc.

2.2 Conceptual frame work

Before getting in to the concept factor determining the stock price of commercial bank, it is logical to familiar with some technical terms, which are in frequent use in research in

capital market and finance. So in this section, some of the technical terms related to capital are defined.

2.2.1 Financial market

Financial market is that market that provides a forum where suppliers of loans and investments transact business directly. The two key financial markets are the money market and the capital market. The money market is a short-term financial market where debt instruments or marketable securities are traded. The long-term securities (bonds and stocks) are traded in the capital market.

2.2.2 Capital Markets

Capital market is a total financial market (long-term and short-term financial market) which relationship is created by a number of institutions and arrangements that allows the suppliers and demands of long-term funds to make transactions. Capital market can be divided into the securities market and the non-securities market. The different types of securities are traded in the securities market. The term securities include long-term transactions (i.e. more than one year) financial tools, which are used by companies to gather the needed long-term funds.

Capital market includes:

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

Stock exchange benefits the whole community in a variety of ways. By enabling procedures to raise capacity it indirectly gives employment to millions of people and consumers to get goods needed by them.

2.2.3 Security Markets.

Security market exists in order to bring together buyers and sellers of securities meaning that they are mechanism created to facilitate the exchange of financial assets. There are many way in which secondary market can be distinguished. One way primary market and secondary markets, Here the key distinction is whether the securities are being offered for sale by issuer. Interestingly, the primary market its self can be sub divided into seasoned and unseasoned new issue. A season new issue refers to the offering of an additional amount of an already existing security. Where as an unseasoned new issue involves initial offering of a security to the public. Unseasoned new equity often referred to as initial public offering

Another way of distinguished between security markets considers the life span of financial assets. Money markets typically involves financial that expire in one year or less, where as capital markets typically involves financial assets with life span of greater than one year ".

2.2.4 Stock market and stock exchanges.

“Secondary markets are those in which outstanding previously issued securities are traded. By far the most active secondary market and the most important one to financial managers, is the stock market. It is the price, knowledge of the stock market in which this price is established is essential fort anyone involved in managing a business.

There are two basic types of stock markets- the organized exchanges, which include the New York stock exchange (NYSE), The American stock Exchange (AMEX), and several regional exchanges, and less formal over the counter markets. Since the organize exchange have actual physical market location and are easier to describe and understand. We shall consider them first. The organized security exchange are tangible physical entitles. Each of the large once occupies its own building has specifically designated members, and has an elected governing body its governors. Members are said to have “seats” on the exchange, although every body stand up. These seats, which are bought, sold give holder the right to trade on the exchange.”

2.2.5 Common Stocks.

A firm can collect funds required by issuing shares and debenture as long-term source of funds. Common stocks are owner ship capital where as debenture creditor ship capital. In between of ownership and creditor ship capitals, performance share capital also exists, which is regarded as a hybrid source of financing. Common stock is “Finance an equity share in the ownership of a company that gives the owner the right to participate in electing the board of directors and voting on other matter brought before the stock holders, in proportion to the number of share hold”. It is a legal representation of an equity (or ownership) position in a corporation. It lies under variable income security between two types of securities fixed income and is a negotiable instrument. A corporate character of company specifies the number of authorized shares of common stock.

“Common stocks have one important investment characteristics and one important speculative characteristic. Their investment value and average market price tend to increased regularly but persistently over the decades as their network builds through the reinvestment of undistributed earnings...., However, most of the time common stock are subject to irrational and excessive price fluctuation in both directions, as the consequence of the ingrained tendency of most people to speculate or gamble, i.e. to give way to hope, fear and greed.

2.2.6 Security

The meaning of security is “some thing given or deposited as surety for the fulfillment of a promise of an obligation, the payment of a debt etc”.

Generally, only a piece of paper represents the investor’s rights to certain prospects or property and conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights is called a security. It may be transferred to another investor, and with it will go all its rights and conditions.

2.3 Stock price

Stock price is the amount of money that has to pay to purchase receives a stock of a company. If buys 20 shares of Nepal Investment Bank from B, she pays RS 4000 for

these 10 shares, than the price of share is RS 200 (i.e. 4000/20). Thus stock price is the amount paid by seller by selling a stock. The stock price is determined in stock market, by market forces, i.e. demand and (buying force) and supply (seller's force). The demand and supply are based on the environmental forces and individuals future expectations/assumptions. The stock (market) price is different from its par value and book value.

2.3.1 Par value

“When a corporation is first chartered it is authorized to issue up to a stated number of shares common stock, each of which will often carry a specified par value. Legally a corporation may be precluded from making payment to common stock holders if doing so would reduce the balance sheet value of stockholders equity below the amount represented by the value of outstanding stock. For this reason the par value is typically low relative to the price for which the stock is initially sold. Some corporations issue on par stock, (In that case, a stated value must be recorded in place of the par value) initial offering price of share may from its par value stocks are issued on premium or discount.

2.3.2 Book Value

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

(Cumulative retained earnings + capital contribution in excess of part + common stock)

Book value of equity

The book value per share is obtained by dividing the book value of the equity by the numbers of share outstanding.

2.3.4 Market price of share

A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter. Generally, par value of most stocks is set at a fairly low figure with compare to their market price at which stock is traded. Market value per share of common stock is the function of the current and expected future dividend of the company and the perceived risk of the stock on the part of investors". Common stock holders are sometime referred to as a residual owner since he or she receives what is left the residual after all other claims on the firm's income and assets have been satisfied. All the companies issue common stock. Common stock holders are true owners of business firm. They invest money with expectation of getting return. The return from common stock is usually from the capital gained earned. If they increase in value after public buy them that's way price for common shares can be more volatile. They move up and due to the factors like economy and company performance.

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

Since the market price of share is very much sensitive to the environmental forces, the share price increase if there is favorable environment and vice versa. This increase in

share price is passed on the market mechanism or market forces i.e. demand and supply. If the earnings and dividends of an organization increase, then the investors has positive perception towards the organization and they like to buy share of that organization, as a result demand increase on the other hand the supply like to hold the shares and supply so that market price of share increase. The investors determine the price. They would like to pay for the share of an organization and the sellers determine the price they would like to receive by sellers share based on their assumption and expectations vary from individuals to individual. Since different person analyzes the same situation differently with their limited knowledge.

The index of stock gives the surrogate of market price of shares. NEPSE index is surrogated of all the listed companies in NEPSE. So it is one of the indicators of stock price in NEPSE. There are various indexes to analyze the stock behavior in the world's capital market. "Stock, market indexes are "pure numbers" used for making comparison between index numbers in the same series or other index number. An index is usually a ratio tabulated from average of different securities. Typically a time series of index numbers is constructed from the same base data and same base value (usually set at 100 or 10 or 1) to make time directly comparable. Some past year is selected as the base year from which index's base value is calculated in Dore to import time perspective to the index." The base of the NEPSE index is 12th February 1994.

2.4 Review of Books

In this section of review of literature, the well-established principles for the valuation of common stock in global context are review from various books. The share price is some how stet wit the valuation of stocks. The internationally set principles are viewed and the abstract of such principles is presented here.

2.4.1 Capitalization of Income methods of valuation.

The capitalization of income method of valuation sets that the "true" or "intrinsic" value of any assets is based on the cash flow that the investor expects to receive in the future;

they are adjusted by a discount rate to reflect not only the time value of money but also the risk ness of the cash flows.

Algebraically, the intrinsic value v. of assets is equal to the sum of assets is equal to the sum of the present values of the assets expected cash flows:

$$V = \frac{C_1}{(1+K)^1} + \frac{C_2}{(1+K)^2} + \frac{C_3}{(1+K)^3} + \dots \quad (2.1)$$

Where c_t denotes the expected cash flow associated with the assets at time t , and k is the appropriate discount rate for cash flows of this degree of risk. In this equation the discount rate is assumed to be same for all period.

2.4.2 Net present value (NPV)

At the current time ($t=0$), if the cost of purchasing an assets is p , then its net present value (NPV) is equal to the differences of its intrinsic value (V) and cost

$$\begin{aligned} \text{I.e. NPV} &= V - P \\ &= \left[\sum_{t=1} \frac{C_t}{(1+K)^t} \right] - P \quad \dots \quad (2.2) \end{aligned}$$

Simply, NPV is the excess of present value of all cash flows over the present value of present out flows (Investments).

Positive NPV is favorable and vice versa.

2.4.3 Internal rate of return (IRR)

IRR approach for investment decision-making is similar to NPV approach IRR (k) is the discount rate, which makes the NPV of the investment to zero.

$$\text{i.e. } 0 = \left[\sum_{t=1} \frac{C_t}{(1+K)^t} \right] - P \quad \dots \quad (2.3)$$

For rational decision making, the investment is viewed favorably if $k^* > k$, and unfavorable if $k^* < k$.

2.4.4. Stock valuation.

Security analysis study companies' earnings and their managements, the economic outlook, the firms' competition, market conditions, and many other factors. Then their research findings are used in the accepted models to estimate the value of an equity share. If the security share and the security's price is less than its estimated value, then it appears to be a good buy –or at least worthy of further investigation. Such valuation models are presented here.

2.4.4.1 Single period valuation model

“ An investor who buys a share of the every corporation's stock for \$50 and then sold it for \$ 55 a year later after collecting a cash dividend of \$ 2.50, earned rate of returning of 15 percent.

$$r = \frac{(p_1 - p_0) + d_1}{p_0} = \frac{(\$55 - \$50) + \$2.50}{\$50} = \$7.50 / \$50 = 15\%$$

If the stock market is effect, then 15 percent is an equilibrium rate of return for Avery's stock

The single period valuation model is given by,

$$P_0 = (p_1 + d_1) / (1 + r) \dots \dots \dots (2.4)$$

Figuring out the risk –adjusted discount rate to use in the valuation model is an important part of the valuation process. A fundamental principal of valuation says that in perfectly efficient markets all securities in an equivalent risk class. Should be to yield the same rate of return, this principle implies that in perfectly efficient markets all securities in an equivalent risk class should be to yield the same rate of return. This principle implies that

Avery's equilibrium rate of return of 15 percent should be used as the risks adjust discount rate to find the present value of Avery's stock.

Where p_1 = market price of a security at period 1

d_1 = dividend per share for period 0 to 1 year

P_0 = present value of stock

r = single period rate of return

2.4.4.2 Dividend Discount Model (DDM)

J.B. Williams and M.J. Gordon have developed a model relation the value of an equity share to its cash dividends. They hypothesized that the value v of a share of stock equals the present value of the infinitive ($t = \infty$) stream of dividends to be received by that stock's owner. This model is known as dividends discount model (DDM)

$$V = \frac{D_1}{(1+K)^1} + \frac{D_2}{(1+K)^2} + \dots + \frac{D_t}{(1+K)^t} + \dots \quad (2.5)$$

Where k is the capitalization rate which is appropriate for the firm's risk class

2.4.4.2.1 The Growth Model

If the dividends amount per share paid the past year D_0 will also be paid over the next year D_1 and year after D_2 and the year after the year after that D_3 and so on that is $D_0 = D_1 = D_2 = D_3 = \dots = D_n$

This is equivalent to assume that the dividend growth rate is zero, because if $g=0$, then $D_t = D_{t-1}$: The present value of stock with zero –growth is (from equation 2.5)

$$V = D_0 \left[\sum_{t=1}^{\infty} \frac{1}{(1+K)^t} \right] \quad (2.6)$$

Using a property of infinite series from Mathematics if $k > 0$, then

$$\sum_{t=1}^{\infty} \frac{1}{(1+K)^t} = \frac{1}{K} \quad (2.7)$$

$$\sum_{t=1}^{\infty} \frac{D}{(1+K)^t} = \frac{D}{K}$$

So, $V = \frac{D}{K}$(2.8)

2.4.4.2.2 The constant –Growth Model

“The next type of DDM to be considered is one that assumption that dividends will grow from period to period at assume that dividends will grow from period at same rate forever and is therefore known as the constant growth model. Specifically, the dividends per share that were paid over the previous year do are expected to grow at a given rate g so that the dividends expected over the next year D, are expected to be equal to $D_0 (1+g)$. Dividends that year after that are again to grow by the same rate g, meaning that $D_2 = D_1(1+g)$ and that the growth rate is constant,

$D_1 = D_0(1+g)$ (2.9)

$D_t = D_0(1+g)^t$ (2.10)

Now in the equation (2.5) substituting D_t by $D_0 (1+g)^t$, we get

$V = \sum_{t=1}^{\infty} \frac{D_0(1+g)^t}{(1+K)^t}$ (2.11)

For zero growth models, the equation (2.12) can be simplified by noting that D_0 is a fixed dollar amount, so it can be written outside the summation sign:

$V = D_0 \left[\sum_{t=1}^{\infty} \frac{(1+g)^t}{(1+K)^t} \right]$ (2.12)

If $K > g$, the equation (2.11) follows a priority of infinite in series from mathematics.

Then,

$\sum_{t=1}^{\infty} \frac{(1+g)^t}{(1+K)^t} = \frac{1+g}{K-g}$ (2.13)

Substituting equation (2.13) into equation (2.12) result in the valuation formula for constant –growth model

$$V = \frac{D_0 [1+g]}{K-g} \dots(2.14)$$

$$\text{Or } V = \frac{D_0 (1+g)}{(k-g)} \dots\dots\dots(2.15)$$

$$V = \frac{D_1}{(k-g)} \dots\dots\dots(2.16)$$

Because, $D_1 = D_0(1+g)$

The equation (2.14) can be reformulated to determine the required rate of return (k) as,

$$K = \frac{D_1}{P} + g$$

Where v is substituted by p the current price of the security

2.4.4.2.3 The multiple growth models.

“A more general DDM for valuing common stocks is the multiple – growth model, with this model the focus is one time in the future (T), after which dividends are expected to grow at a constant rate g. Although the investor is still will be forecast individuals by the investor. Thereafter dividends are assumed to grow by a constant rate ‘g’ that the investor must also forecast, meaning that:-

$$D_{t+1} = D_t(1+g)$$

$$D_{t+2} = D_{t+1}(1+g) = D_t(1+g)^2$$

$$D_{t+3} = D_{t+2}(1+g) = D_t(1+g)^3$$

And so on

2.4.4.3 Valuation Based on a finite Holding period

The capitalization of income method valuation involves, discounting all dividends that are expected throughout the future. But when an investor plan to sell the stock in a year, then the cash flows that the investor expected to receive from purchasing a share of the stock are equal to the dividends expected to be paid one year form now and the expected selling price for the stocks. The intrinsic value of the stock to the investor is given by discounting these two cash flows at the required rate of return.

$$V = \frac{D_1}{(1+K)} + \frac{P_1}{(1+K)} \dots\dots\dots (2.18)$$

Where D1 and p1 rate the expected dividends and selling price at t=1, respectively.

To use equation (2.18) the price of stock at t = 1 should be expected. The simplest approach assumes that the selling price will be based on the dividends that are expected to be paid after selling date. Thus the expected selling price at t=1 is.

$$P_1 = \frac{D_2}{(1+K)^2} + \frac{D_3}{(1+K)^3} + \frac{D_4}{(1+K)^4} + \dots\dots\dots + \sum_{t=1} \frac{D_1}{(1+K)^{t-1}} \dots\dots\dots (2.19)$$

From (2.18) and (2.19) we get,

$$V = \frac{D_1}{(1+K)} + \left[\frac{D_2}{(1+K)^2} + \frac{D_3}{(1+K)^3} + \frac{D_4}{(1+K)^4} + \dots\dots\dots \right] \left[\frac{1}{(1+K)} \right]$$

$$\text{Or } V = \frac{D_1}{(1+K)} + \frac{D_2}{(1+K)^1} + \frac{D_3}{(1+K)^2} + \frac{D_4}{(1+K)^3} + \dots\dots\dots = \sum_{t=1} \frac{D_1}{(1+K)^t} \dots\dots\dots (2.19a)$$

This result to the equation (2.5) thus valuing share of common stock by discounting its dividends up to some point in the future and its expected selling at the time is equivalent to valuing stock by discounting all future dividends.

2.4.4.4 Models based on price earning Ration.

In order to show that interaction of earning, dividends retain earning, and growth rate of the firm, the model can be re3formulated to treat this variable explicitly.

Dividends are related to earning by defining dividends to equal to the pay out ratio of (1-f) time earning as in the equation (2.20) and (2.20a).

Total corporate retain earning of /E dollars assumed to be reinvested with in the all equity firm to earn a rate of return of r since the firm we are discussing here has borrowed no money it equation (2.21) assumed no external capital is invested in the firm.

$$E_t = E_0 (1+g)^t = E_0(1+fr)^t \dots\dots\dots(2.21)$$

$$E_t = e_0 (1+g)^t = e_0(1+fr)^t \dots\dots\dots(2.21a)$$

$$D_t = (1-f) (1+fr)^t(e_0) \dots\dots\dots(2.22)$$

$$d_t = (1-f) (1+g)^t(e_0) \dots\dots\dots(2.22a)$$

$$d_t = (1-f) (e_k) \dots\dots\dots(2.22b)$$

As long as the return ratio is the positive number $f > 0$ dividends per share will change each period is indicated in equation (2.22) if no new shares are issued.

When some fraction of earning is retained and earn a return of r with the firm the present value of share of stock is by subtracting equation (2.22) into (2.19a) to obtain (2.23) in equation (2.23) the beginning cash dividend per share is stated in terms of the beginning earning per share by subtracting $e_0(1-f)$ in place of d_0

$$V_0 = \sum_{t=1} e_0 \frac{(1-f) (1+fr)^t}{(1+K)^t} \dots\dots\dots(2.23)$$

$$\text{Or } V = \sum_{t=1} \frac{d_0(1+fr)^t}{(1+K)^t} = \sum_{t=1} \frac{d_0 (1+g)^t}{(1+K)^t} = \frac{d_1}{k-g} \dots\dots(2.24)$$

Equation (2.23) may be written equivalently as (2.25) since $g = fr$ by substituting $e_1 (1-f)$ for equation (2.24) below, we get (2.26)

$$V_0 = \sum_{t=1} \frac{e_0 (1-f) (1+g)^t}{(1+k)^t} \dots\dots\dots(2.25)$$

$$\text{Or } V_0 = \frac{e_1(1-f)}{k-g} \dots\dots\dots (2.26)$$

k-g

One advantage of the dividend valuation model is that it may be written equivalently in different forms. Equations (2.19a), (2.23), (2.26) all are useful representation of the same model. Equation (2.23) explicitly show the relationship of earnings e , dividends policy f , initial profitability r , the firms cost of capital k , the firms growth rate g , in the determination of the value per share by defining all the variables on a per share basis as shown, or the model may be used to value the entire firm by using the total quantities represented by the variables in capital letters in equation (2, 20) and (2.21).

2.5. Review of Journals and Articles.

Review of Journals, articles and bulletins are important for research. The review of articles and journals give a clear insight on the development and update in the area of research. In this section articles and journals related to Nepalese stock market and its behavior is reviewed.

Paudel Narayan Prasad (April 2002) conduct a research on investing in share of commercial Banks in Nepal, An assessment of Return and Risk elements. This paper tried to determine whether the shares of commercial banks in Nepal were correctly priced and to trace their future price movement when striving towards equilibrium. For this some theoretical models were discussed to analyze return and risk characteristics of these shares. The correlation coefficients between the return on individual shares and the return market portfolio were analyzed with the objective of decomposing the total risk into systematic and nonsystematic components. The analysis of the individual stocks beta coefficient helped determine the minimum rate or return required by the investor to compensate for systematic risk. Statistical results suggested that the analyzed share here were not in equilibrium with most of the share being risky that the market .While all the share examine appear to be attractive to the potential investors since they produce higher rates of return than that of the average stock, the various share have different degree of

risk with some share being unable to generate the minimum rate of return i.e. the sum of risk free rate of return plus minimum for additional risk bearing.

Gurung Jas Bahadur (Dec 2004) conduct a research Growth and performance of security market in Nepal his paper attempted to study the growth trend and analyze the performance of Nepalese securities market like wise the variables such as number of transactions, trading turnover, paid up values, market capitalization and NEPSE index. Where analyzed for the security market. His study on the securities market performance revealed that there was no synchronization among different securities market performance indicators, but it was true that they almost have depicted an erratic trend during the observed period. This indicates the unstable and poor performance of securities market. Relative to the overall economy the size of securities market was very small and the liquidity was also poor. The study suggested that the Nepalese capital market was passing through a bearish situation. The growth and performance of Nepalese securities market was not satisfactory though it was improving gradually.

Joshi Narayan Krishna (May 2006) conduct a research a Day of the week effect. Is it and Industry specific phenomena?"In this study the researcher had examined the day-of-the week effect in stock returns for Nepalese stock market using broad index and industrial indices by accounting for the beginning of the week difference for the sample period 1995 to 2005. The study was particularly motivated by Joshi and K.C.(2005) who reported the Thursday effect for broad stock market Nepal stock exchange(NEPSE)index and Brusalia and Schulman (2003) who documented the Monday effect exists not only in broad stock market but also in most of the industrial indices for us stock market and thus is not an industry specific phenomenon. The results of his studies indicated that the day of the week did not exist in broad index but existed only in few of the industries and was thus the industry specific phenomenon. This finding was inconsistent to that observed for stock market of us. Moreover disappearing phenomenon across industries was also observed in the research.

Bhattarai, Ram Chandra and Joshi Narayan Krishna (2006) conduct a research on stock return and economically Natural behavioral variables relationship in the Nepalese stock

market .Their research was conduct to assets the relationship between economically natural behavioral variables and stock returns documented in Saunders (1993) Hirshlefer and Slumway (2003), Cao and Wei (2004,2005) and Kamastra Charmer and Levi (2003) examining a stock market of single small developing country –Nepal, Nepal stock exchange (NEPSE), that have little attention in the literature. In particular the research was focus on the mood proxy variables, all continuous two were the weather variables (cloud cover and temperature) third was one was a biorhythm variables(sad) . The result of their study showed that there was a significant relationship (positive) between stock return and economically natural behavioral variable represented by the cloud cover. This finding was in consistent to that reported by Saunder (1993) and Hirsheilfer and Slumway (2003) who observed significance temperature and SAD variable the researcher did not observe such significant relationship. The result were also inconsistent to the finding documented in Cao and Wei (2005,2005) and Kamastra Ital (2003) who reported the significant negative relationship between stock returns and temperature and positive and significant relationship between stock return and SAD variable respectively. The findings were however consistent for sub period (The expectation being first sample period) and for one of the industrial index examined. The overall results lead to the conclusion that Nepalese stock market is not efficient in the weak from of the efficiency.

Baral Keshar and Shrestha Surya Kumar (December 2006): Conducted a research “daily stick price behavior of commercial Banks in Nepal” The research used data set on daily stock price of seven commercial banks during the FY 2005/06 (July 16,2005 through July 16, 2006) the result of serial correlation and run tests conclude that the proposition of Random walk Hypothesis(RWH) is Nepalese stock markets does not hold true. This conclusion corroborated wit the conclusions of the past ideas carried out in Nepalese context.

Nepali times (January 2008) published an articles on the “stock invest behavior in Nepal”. The article stated that the problems at the NEPSE are two bold. The first is that it is basically an extension of the casino, with people speculation rather than investing wisely. The other is that the volume of stocks is follow. Globally, the development of stock market has only worked well when guided by institutional investors rather than the

individuals' investors. In Nepal we have individual's investor, led by some rogue insiders, who have turned it into a planters den. The stock exchange has been regulated to a racecourse, with betting dependent in the alcohol content in one's blood rather than national thinking by ones brain. It also states that the NRB should regulate the market and financial sector as an ongoing exercise, not just a reaction to the latest problem. It is vital that the financial sector is seen to be stable if the country is to build edibility as a place to invest in. The business sector also needs to pull up its sock. Corporate governance should be a way of in Nepali companies is to compete in the global arena. Relying on insider trading or dodgy legislation will not work in the long run. Looking ahead, the stock exchange must provide the necessary avenues to assist in funding Nepal's economic growth but this must be based on sound international practices. The article provides following suggestions make trading paperless to reduce speculation, Give the regulators stronger on going powers give favorable tax breaks to mutual funds and institutional investors so that individuals go through them instead of trading directly in the market, acknowledge that stock investment is a long term game and not a short term gamble and accept that decent returns will only occur if the market is healthy.

Hamropalo.com (April 2008) published an article on Nepal stock exchange (NEPSE). In its article it reported that although the stock market is considered a mirror of economy the NEPSE did not reflect the overall performance in the economy. The NEPSE did not reflect the overall performance in the economy. The NEPSE index is dominated by financial institutions according to the date of 16 April 2008, the commercial banks group has 40.71 percent, Development banks group has 24.56 percent and finance company group has 22.70 percent weight age in the total NEPSE making it a total of 86.97 percent. The hydropower group has only 6.40 percent and insurance group has 5.63 percent weight age in sector-wise market distribution: The NEPSE index can completely be as the banking index and not the real barometer of the economy. It mentions that until and unless more companies, including manufacturing companies, are listed in the NEPSE. Its rise or fall both has no rationales.

2.4 Review of master degree previous Dissertations:

Review of master degree previous Dissertations gives a clear insight of the work or the research previously conducted by the researchers and students respective field of study. Several researcher and students respective field of study, Several researchers have conducted research on different aspect of share price behavior. These researchers had mainly tried to study the share price behavior with the help of NEPSE index, volume of stock traded, impact of signaling factors on the behavior of closing market price. Moreover, statistical tools like standard deviation, correlation coefficient, simple regression analysis and t-test were mainly used to study the stock price behavior to examine the relationship of the financial performance and stock price to analysis the risk involved in stock investment and to explore singling effects in stock price. Moreover there were very few researches which were primarily focused on the share price behavior of commercial banks and this gives an important ground to conduct a banks. Out of many thesis and Dissertation some of the relevant thesis or dissertations on share price behavior which has been reviewed are as :

Ojha, Khagendra (2000) conduct a research on financial performance and common stock pricing” The main objectives of the research were to study and examine the difference of financial performances and stock price behavior, the relationship of dividends and stock and to explore the signaling effects in stick price .Ojha has used both primary as well as secondary data were obtained from experts and employees of security market through interviews whereas secondary data were obtained from the publication of NEPSE , SEBON and ministry of Finance .

The main finding of the study were that Nepalese stock market was in a growing stage .Dominance of banking sector was prevalent in the market. Due to this the stick price of the other industries, including finance companies, insurance and manufacturing was not encouraging. Moreover, corporate firms having longer of establishment had relatively stable profitability parameters than those firms established after the economic liberalization of 1990 Dividend per share (DPS) of the firms was relatively more stable than the dividend payout ratio. That is why payout ratio and dividend yields were highly fluctuating during the research period. Due to lack of proper investment opportunities most of the investment most of the investors had directed their saving towards the

secondary stock markets .There was a significant positive correlation between the dividends paid and stock price of banking and manufacturing industries. However, in all other industries there was no perfect correlation between the dividend paid and stock price .There was a positive correlation met worth per share and the stock price pf banking, airlines and hotel industries. Though the profitability factor as mentioned in the study was the major factor for determining the price of the stocks bat it was not the only factor as there were number of other supporting factors like investment opportunities, government policies, companies performances, investors analysis etc that played a vital role for the determination of the stock price in the secondary market.

Adhikari Nabin (2004) studied the behavior of share in the market in his thesis entitled “share price Behavior of joint venture bank in Nepal “ He concluded that the publicly quoted joint venture commercial banks were less risky as compare to the of her average stocks traded in the stock exchange. In this study he has taken seven joint venture commercial banks as a sample for examining the relationship as well as for using different indicators. Concluded that good track record of the financial position, market penetration and continuous declaration of dividends encouraged the potential investors to but the share of joint venture commercial banks emerged as the blue chips in the Nepalese stock market. In the securities market analysis it was found that all the banks under study were under priced and the potential of each banks in gaining in the market remained prevalent.

Gautam, Rekha (2005) conducted a research on “A study on Behavior of stock market price in Nepalese security market”. The main objective of the research was to examine and study the price trend with the help of examine and study the price trend with the help to NEPSE index. Volume of stock traded, impact of signaling factor of NEPSE, to find the correlation coefficient and regression analysis between the sampled companies and to analyze the closing market price of the sampled companies.

The major finding of the study was as follows: The price trend of the sampled companies was not in a predictable trend and the volume of the stock traded was in a fluctuating trend during the study period. The relationship between EPS and DPS and EPS and

NWPS was positive. The regression analysis between the esp. and market price showed that all sample companies had positive regression coefficient which indicate that the price would increase at an average rate. The major signaling factors such as closure of major industries, closure of multinational companies and political determination of four political parties played a major role in determining the NEPSE index. Gautam recommended formulating “Investors protection Act “to remove difficulties such as transaction facilities in the stock market. He also all services while granting approval.

Kumar Netra (Jan 2008) conducted a research on “financial performance indicators and stock price behavior of listed companies NEPSE .The main purpose of this study was examined the relationship between the financial performance (profitability, Dividend and net worth)and common stock price(MPS).The researcher used data from FY 1996/97 to FY 200/06 for analysis. Moreover eight finance companies, two insurance companies’ four manufacturing companies and two hotels were used for analysis. The researcher used financial indicators like return on assets (ROA), return on equity (ROE), Earning per share (EPS), Dividend per share (DPS), Book value per share (BVPS) and market value per share for analysis.

The major finding of the study was analysis of financial indicator showed that Nepalese stock market was still in infant stage and the financial indicators were not much stable. Potential investors were highly attracted towards the share of banking sectors which showed the dominance of banking sector in the stock market. Test of Hypothesis suggested perfect correlation between the financial performance and stock price only the banking sector and not for other groups under study. It also concluded that limited bulk investors, VIP shareholders, brokers, underwriters and the firms were dominating the whole stock market and cases even thought the investors were aware of the theory and concept of stock market they failed to use it because of the malpractice that prevailed in the system. The researcher started spread by the major players of the market than to the actual financial performance showed by the indicators.

The research recommended overall restructuring of NEPSE because of the huge gap between the generalized theory of stock price and practice prevailing in reality.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Before presenting, analyzing and interpreting data, Research Methodology is to be described. In its absence, the result derived may be misunderstood. Research methodology is a systematic way to solve the research problems. It describes the methods and process applied in the entire aspects of the study. It refers to the various sequential steps (along with a rationale of each step) to be adopted by researcher in studying a problem with certain objective in view. Thus the overall approach to research is presented in this chapter. The chapter contains the research design, sample size, sample selection procedure, data collection procedure, Data presenting tool and techniques, variables etc.

3.2 Research Design:

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. It is the specification of methods and procedures for acquiring the information needed. In this study historical as well as descriptive research design is adopted along with correlation and regression analysis. And to identify the qualitative tractors affecting stock price, the descriptive research design is adopted with non-parametric test using liker-type scale.

3.3 Variables:

A variable is a symbol to which numerals or values are assigned so; the variables can take on values. This research intends to identify the factors that the share price in NEPSE. So the market price of share is the dependent variable, which is affected by many variables; such variables regarded as the independent variables in this study. The entire factors that affect the market price of shares such as earnings, dividend, interest rate, liquidity book value of share, economy nation, peace and prosperity, rumors and whims etc. are the independent variables.

3.4 Selection of organization

This study intends to identify the factors that affect the stock price of commercial bank in NEPSE. So the population of the study is all the listed commercial bank in NEPSE up to July 16, 2008, i.e. 17 listed companies. In this study 5 sample organizations are taken into consideration among those 17 listed commercial banks on the basic of convenience sampling.

The Sample Organizations are:

1. Bank of Kathmandu Limited (BOK)
2. Nepal Investment Bank Limited (NIBL)
3. Nepal SBI Bank Limited
4. NABIL Bank Limited (NBL)
5. Standard Chartered Bank Limited (SCB)

The secondary data of sample organization are analyzed to determine the relationship of earning, dividend and book value with market price of share in NEPSE. But to identify the qualitative factors affecting the stock price in NEPSE. Primary information are collected through questionnaire from the senior officers of listed company, SEBO/N, NEPSE, securities brokers and investors, students and teachers of finance.

3.5 Source and nature of data

The study is based on secondary data as well as primary data to show the relationship different variables (Share price-earnings, share price – book value, share price – dividend), secondary data secondary data are used but to determine the factors, which affect the stock price; primary data are collected from the respondents through questionnaire. The respondents of the primary data are senior officer of listed company in NEPSE, stock brokers, stock investors senior of NEPSE, and SEBO/N, University teachers and students of finance etc. Opinions experience and thoughts of participates are of significance to identify the factors determining stock price in NEPSE.

The sources of secondary data are AGM reports of listed companies, SEBO/N, NEPSE and other concerned organization's bulletins publications of different authorities. Researchers, journals, unpublished thesis reports, news paper, internet websites, where as the learners participates of stock markets are the major source of primary information of this study. Thy have shared their valuable ideas and experience in the questionnaire and personal meeting.

3.6 Data collection technique

The researcher consists of both primary as well as secondary data. Since the nature of these two types of data is different the data collection procedure also varies. To collect the primary data questionnaire was prepared and presented to 32 respondents. Either professional investors of potential investors of or market analyzer of the NEPSE, All the respondents thoroughly filled the questionnaire which has been analyzed in the following chapter in qualitative and quantitative way. For the collection of secondary data, the official website of Nepal stock exchange [www.nepal](http://www.nepalstock.com) stock.com was visited from where

the financial reports of concerned companies and other relevant information were taken, from the library of security board of Nepal (SEBO/N), NEPSE and share departments of respective banks. In the same way frequent visit of Nepal national library, central library of TU, Saraswoti Campus library and Shankerdev campus library in order to collect Relevant documents, frequent visit are made to NEPSE office, SEBO/N office Nepal Rastra Bank and respective bank.

3.7 Data analysis Tools

The primary and secondary data collected from various source leads to the logical conclusion, only if the appropriate tools and techniques are adopted to analysis such data. The collected data has no meaning, if data are not analyzed. To analyze the data in this research the researchers has used some statistical tools, which explained here separately.

3.7.1 Statistical tools.

Statistical tools are the measures of the instruments to analyze the collected data from different sources. In statistics, there are numerous statistical tools to analyze data of various natures. In this study, the researcher has used following statistical tools to analyze the data.

3.7.1.1 Average (mean)

Mean is the simplest and the commonly used statistical tools. It defines the average value of distribution. There are various types of average. Arithmetic mean AM (simple and weight) median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure is AM. The value of the AM if obtained by adding together all the items and dividing this by the number of items
Mathematically,

Arithmetic mean (AM) is given by, $\bar{X} = \frac{X}{n} \dots \dots \dots (3.1)$

Where \bar{X} = Arithmetic mean

X = sum of the all values of the variable x

n = number of observations.

3.7.1.2. Standard deviation.

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

Mathematically,

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \dots \dots \dots (3.2)$$

3.7.1.3 Coefficient of Variation.

The standard deviation is absolute measure of dispersion. Where as the coefficient of variation (cv) is a relative measure. To compare the variability between two of more series, CV is more appropriate statistical tools.

Mathematically,

$$CV = \frac{\sigma}{\bar{X}} * 100 \dots \dots \dots (3.3)$$

3.7.1.4 Correlation coefficient.

Correlation coefficient deals with the statistical technique which measures the degree of relationship or association between the variables. The Karl Pearson's coefficient of correlation measure the degree of association between the two variables.

This is the most widely in practice to test the independence assumption which provides us correlation coefficient for the time series data whether they are independent or not statistical tools of correlation we use Karl Pearson's correlation coefficient.

Mathematically,

$$r_{xy} = \frac{\text{cov}(x,y)}{\sigma_x * \sigma_y} \dots\dots\dots (3.4)$$

$$r_{xy} = \frac{n \sum xy - (\sum x)(\sum y)}{(\sum [n x^2 - (\sum x)^2])(\sum [n y^2 - (\sum y)^2])} \dots\dots\dots (3.5)$$

Where r_{xy} is correlation coefficient between two variables x and y

r lies always between $+1$ and -1 .

Where $r = +1$ there is perfect positive correlation.

Where $r = -1$ there is perfect negative correlation.

Where $r = 0$ there is no correlation.

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

Where r lies between 0.5 and 0.699 there is moderate degree of correlation.

Where r less than 0.5 , there is low degree of correlation

3.7.1.5 Simple regression.

Regression and correlation analysis are technique of studying how the variations in one series are related to the variations in another series. Measurement of the degree of relationship between two or more variables is called correlation analysis and using the relationship between a known variable and an unknown variable to estimate the unknown one is termed as regression analysis. Thus correlation measures the degree of relationship between the variables while regression analysis shows how the variables are related. Thus

regression and correlation analysis determines the nature and the strength of relationship between variables.

The equation of the regression line where the dependent variable y is determined by the independent variable x is given as:

$$Y = a + bX$$

$$a = y - \text{intercept}$$

Where

b = slope of the regression line (i.e. it measures the change y per unit in x) of regression coefficient of Y on X

3.7.1.6 Multiple Regressions.

Assuming that all variable are closely related, we can estimate the unknown variable of one variable from the given o known variables of the other variables. Multiple regression analysis is a logical extension of the simple linear regression analysis. In multiple regression analysis instead of single independent variable, two or more independent variable is used to estimate the unknown values of a dependent variable. The fundamental concepts in multiple regressions are similar to those of simple regression.

The multiple regression equation describes the average relationship between one dependent variable and two or more independent variables and this relationship is very much useful for estimating or predicting the dependent variable, thus a multiple regression equation of x_1 on x_2 and x_3 if an equation for estimating a dependent variable x_1 from two independent variables x_2 and x_3

The multiple regression equation of dependent variable x_1 on two independent variables x_2 and x_3 is given by

$$X_1 = a_1 + b_1x_2 + b_2x_3$$

Where $a_1 = x_1$ intercept = the value of x_1 when two independent variables x_2 and x_3 are zero (i.e. $x_2 = 0$ and $x_3 = 0$)

B_1 = the partial regression coefficient of x_1 on x_2 when x_3 is held constant (i.e. the change in x_1 for each unit x_2 when x_3 is held constant)

B_2 = the partial regression coefficient of x_1 on x_2 when x_3 is held constant (i.e. the change in x_1 for each unit change in x_3 , when x_2 is held constant)

3.7.1.7 Coefficient of Determination.

The coefficient of determination gives the percentage variation in the dependent variable that is accounted for by the independent variables in other words, the coefficient of determination gives the ratio of the expected variances to the total variance. The coefficient of determination is given by the square of the correlation coefficient, i.e. r^2

So the coefficient of determination = $r^2 = \frac{\text{Expected variance}}{\text{Total variance}} \dots$ (3.7)

3.7.1.8 Testing of Hypothesis

Testing of hypothesis is one of the most important aspects of the theory of decision making. It consists of decision rules required for drawing probabilistic inferences about the population parameters. It often involves deciding at any given point of time whether a given population parameter is the same as before as claimed and has changed

A quantitative statement about the population parameter is called a hypothesis, In other words it is an assumption that is made about the population parameter and then its validity is tested. It may or may not be found valid on verification. The act of verification involves testing the validating of such assumption, when undertaken on the basis of sample evidence, is called statistical hypothesis or testing of hypothesis or test of significance. For the test of hypothesis t-test is made in this study.

3.7.1.9. z –test.

To test the significance of the qualitative factors, collected from primary source, z- test is carried out, z-test is made, since the sample size is more than 30 (i.e. 36). The test of single mean for large samples (N ...30) under ho is:

$$Z = \frac{(\bar{X} - \mu)}{s.e.(\bar{x})}$$

Where, $s.e.(\bar{x}) = \text{standard error of mean} = \frac{\sigma}{\sqrt{n}}$

In this study the population means (μ) will be assumed zero assuming that such qualitative factors doesn't affect market price of share.

3.7.1.10. t-test

t-test is applied for the test of small sample. If the sample and t-test is used

$$t = \frac{r \sqrt{n-2}}{\sqrt{1-r^2}} \quad \Leftrightarrow \quad t_{n-2}$$

Where

r= simple correlation coefficient.

n = number of observations.

3.7.2 Financial Tools.

Except the statistical tools, some financial tools are also used in this research work. The major financial tools used in this research are:-

3.7.2.1. Earning per share (EPS)

The earning per share (EPS) is the share of a stock on the earning of the company.

Mathematically:

$$\text{EPS} = \text{Total Earning of a company} / \text{No of shares outstanding} \text{ ----- (3.8)}$$

3.7.2.2. Dividend per share (DPS)

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

Mathematically,

$$\text{DPS} = \text{Total Dividend Paid} / \text{No of shares outstanding} \text{ ----- (3.9)}$$

3.7.2.3. Market price per share (MPS)

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

$$\text{MPS} = \text{Total market capitalization} / \text{No of shares outstanding} \text{ ----- (3.10)}$$

3.7.2.4. Book value per share (BPS)

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

Mathematically,

$$\text{BPS} = \text{Net worth} / \text{No. of shares outstanding} \text{ ----- (3.11)}$$

3.8 Methods of Data Presentation:

The collected data are presented in the simple and easily understandable tables. To make those data clearer and more informative such data have been presented in figures like bar diagram, trend line, pie chart which ever is relevant to explain the data more effectively such data in the tables and figures are analyzed using various statistical, mathematical and financial tools and techniques.

CHAPTER –IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter deals with the main body of the study i.e. presentation and analysis of data as a sample of five commercial banks listed in NEPSE and different respondents of questionnaire. I will elaborate the data on the basis of various statistical and financial tools in this chapter. I will deeply analyze the collected useful and essential data to draw the main conclusion regarding the stock price determinants of the commercial bank.

4.1.1 Analysis of Individual Bank.

The summary of the financial data of the sampled listed companies of this study presented with five year date (from fiscal year 2003/4 to 2007/8 i.e. 2060/61 to 2064/65 if available including market price of share(MPS: high, low and closing value) , Dividend per share (DPS, cash Stock and total dividends), earning per share EP, book value per share(BPS or net worth per share) and market capitalization in table 4.1.

Table 4.1

Summary of the Financial Data of the Sampled Listed Company

company	Fiscal year		2003/4	2004/5	2005/6	2006/7	2007/8
Bank of Katmandu	MPS	High	310	472	881	1375	2361
		Low	175	280	422	691	1200
		Clo	295	430	850	1375	2350
	DPS	Cash	10	15	18	20	2.11
		Stock	-	-	30%	-	40%
		Total	10	15	430.5	20	602.11
	EPS		27.40	30.10	43.67	43.67	59.94
	BPS		218.38	213.60	230.67	164.68	222.51
	Market cap		1367.56	1993.40	3940.44	8293.19	14173.82
Nepal Investment Bank	MPS	High	942	1430	1265	1729	3101
		Low	745	760	762	1000	1305
		Clo	940	800	1260	1729	2450
	DPS	Cash	15	12.56	20	5	7.50
		Stock	-	-	35.46%	25%	33.33%
		Total	15	12.56	633.1	617.5	444.12
	EPS		51.70	39.31	59.35	62.56	57.87
	BPS		246.88	199.83	239.67	234.37	223.17
	Market cap		2775.75	2362.34	7441.38	13855.39	24564.54
Nepal SBI Bank	MPS	High	477	480	689	1176	2660
		Low	290	315	335	505	1000
		Clo	290	335	612	1176	1511
	DPS	Cash	-	-	5	12.59	-
		Stock	-	-	-	35%	-
		Total	-	-	5	541.44	-
	EPS		14.25	13.29	18.27	39.35	28.33
	BPS		146.80	159.54	151.78	178.04	160.57
	Market cap		1044	1446.04	3964.56	7618.17	9788.31

Nabil Bank	MPS	High	1005	1515	2300	5050	6700
		Low	705	1000	1500	2025	3410
		Clo	1000	1505	2240	5050	5275
	DPS	Cash	65	70	85	100	60
		Stock	-	-	-	40%	40%
		Total	65	70	85	2210	1500
	EPS		92.61	105.45	129.21	137.08	108.31
	BPS		301.37	337.16	381.36	418.39	354
	Market cap		4909.95	7389.47	10998.29	24795.25	36259.98
	Standard Chartered Bank	MPS	High	1800	2350	3775	5900
Low			1520	1553	2200	3058	4505
Clo			1745	2345	3775	5900	6830
DPS		Cash	110	120	130	80	80
		Stock	-	-	10%	50%	50%
		Total	110	120	720	3495	2430
EPS			143.55	143.55	175.84	167.37	131.92
BPS			399.24	422.37	468.22	512.12	
Market cap			6537.47	8785.32	14142.62	24382.08	42337.95

Source: NEPSE Trading Report AGM Reports of the Sample Listed Banks.

Note: Market Cap: for capitalization.

Clo: for closing market price of share

Stock dividend for the fiscal year 2007/2008 is the stock price of February 24, 2009

Calculation of dividend per share with stock dividend

Total dividends= Cash dividends + stock dividend % next year's stock price

For BOK

Fiscal Year 2006/7

$18 + 30\% \text{ of } 1375 = 18 + 412.5 = 430.5$

Fiscal year 2007/8

$$2.11 + 40\% \text{ of } 1500 = 2.11 + 600 = 602.11$$

For NIB

Fiscal Year 2005/6

$$20 + 35.46\% \text{ of } 1729 = 20 + 613.10 = 633.10$$

Fiscal Year 2006/7

$$5 + 25\% \text{ of } 2450 = 5 + 612.5 = 617.5$$

Fiscal Year 2007/8

$$7.50 + 33.33\% \text{ of } 1310 = 7.50 + 436.62 = 444.12$$

For SBI

Fiscal Year

$$12.59 + 35\% \text{ of } 1511 = 12.59 + 528.85 = 541.44$$

For Nabil Bank

Fiscal Year 2006/7

$$100 + 40\% \text{ of } 5275 = 100 + 2110 = 2210$$

Fiscal Year 2007/8

$$60 + 40\% \text{ of } 3600 = 60 + 1440 = 1500$$

For SCB

Fiscal Year 2005/6

$$130+10\% \text{ of } 5900 = 130+590=720$$

Fiscal year 2006/7

$$80+50\% \text{ of } 6830 = 80+3415= 3495$$

Fiscal Year 2007/8

$$80+50\% \text{ of } 4700 = 80+2350 = 2430$$

4.2 Relationship of EPS, DPS, and BPS to MPS

To analyze the relationship of EPS, DPS, and BPS to MPS, it is assumed that the market price of share is influence with change in EPS, DPS and BPS. So Mps is the dependent variable: Where as BPS, EPS, and BPS are independent variables. Here in this section, relationship of EPS, DPS and BPS with MPS is determined separately to each of the sampled listed companies. The correlation analysis is performed to determine the relationship of EPS, DPS and BPS with MPS. To determine the effect of DPS, EPS, and BPS on MPS, simple correlation as well as their coefficient of Determination are calculated. For test of hypothesis of simple correlation coefficients calculated t-value are compared with the tabulated t-value at 95% level of significance. To determine the magnitude of the effect of the independent variable to the dependent variable, simple regression analysis are made and the magnitude is identified after determining the regression equation.

4.2.1 Correlation and Regression Analysis of (BOK)

Table 4.2 summarizes the financial performance of BOK over last 5 year period and table 4.3 shows the relationship (correlation) of EPS, DPS and BPS to MPS along with the significance of the relationship

Table 4.2

Summary of the financial performance of (BOK)

Year	MPS(a)	DPS(b)	BPS(c)	EPS(d)
2003/4	295	10	218.38	27.40
2004/5	430	15	213.60	30.10
2005/6	850	430.5	230.67	43.67
2006/7	1375	20	164.68	43.67
2007/8	2350	602.11	222.51	59.94
Mean	1060	215.52	209.97	40.96
SD	746.933	251.53	23.33	11.6339
CV	70.47	116.71	11.11	28.40

Source: Table 4.1

Table 4.3

Relationship of BPS, EPS and DPS with MPS of BOK

Variables	R	R ²	t-cal	t-table	Remarks
Rab	0.719	0.5169	2.1429	3.1282	Insignificant
Rac	-0.128	0.01638	2.2749	3.1282	Insignificant
Rad	0.966	0.9332	2.728	3.1282	Insignificant

Where,

t-table value is at 95% of level of significance (n-2=5-2=3degree of freedom)

rab = Correlation coefficient of 'a' and 'b'.

r² = Correlation coefficient of (simple) determination

SD = Standard Deviation

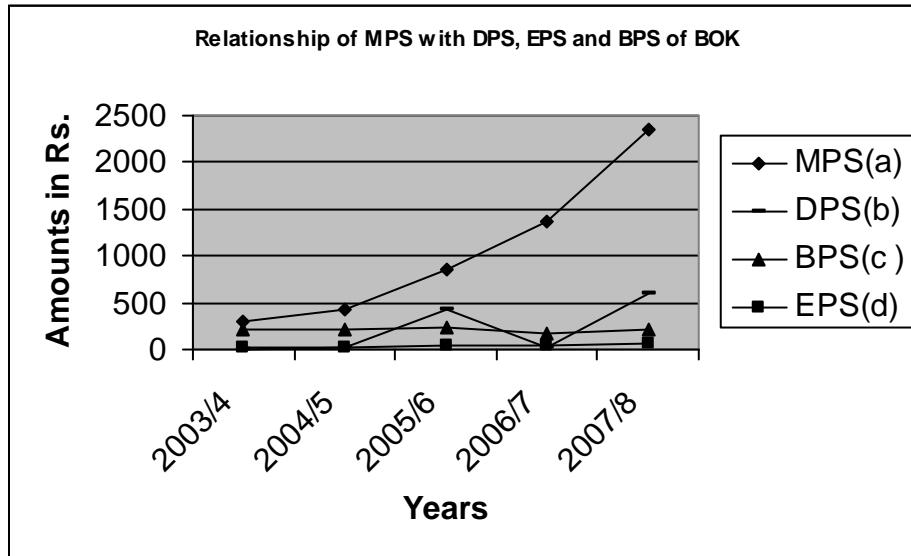
CV = Coefficient of Variation

Mean = Arithmetic Mean

It is revealed from the above tables and figure (4.1) that BOK has not consistency performance its last five year period. DPS is highly volatile with 116.71% CV. In comparison to DPS, EPS and MPS are less volatile but these have also high volatility with 70.47% CV of MPS on the other hand BPS and EPS has relatively consistent performance with 11.11% CV and 28.40% CV respectively. The simple correlation analysis revealed that the MPS is positively correlated with the independent variables, (i.e. DPS and EPS) but the MPS is Negatively correlated with BPS, Which indicate that on increasing DPS, and EPS, MPS also increase and vice versa. EPS is more positively correlated to MPS than DPS. The coefficient of determination shows that 93.32% of the change in MPS is explained by EPS, 51.69 % of the changes in MPS are explained by DPS and 1.64% of the changes in MPS is explained by BPS. The simple correlation coefficient of DPS, BPS and EPS with MPS are not significant at 95% level of significance even though EPS is relatively more positively with MPS than DPS.

The Linear Relationship of DPS, EPS, BPS and MPS of BOK is presented in figure 4.1

Figure: 4.1



Source: Table 4.2

From the simple regression analysis, the regression equation is found (MPS being dependent).

MPS on DPS

$$\text{MPS} = -41.167 + 0.0242\text{DPS}$$

The regression constant -41.167 implies that when DPS is zero MPS is RS -41.167 (but in practice market price of share never becomes negative, even zero share always some positive value) DPS increase by Re 1; MPS also increase by 0.242 and vice versa. The simple correlation coefficient is 0.719.

MPS on BPS

$$\text{MPS} = 214.20 - 0.00399\text{BPS}$$

The regression constant 214.20 implies that when BPS is zero MPS is RS 214.20 BPS increase by Re 1, MPS decrease by -0.00399 and vice versa. The simple correlation coefficient is -0.128.

MPS on EPS

$$\text{MPS} = 25.00 + 0.01503 \text{ EPS}$$

The regression constant 25.00 implies that when DPS is zero MPS is RS 25.00 EPS increase by Re 1, MPS also increase by 0.01503 and vice versa. The simple correlation coefficient is 0.966.

4.2.2 Correlation and Regression Analysis of (NIBL)

Table 4.4 summarizes the financial performance of NIBL over last 5 year period and table 4.5 shows the relationship (correlation) of EPS, DPS and BPS to MPS along with the significance of the relationship

Table 4.4

Summary of the financial performance of (NIBL)

Year	MPS(a)	DPS(b)	BPS(c)	EPS(d)
2003/4	940	15	246.88	51.70
2004/5	800	12.56	199.83	39.31
2005/6	1266	633.1	239.67	59.35
2006/7	1729	617.5	234.37	62.56
2007/8	2450	444.12	223.17	57.87
Mean	1437	344.46	228.784	54.16
SD	598.98	278.02	16.41	8.22
CV	41.67	80.71	7.17	15.23

Source: Table 4.1

Table 4.5

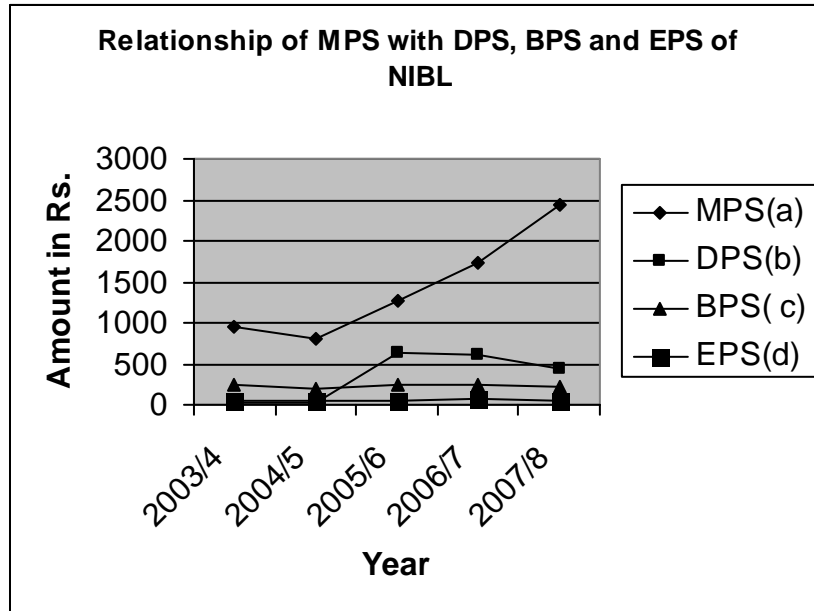
Relationship of BPS, EPS and DPS with MPS of NIBL

Variables	R	r ²	t-cal	t-table	Remarks
Rab	0.608	0.3696	3.3092	3.1282	Significant
Rac	0.0718	0.0052	4.0332	3.1282	Significant
Rad	0.6502	0.423	4.6174	3.1282	Significant

It is revealed from the above tables and figure (4.2) that NIBL has not consistent performance its last five year period. DPS is highly volatile with 80.71% CV. In comparison to DPS, EPS and MPS are less volatile but these have also high volatility with 41.67% CV of MPS on the other hand BPS and EPS has relatively consistent performance with 7.17% CV and 15.2% CV respectively. The simple correlation analysis revealed that the MPS is positively correlated with all the independent variables, (i.e. DPS BPS and EPS), Which indicate that on increasing DPS BPS, and EPS, MPS also increase and vice versa. EPS is more positively correlated to MPS than DPS and BPS. The coefficient of determination shows that 42.3% of the change in MPS is explained by EPS, 36.96 % of the changes in MPS is explained by DPS and 0.52% of the changes in MPS is explained by BPS. The simple correlation coefficient of DPS, BPS and EPS with MPS are not significant at 95% level of significance even though EPS is relatively more positively with MPS than DPS and BPS.

The Linear Relationship of DPS, EPS, BPS and MPS of NIBL is presented in figure 4.2

Figure: 4.2



Source: Table 4.4

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

MPS on DPS

$$\text{MPS} = -61.4 + 0.282 \text{ DPS}$$

The regression constant -61.4 implies that when DPS is zero MPS is RS -61.4 (but in practice market price of share never becomes negative, even zero share always some positive value) DPS increase by Re 1; MPS also increase by 0.282 and vice versa. The simple correlation coefficient is 0.608.

MPS on BPS

$$\text{MPS} = 225.95 + 0.00196 \text{ BPS}$$

The regression constant 225.95 implies that when BPS is zero MPS is RS 225.95 BPS increase by Re 1, MPS also increase by 0.00196 and vice versa. The simple correlation coefficient is 0.0718.

MPS on EPS

$$\text{MPS} = 41.33 + 0.00892 \text{ EPS}$$

The regression constant 41.33 implies that when EPS is zero MPS is RS 41.33 EPS increase by Re 1, MPS also increase by 0.00892 and vice versa. The simple correlation coefficient is 0.6502.

4.2.3 Correlation and Regression Analysis of (SBI)

Table 4.6 summarizes the financial performance of SBI over last 5 year period and table 4.7 shows the relationship (correlation) of EPS, DPS and BPS to MPS along with the significance of the relationship

Table 4.6

Summary of the financial performance of (SBI)

Year	MPS(a)	DPS(b)	BPS(c)	EPS(d)
2003/4	290	-	146.80	14.25
2004/5	335	-	159.54	13.29
2005/6	612	5	151.78	18.27
2006/7	1176	541.44	178.04	39.35
2007/8	1511	-	160.57	28.33
Mean	784.8	109.29	159.346	22.30
SD	481.12	216.08	10.63	9.88
CV	61.30	197.73	6.67	44.32

Source: Table 4.1

Table 4.7

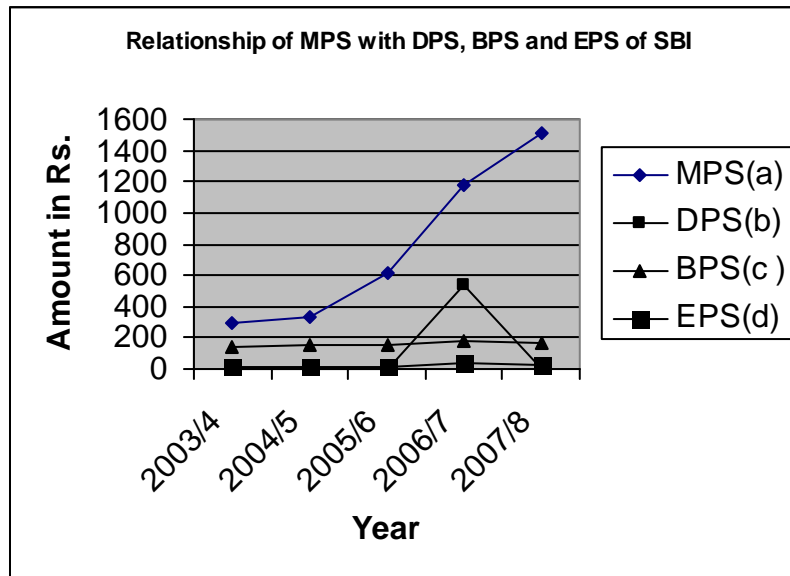
Relationship of BPS, EPS and DPS with MPS of SBI

Variables	R	r ²	t-cal	t-table	Remarks
Rab	0.4058	0.1646	2.56158	3.1282	Insignificant
Rac	0.6108	0.3730	2.559	3.1282	Insignificant
Rad	0.8319	0.6920	3.1690	3.1282	Significant

It is revealed from the above tables and figure (4.3) that SBI has not consistent performance its last five year period. DPS is highly volatile with 197.73% CV. In comparison to DPS, EPS and MPS are less volatile but these have also high volatility with 61.30% CV of MPS on the other hand BPS and EPS has relatively consistent performance with 6.67% CV and 44.32% CV respectively. The simple correlation analysis revealed that the MPS is positively correlated with all the independent variables, (i.e. DPS BPS and EPS), Which indicate that on increasing DPS BPS, and EPS, MPS also increase and vice versa. EPS is more positively correlated to MPS than DPS and BPS. The coefficient of determination shows that 69.20% of the change in MPS is explained by EPS, 16.46 % of the changes in MPS are explained by DPS and 37.30% of the changes in MPS are explained by BPS. The simple correlation coefficient of DPS, BPS and EPS with MPS are not significant at 95% level of significance even though EPS is relatively more positively with MPS than DPS and BPS.

The Linear relationship of DPS, EPS, BPS and MPS of SBI is presented in figure 4.3

Figure: 4.3



Source: Table 4.6

From the simple regression analysis, the regression equation is found (MPS being dependent).

MPS on DPS

$$\text{MPS} = - 33.75 + 0.1822 \text{ DPS}$$

The regression constant - 33.75 implies that when DPS is zero MPS is RS – 33.75 (but in practice market price of share never becomes negative, even zero share always some positive value) DPS increase by Re 1; MPS also increase by 0.1822 and vice versa. The simple correlation coefficient is 0.4058.

MPS on BPS

$$\text{MPS} = 148.74 + 0.0135 \text{ BPS}$$

The regression constant 148.74 implies that when BPS is zero MPS is RS 148.74 BPS increase by Re 1, MPS also increase by 0.0135 and vice versa. The simple correlation coefficient is 0.6108.

MPS on EPS

$$\text{MPS} = 9.285 + 0.01709 \text{ EPS}$$

The regression constant 9.285 implies that when EPS is zero MPS is RS 9.285 EPS increase by Re 1, MPS also increase by 0.01709 and vice versa. The simple correlation coefficient is 0.8319.

4.2.4. Correlation and Regression analysis of (NBL)

Table 4.8 summarizes the financial performance of NBL over last 5 year period and table 4.9 shows the relationship (correlation) of EPS, DPS and BPS to MPS along with the significance of the relationship

Table 4.8

Summary of the financial performance of (NBL)

Year	MPS(a)	DPS(b)	BPS(c)	EPS(d)
2003/4	1000	65	301.37	92.61
2004/5	1505	70	337.16	105.49
2005/6	2240	85	381.36	129.21
2006/7	5050	2210	418.39	137.08
2007/8	2575	1500	354	108.31
Mean	3014	786	358.46	114.54
SD	1799.43	901.27	39.62	16.28

CV	59.67	114.66	11.05	14.21
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Source: Table 4.1

Table 4.9

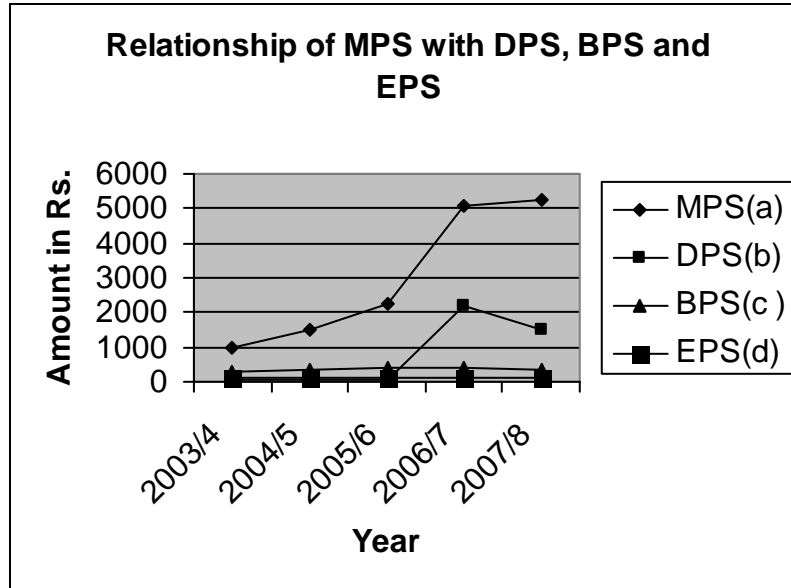
Relationship of BPS, EPS and DPS with MPS of NBL

Variables	R	r ²	t-cal	t-table	Remarks
Rab	0.9358	0.8757	2.214	3.1282	Insignificant
Rac	0.6769	0.4582	2.9508	3.1282	Insignificant
Rad	0.5344	0.2856	3.222	3.1282	Significant

It is revealed from the above tables and figure (4.4) that NBL has not consistent performance its last five year period. DPS is highly volatile with 114.66% CV. In comparison to DPS, EPS and MPS are less volatile but these have also high volatility with 59.7% CV of MPS on the other hand BPS and EPS has relatively consistent performance with 11.05% CV and 14.4% CV respectively. The simple correlation analysis revealed that the MPS is positively correlated with all the independent variables, (i.e. DPS BPS and EPS), Which indicate that on increasing DPS BPS, and EPS, MPS also increase and vice versa. DPS is more positively correlated to MPS than EPS and BPS. The coefficient of determination shows that 87.57% of the change in MPS is explained by DPS, 45.82 % of the changes in MPS is explained by BPS and 28.56% of the changes in MPS is explained by EPS. The simple correlation coefficient of DPS, BPS and EPS with MPS are not significant at 95% level of significance even though DPS is relatively more positively with MPS than BPS and EPS.

The Linear relationship of DPS, EPS, BPS and MPS of NBL is presented in figure 4.4

Figure: 4.4



Source: Table 4.8

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

MPS on DPS

$$\text{MPS} = - 626.77 + 0.47 \text{ DPS}$$

The regression constant - 626.77 implies that when DPS is zero MPS is RS – 626.77 (but in practice market price of share never becomes negative, even zero share always some positive value) DPS increase by Re 1, MPS also increase by 0.47 and vice versa. The simple correlation coefficient is 0.9358.

MPS on BPS

$$\text{MPS} = 313.52 + 0.149 \text{ BPS}$$

The regression constant 313.52 implies that when BPS is zero MPS is RS 313.52 BPS increase by Re 1, MPS also increase by 0.149 and vice versa. The simple correlation coefficient is 0.6769.

MPS on EPS

$$\text{MPS} = 99.96 + 0.0048 \text{ EPS}$$

The regression constant 99.96 implies that when EPS is zero MPS is RS 99.96 EPS increase by Re 1, MPS also increase by 0.0048 and vice versa. The simple correlation coefficient is 0.5344.

4.2.5. Correlation and Regression Analysis of (SCB)

Table 4.10 summarizes the financial performance of SCB over last 5 year period and table 4.11 shows the relationship (correlation) of EPS, DPS and BPS to MPS along with the significance of the relationship

Table 4.10

Summary of the financial performance of (SCB)

Year	MPS(a)	DPS(b)	BPS(c)	EPS(d)
2003/4	1745	110	399.24	143.55
2004/5	2345	120	422.37	143.55
2005/6	3775	720	468.22	175.84
2006/7	5900	3495	512.12	167.37
2007/8	6830	2430	401.51	131.92
Mean	4119	1375	440.69	145.8
SD	1970.93	1357.33	43.47	11.83
CV	47.85	98.72	9.86	8.11

Source: Table 4.1

Table 4.11

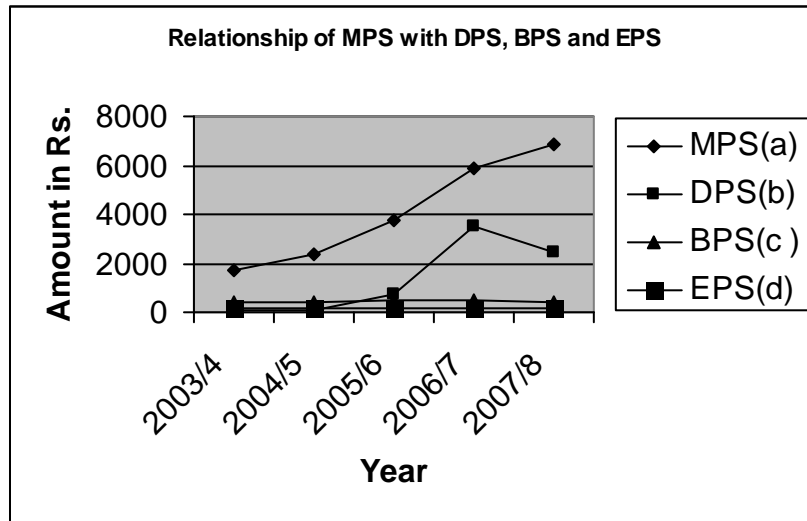
Relationship of BPS, EPS and DPS with MPS of SCB

Variables	R	r ²	t-cal	t-table	Remarks
Rab	0.9039	0.8170	2.293	3.1282	Insignificant
Rac	0.3325	0.11056	3.7316	3.1282	Significant
Rad	0.0727	0.0053	4.0317	3.1282	Significant

It is revealed from the above tables and figure (4.5) that SCB has consistence performance its last five year period. DPS is volatile with 98.72% CV. In comparison to DPS:, EPS and MPS are less volatile these have also volatility with 47.85% CV of MPS on the other hand BPS and EPS has relatively consistent performance with 9.86% CV and 8.11% CV respectively .The simple correlation analysis revealed that the MPS is positively correlated with all the independent variables, (i.e. DPS BPS and EPS), Which indicate that on increasing DPS BPS, and EPS,; MPS also increase and vice versa. DPS is more positively correlated to MPS than EPS and BPS. The coefficient of determination shows that 81.70% of the change in MPS is explained by DPS, 11.05 % of the changes in MPS is explained by BPS and 0.53% of the changes in MPS is explained by EPS. The simple correlation coefficient of DPS, BPS and EPS with MPS are not significant at 95% level of significance even though DPS is relatively more positively with MPS than EPS and BPS.

The Linear relationship of DPS, EPS, BPS and MPS of SCB is presented in figure 4.5

Figure: 4.5



Source: Table 4.10

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

MPS on DPS

$$\text{MPS} = -1189.06 + 0.6225 \text{ DPS}$$

The regression constant - 1189.06 implies that when DPS is zero MPS is RS -1189.06 (but in practice market price of share never becomes negative, even zero share always some positive value) DPS increase by Re 1, MPS also increase by 0.6225 and vice versa. The simple correlation coefficient is 0.9039.

MPS on BPS

$$\text{MPS} = 410.486 + 0.00733 \text{ BPS}$$

The regression constant 410.486 implies that when BPS is zero MPS is RS 410.486 BPS increase by Re 1, MPS also increase by 0.00733 and vice versa. The simple correlation coefficient is 0.3325.

MPS on EPS

$$\text{MPS} = 144.022 + 0.00043 \text{ EPS}$$

The regression constant 144.022 implies that when EPS is zero MPS is RS 144.022 EPS increase by Re 1, MPS also increase by 0.00043 and vice versa. The simple correlation coefficient is 0.0727.

4.3 Trend Analysis of NEPSE

The trend of NEPSE index of last 14 year is shown in table 4.12

Table 4.12

The trend of NEPSE index

FY	NEPSE (index) Y	Deviation from year 2000/01 X	XY	X ²	Trend Value (Yc)
1994/95	195.48	-6	-1172.88	36	300.086
1995/96	185.61	-5	-928.05	25	305.096
1996/97	176.31	-4	-705.24	16	310.106
1997/98	163.35	-3	-490.05	9	415.116
1998/99	216.92	-2	-432	4	320.126
1999/00	360.7	-1	360	1	325.136
2000/01	348.43	0	0	0	330.146
2001/02	227.54	1	227.54	1	335.156
2002/03	204.86	2	409.72	4	340.166
2003/04	222.04	3	666.12	6	345.176
2004/05	286.67	4	1146.68	16	350.186
2005/06	386.83	5	1934.15	25	355.196
2006/07	683.95	6	4103.7	36	360.206
2007/08	963.36	7	6743.52	49	365.216

Total	4622.05	7	11143.21	228	
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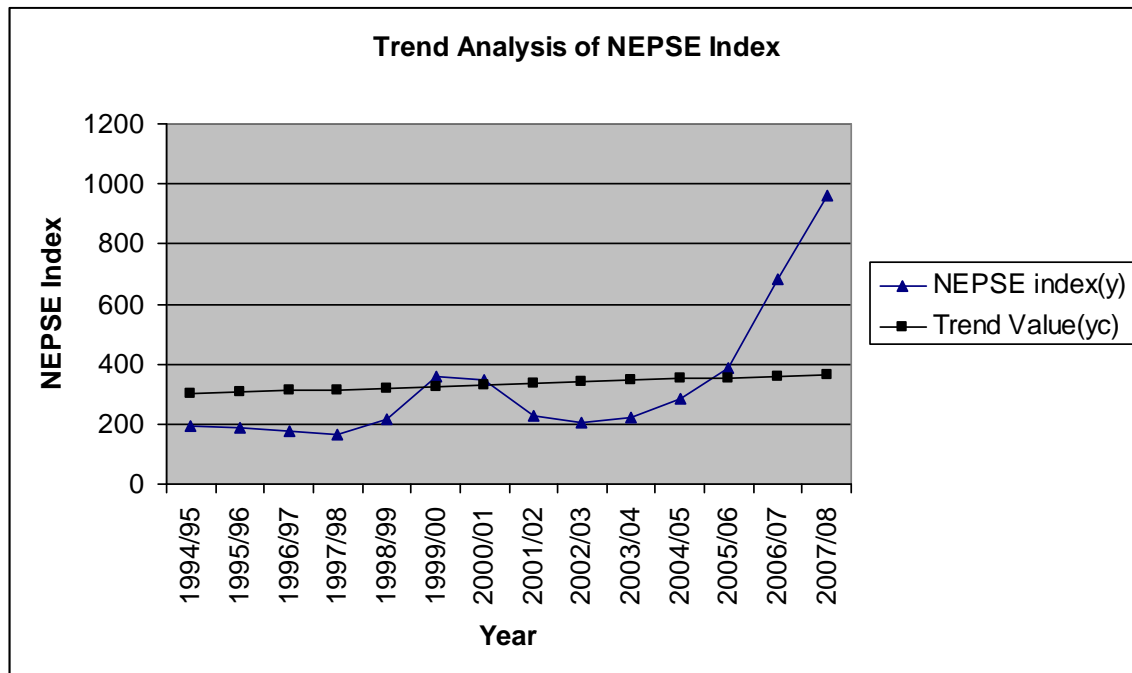
Source: SEBON Annual report 2007/8

The regression equation or the trend line is given by $yc = a + bx$

$$\text{As, } a = \frac{\sum y}{n} = \frac{4625.05}{14} = 330.146$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{1143.21}{228} = 5.01$$

Fig 4.6



The comparison of actual NEPSE index (Y) and the trend value of NEPSE index (yc, calculated)

From above trend analysis it is shown that NEPSE index is in increasing trend. From the year 1994/95 to 2000/ the NEPSE index is found below the trend line but from 2000/01 to 2007/08 it is found more than the trend line. During the period 1994/95 to 1997/98

NEPSE index is decreasing, during the period 1997/ 98 to 1999/00 NEPSE index was in prosperity, and 1999/00 to2002/03 it was suffering, during the period 2002/03 to 2005/06 it was in prosperity and during period 2005/06 to 2007/08 it was increase rapidly but in now days NEPSE index regularly falling down it is not shown in table.

The comparison of actual NEPSE index (Y) and the trend value of NEPSE index (yc, calculated)

4.4 Analysis of Primary Data

To explore the qualitative factor affecting the market price of share in NEPSE, Primary information was collected from the respondents of the questionnaire .16 questions are set for collection of information. 32 respondents fill up the questionnaire. Primary information are analyze following.

Classification of Respondents

Table 4.13

Classification Respondents Under sex

Person	Number	Percent
Male	24	75
Female	8	25
Total	32	100

Table 4.14

Classification Respondents Under age

Person	Number	Percentage
Below 30	14	43.75
Above 30	18	56.25
Total	32	100

Table 4.15

Classification Respondents Under occupation

Occupation	Number	Percentage
Professional Investor	4	12.25
Potential Investor	18	56.25
Market Analyzer	2	6.25
Others	8	25
Total	32	100

4.4.1 Major Purpose to Invest in Company Stock

The response of the respondents for the major purpose to invest in company stock were found as in table 4.16

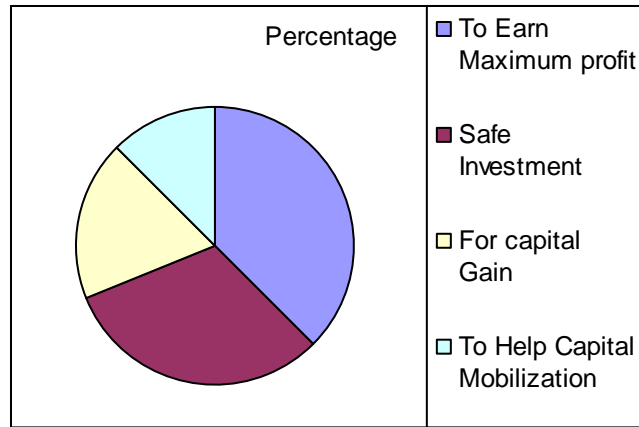
Table 4.16

Major Purpose to Invest Company stock

SN	Option	No	Percentage
1	To Earn Maximum profit	12	37.5
2	Safe Investment	10	31.25
3	For capital Gain	6	18.75
4	To Help Capital Mobilization	4	12.5
5	Others	0	0
Total		32	100

Fig 4.7

Major Purpose to Invest Company stock



From the primary response it is found that 37.5 % of the respondents purpose to invest in company stock is to earn maximum profit, 31.25% respondents purpose is safe investment, 18.75% respondents purpose is capital gain and 12.5% respondents purpose is to help capital mobilization. So the many people’s major purpose to invest in company stock is to earn maximum profit.

4.4. 2. Reason of Public Attraction in Commercial Banks

The response of the respondents reason of public attraction in commercial bank were found as in table 4.17

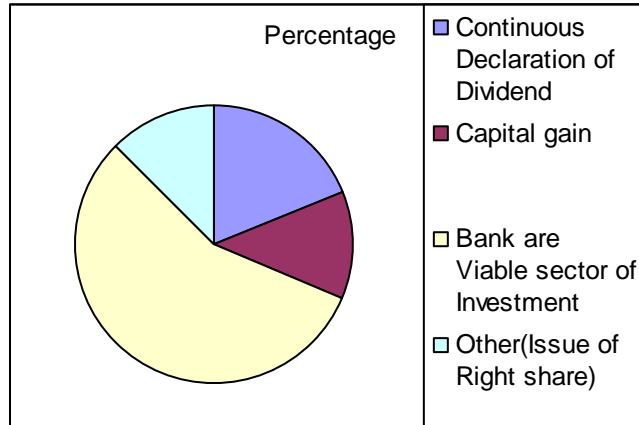
Table 4.17

Reason of Public attraction in Commercial bank

SN	Option	No	Percentage
1	Continuous Declaration of Dividend	6	18.75
2	Capital gain	4	12.5
3	Bank are Viable sector of Investment	18	56.25
4	Other(Issue of Right share)	4	12.5
Total		32	100

Fig 4.8

Reason of Public attraction in Commercial bank



From the primary response it is found that 56.25% respondents reason of attraction in commercial bank is bank are the viable sector of investment, 18.25% respondents reason is continuous declaration of dividends, 12.5% respondents reason is capital gain and 12.5% respondents reason is issue of right share. So the reason of public attraction to commercial bank is viable sector of investment.

4.4.3. Public Awareness About Share Investment

The response of the respondents for the investment decision is made after the analysis of the relevant indicator were found as in table 4.18

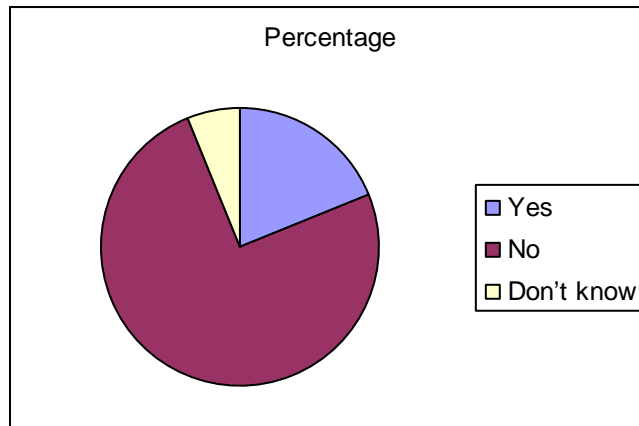
Table 4.18

Public Awareness About Share Investment

S.N.	Option	No	Percentage
1	Yes	6	18.75
2	No	24	75
3	Don't know	2	6.25
Total		32	100

Fig 4.9

Public Awareness About Share Investment



From the primary response it is found that 75 % respondents say Nepalese investor are not analysis relevant indicator before make investment decision, 18.75% say Nepalese investor analysis relevant indicator and 6.25% don't know about this. So the Nepalese investor's hasn't known adequate knowledge about share investment.

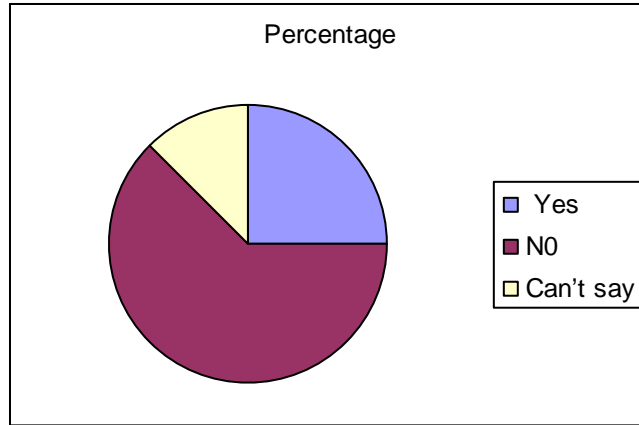
4.4.4. Status of Present Laws & Policies.

The response of the respondents for prevailing laws and policies regarding the buying and selling are sound were found as in table 4.19

Table 4.19
Status of present Laws & Policies

SN	Option	No	Percentage
1	Yes	8	25
2	NO	20	62.5
3	Can't say	4	12.5
Total		32	100

Fig 4.10
Status of present Laws & Policies



From the primary response it is found that 62.5% say prevailing laws and policies regarding the buying and selling are not sound, 25% say sound and 12.5% say can't say.

4.4.5. Role of EPS in the Determinants of Share Price.

The responses of the respondents for the affect of EPS to the market price of share were found as in table 4.20

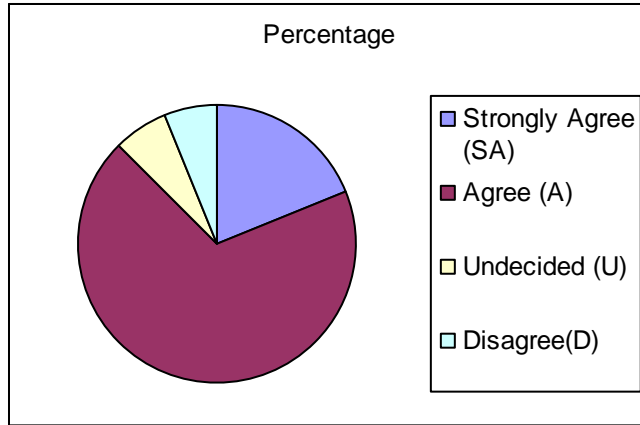
Table 4.20

Role of EPS in the Determinants of Share Price

SN	Response	No	Percentage
1	Strongly Agree (SA)	6	18.75
2	Agree (A)	22	68.75
3	Undecided (U)	2	6.25
4	Disagree(D)	2	6.25
5	Strongly Disagree (SD)	0	0
Total		32	100

Fig 4.11

Role of EPS in the Determinants of Share Price



From the primary response it is found that 87.5% of the respondents were agree that the increase earning increase the share price of the market only 6.25% were disagree and 6.25% were undecided with that statement. So the increase EPS increase the market price and vice versa.

4.4.6. Role of Dividend pattern in the Determinants of Share Price

The responses of the respondents for the affect of dividend pattern to the market price of share were found as in table 4.21

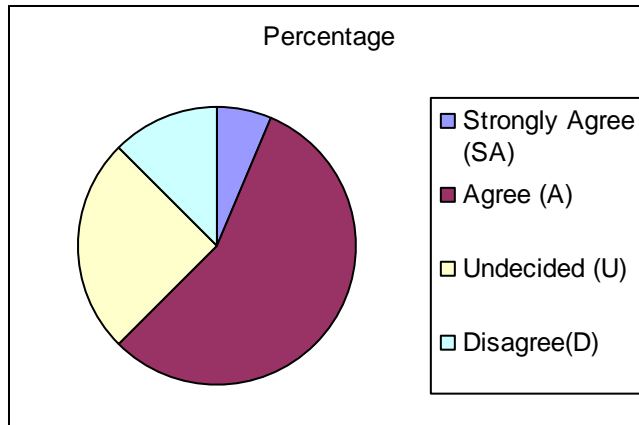
Table 4.21

Role of Dividend pattern in the Determinants of Share Price

SN	Response	No	Percentage
1	Strongly Agree (SA)	2	6.25
2	Agree (A)	18	56.25
3	Undecided (U)	8	25
4	Disagree(D)	4	12.5
5	Strongly Disagree (SD)	0	0
Total		32	100

Fig 4.12

Role of Dividend pattern in the Determinants of Share Price



From the primary response it is found that 62.5 % of the respondents were agree that the increase DPS increase the share price of the market only 12.5% were disagree and 25% were undecided with that statement. So the increase DPS increase the market price and vice versa.

4.4.7. Role of Capital Structure of the Company

The responses of the respondents for the role of company assets structure to the market price of share were found as in table 4.22

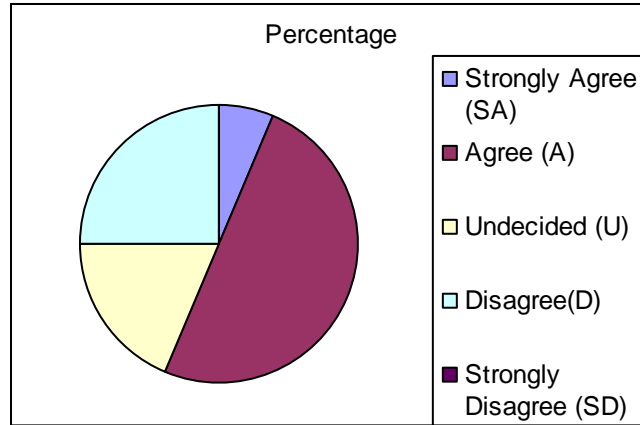
Table 4.22

Role of Capital Structure of the Company

SN	Response	No	Percentage
1	Strongly Agree (SA)	2	6.25
2	Agree (A)	16	50
3	Undecided (U)	6	18.75
4	Disagree(D)	8	25
5	Strongly Disagree (SD)	0	0
Total		32	100

Fig 4.13

Role of Capital Structure of the Company



From the primary response it is found that 56.25 % of the respondents were agree that the better capital structure of the company positively affect the share price of the market 25% were disagree and 18.75% were undecided with that statement.

4.4.8. Annual General Meeting and Election of Board of Director Influence the Share Price

The responses of the respondents for the affect of AGM and election of board of Director influence the to the market price of share were found as in table 4.23

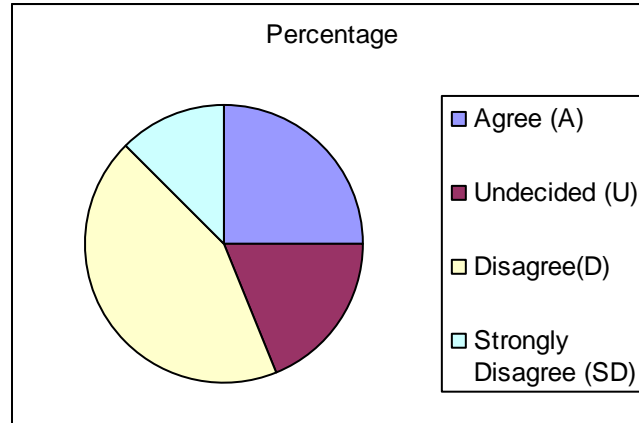
Table 4.23

AGM and Election of BOD Influence the share price

SN	Response	No	Percentage
1	Strongly Agree (SA)	0	0
2	Agree (A)	8	25
3	Undecided (U)	6	18.75
4	Disagree(D)	14	43.75
5	Strongly Disagree (SD)	4	12.5
Total		32	100

Fig 4.14

AGM and Election of BOD Influence the share price



From the primary response it is found that 56.25 % of the respondents were disagree that AGM and election of board of director influence the share price of the market only 25% were agree and 18.75% were undecided with that statement.

4.4.9. Company Risk VS Share price

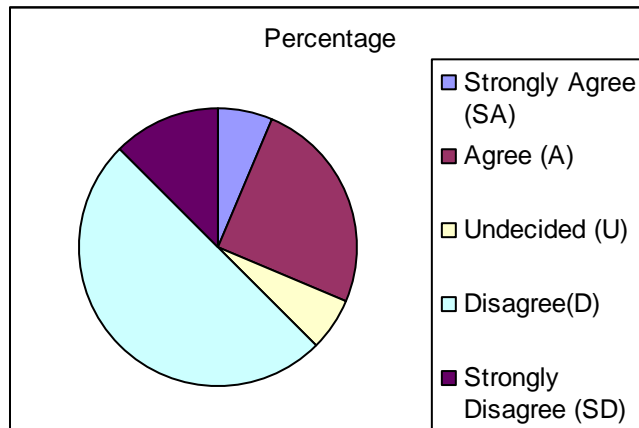
The responses of the respondents for the affect of company risk to the market price of share were found as in table 4.25

Table 4.25

Company Risk VS Share price

SN	Response	No	Percentage
1	Strongly Agree (SA)	2	6.25
2	Agree (A)	8	25
3	Undecided (U)	2	6.25
4	Disagree(D)	16	50
5	Strongly Disagree (SD)	4	12.5
Total		32	100

Fig 4.15
Company Risk VS Share price



From the primary response it is found that 62.5 % of the respondents were disagree that company risk influence the share price of the market 31.25% were agree and 6.25% were undecided with that statement. So higher the risk of the company, will not be higher the share price

4.4.10. Share Price Decline with Instability of Government

The responses of the respondents for the affect instability of government to the market price of share were found as in table 4.26

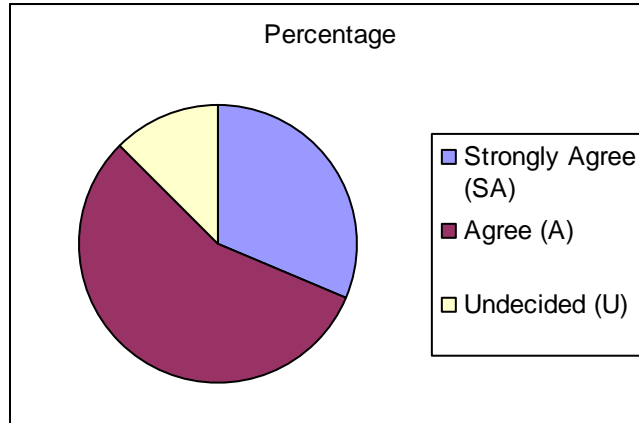
Table 4.26

Share Price Decline with Instability of Government

SN	Response	No	Percentage
1	Strongly Agree (SA)	10	31.25
2	Agree (A)	18	56.25
3	Undecided (U)	4	12.5
4	Disagree(D)	0	0
5	Strongly Disagree (SD)	0	0
Total		32	100

Fig 4.16

Share Price Decline with Instability of Government



From the primary response it is found that 87.5% of the respondents were agree that instability of government influence the share price of the market 0 % were disagree and 12.5% were undecided with that statement.

4.4.11. Share price sensitive towards Global Economy

The responses of the respondents for the affect global economy to the market price of share were found as in table 4.27

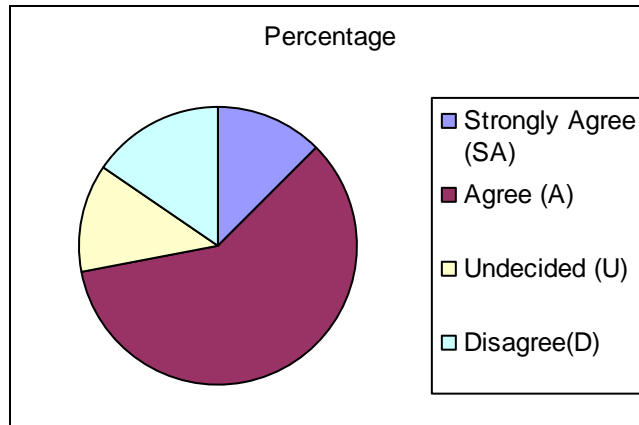
Table 4.27

Share price sensitive towards Global Economy

SN	Response	No	Percentage
1	Strongly Agree (SA)	4	12.5
2	Agree (A)	19	59.38
3	Undecided (U)	4	12.5
4	Disagree(D)	5	15.62
5	Strongly Disagree (SD)	0	0
Total		32	100

Fig 4.17

Share price sensitive towards Global Economy



From the primary response it is found that 71.88 % of the respondents were agree that global economy influence the share price of the market 15.62 % were disagree and 12.5% were undecided with that statement.

4.4.12. Fall in value of US \$ cause fall in share price

The responses of the respondents for the affect value of US \$ to the market price of share were found as in table 4.28

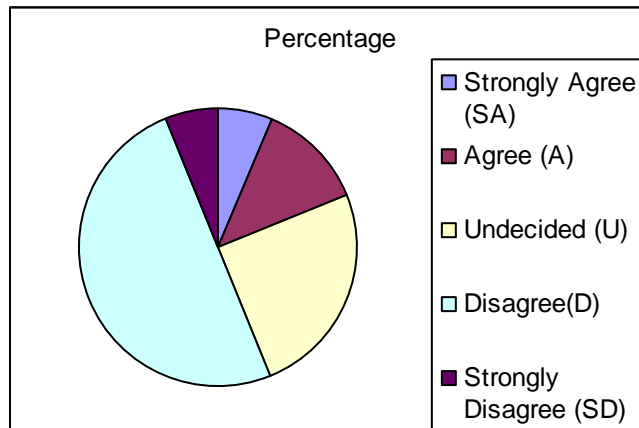
Table 4.28

Fall in value of US \$ cause fall in share price

SN	Response	No	Percentage
1	Strongly Agree (SA)	2	6.25
2	Agree (A)	4	12.5
3	Undecided (U)	8	25
4	Disagree(D)	16	50
5	Strongly Disagree (SD)	2	6.25
Total		32	100

Fig 4.18

Fall in value of US \$ cause fall in share price



From the primary response it is found that 56.25 % of the respondents were disagree that value of US \$ influence the share price of the market 18.75 % were agree and 25% were undecided with that statement.

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

The responses of the respondents to the role of NEPSE and Security Board to protect investor's interest were found as in table 4.29

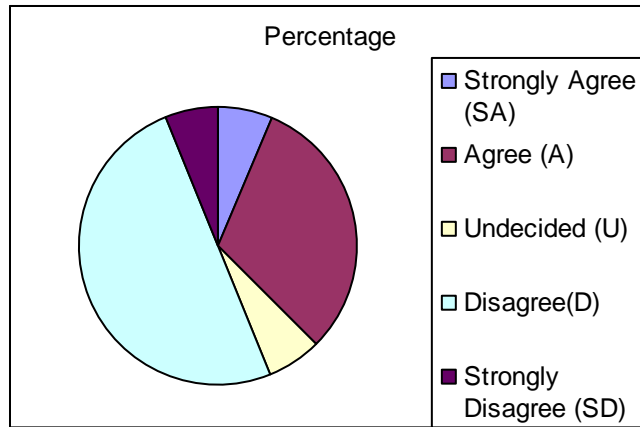
Table 4.29

NEPSE and SEBO are able to protect investor's interest effectively

SN	Response	No	Percentage
1	Strongly Agree (SA)	2	6.25
2	Agree (A)	10	31.25
3	Undecided (U)	2	6.25
4	Disagree(D)	16	50
5	Strongly Disagree (SD)	2	6.25
Total		32	1000

Fig 4.19

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



From the primary response it is found that 56.25 % of the respondents were disagree that NEPSE and Securities Board are able to protect investors effectively. 37.5 % were agreed and 6.25% were undecided with that statement.

4.4.14 Most Influence Determinants of Share Price

On the basis of the response collected from respondents, the different indicators which influence share price has been ranked as follows in the table 4.30

Table 4.30

Most Influence Determinants of Share Price

Indicators	1	2	3	4	5	6	Total
EPS	14	12	0	0	6	0	32
DPS	0	16	10	2	0	4	32
Assets	2	0	11	13	4	2	32
Capital	6	2	6	8	8	2	32
AGM	2	0	2	6	6	20	32
Political	8	2	3	8	8	4	32
Total	32	32	32	32	32	32	192

From the primary response it is found that out of 32 respondents 14 ranked -1 on EPS, 16 ranked -2 on DPS, 13 ranked -4 on assets of the company, same person 8 ranked -4 and-

5 on capital structure, 20 ranked-6 on AGM and same person 8 ranked -1,-4 and -5 on political situation. So most affecting factor of MPS is EPS and least affecting is AGM.

4.4.15. Reforms to protect investor's interest

The respondents were asked to suggest the research for the reforms that should that should be initiated in NEPSE and in Government policies to protect the stock investors interest, separately.

The respondents suggest following reforms should be initiated in NEPSE to protect investor's interest:

- Increase the number of broker inside the valley and create new broker outside the valley
- Privatization and decentralization of NEPSE
- Professionalization of broker.
- Make online trading system
- To make healthy share market
- To implement scientific index system.
- Since Nepalese stock market is manipulated by some person. It should be stopped.
- Regular monitoring and supervision of listed companies performance and rewards/punishment scheme should be development and implement
- Central depository system should be implement
- Fundamental technical analysis of the of the report
- To make healthy share market

Similarly, the respondents suggest government, to protect investor's interests, should initiate following reforms:

- Participation of shareholders in various policy making board and other organizational committees.
- Make public awareness about share market and frequent interaction with shareholders interest

- SEBO should be fully powered
- Broker should be regulated through SEBO
- Promotion of shareholders organization
- Government participation to share holders problem
- Regular supervision, monitoring, transparency and to control to listed companies performances
- Make hard and clear laws and policies, effective utilization effective utilization of the existing policies and their frequent changes should not be made
- Decision should be taken carefully before permitting financial institutions
- Formation of investors promotion fund
- Should play promotional role rather than regulatory role
- Reduction of capital gain tax
- Consultation with the investors is a most before formulating any policy
- Make policy to attract investors
- Open new stock exchange to make competition

4.5 Finding of the Study

In this study, from the secondary data, the relationship of dividend, book value and earning to the share price was determined .On the other hand, from the primary data collected from the respondents of the questionnaire identified the factors affecting the share price in NESE. Here in this section findings of secondary and primary data analysis are described.

4.5.1 Findings of Secondary Primary Data Analysis

From the analysis of secondary data, in last section, of the sampled listed banks, following major finding drawn out

For BOK, MPS is positively correlated with DPS and EPS but negatively with BPS. The relationship is not significant at 95% of level of significance.

For NIBL, MPS is positively correlated with DPS, BPS and EPS and the relationship is significant at 95% level of significance.

For SBI, MPS is positively correlated with DPS, BPS and EPS than the relationship is not significant at 95% level of significance.

For NBL MPS is positively correlated with DPS, BPS and EPS than the relationship with BPS and BPS is not significant and the relationship with EPS is significant at 95% level of significance

For SCB MPS is positively correlated with DPS, BPS and EPS than the relationship with BPS and EPS is significant and the relationship with DPS is not significant at 95% level of significance.

Trend analysis shows that NEPSE index is in increasing trend for the initial 9 year of last 14 year period, NEPSE index was found below the trend value. After that during the period of last 3 year NEPSE index is increasing rapidly.

Form the primary data regarding the factors affecting the share price, following major finding are drawn out:

From the primary data regarding he factors affecting the share price, following major finding are drawn out.

MPS is affected by the company's performance such as earnings, dividend payment, risk associated with the company

The MPS is also affected by the environmental factors such as instability of the government, national economy.

Capital market is significantly not well developed due to poor regulatory mechanism in Nepal.

SEBON and NEPSE are not able to protect shareholders interest.

From the open-end questions of questionnaire the following findings are drawn out:

For the development of capital market in Nepal NEPSE should be privatized, decentralized, and brokers should be professionalized.

Shareholders organization should be promoted and shareholders should represent in various policy making boards and other organizational committees.

Regular supervision, monitoring, transparency and control to listed companies financial as well as non financial performances.

Security market development should be highly prioritized by formation of clear laws and policies, and effective utilization of the existing policies

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

In this chapter, summary and conclusions of the research as well as recommendation are presented separately. After summarizing the research, recommendations are suggested for the development of the capital market in Nepal. The researcher has tried to give suggestions and recommendation to the concerned groups: stock investors NEPSE and SEBON, government and stock broker based on this research.

5.2 Summary

Nepal is poor and land locked country many people of Nepal fighting against the problem of basic needs. There is a wide gap in the distribution of income and wealth the industrial development is infant stage, even though it is running in its 6th decade. After the restoration of the democracy in 1990, GON initiated privatization and economic liberalization, the industrial development as well as the capital market development process. But it could not accelerate. In the absence of peace full environment required for the smooth functioning of business / industries and the sound infrastructure the economic development process of the nation has paralyzed.

Nepal is adopting economic liberalization strategy to introduce foreign as well as Nepalese private sector's capital in development programs to boots up the economics development of the nation .But a huge amount of capital is being remained idle with average Nepalese citizens without getting any investment opportunities. We can use that idle fund in development activities and industries by means of issuing shares form the capital market .For this, the capital market development should be highly prioritized. GON have to take initiation for that, so that we can exploit our opportunities with local fund and avoid the outgoing resources form the country.

The Nepalese capital market is in its very primary stage. Average citizens and investors have not proper ideas about the capital market, share, and book value. Market price, pricing mechanism and the factors affecting the market price of shares, They are willing to invest, but are not able to do so due to lack of knowledge ,in this subject .In spite of that , the listed companies in the capital market are suffering. Government has mot given priority for the development of capital market even though it is in the priority list in the

tenth five year plan. Government is not able to create basic infrastructure, sound policies and laws and their effective implementation. For the capital market development, As a result there is not transparency in the performances of the listed companies and the capital market due to which the capital market is struggling to become matured. The stock investors have not proper education and information to speculate the share price

The study is focused on stock price determinants of commercial Banks in NEPSE. The major objectives of the research are:

To determine the effect of earnings and book value to the stock price in NEPSE

To determined the effect of dividend to the stock price in NEPSE

To identity qualitative as well as quantities factors affecting the stock price in NEPSE.

To suggest for the improvements, this should be initiated for development of capital market in Nepal

To meet the desired objectives, the researcher identified the correlation of the quantitative factors, DPS, BPS and EPS, with MPS by correlation and regression analysis of secondary data, where as to identify he qualitative factors affecting the market price of shares, the researcher used primary data analysis it is known that there is not consistent performance on the relationship of MPS with DPS .BPS and EPS for the 5 sampled listed companies. For some of the companies, the correlation coefficient of MPS with independent variables (viz. DPS, BPS and EPS) is significantly positive whereas some other has significantly negative correlation at 95% level of significance. Even though, most of the correlation coefficients of MPS with the independent variables are found positive.

5.3 Conclusion

On the basis of primary and secondary data analysis, the following conclusions have been achieved:

-) Due to the inadequate Knowledge regarding the share market among Nepalese investors, capital market of Nepal has not been well developed yet.
-) The investors generally tend to earn profit of the share and they think that EPS and DPS are prime factor to be analyzed and to be considered on investing their saving on share price.
-) Most investors are unknown to law and policies regarding share market. Poor rules and regulations as well as ineffective regulatory mechanism of market makers are the problems of Nepalese Capital Market.
-) Market prices per share of Most of the Banks are insignificantly correlated with all indicators (DPS, BPS and EPS) in most of the case. This implies that they individually don't influence the share price but they jointly influence the share price. There can be other factors which influence the share price.
-) EPS and DPS are the major influence of the share price. Besides this political situation, annual general meeting, assets structure and capital structure and global economy also influence the share price
-) The commercial Bank is the first choice of Nepalese investors. But the lack of systematized and managing regulatory system is required for the further improvement of the share market.
-) The reputed and established commercial banks have very good trend of their financial performance new banks are penetrating their market. Most of the banks are operating in profit in recent years though they suffered some losses during their initial stages. Still, the investors are positive towards the share of these banks.

5.4 Recommendations

Based on the findings and the conclusion of the research , the researcher recommends the concerned authorities and groups as:

5.4.1 To Investors

From the research it is known that the investors lack the education and information to analyze companies' performance and forecast price. So they are recommended to foster their frontier of knowledge to protect them from loosing, since self-protection is the best protection. They hesitate to demand adequate information from the listed companies and though cheated, accept whatever the management of the companies decides. So they are suggested to raise their voices and complain about such misconducts to SEBON and Ministry of Finance. They are suggested to forecast future price based on not only the company specific factors such as earnings, dividend, timely AGM etc, but also on environmental factors.

5.4.2 To Brokers

The stockbrokers have a great role and responsibility to create capital market opportunities. For the development of capital market they are suggested to provide rational and adequate advices to their clients/investors and upgrade their professionalism. .They has to change them according to the dynamic environment of the capital market.

5.4.3 To SEBON and NEPSE

As an apex body of capital market, SEBO/N and NEPSE are suggested to monitor and supervise listed companies' performances and to develop rewards-punishment system. They are suggested to disclose available financial information to investors and brokers timely and transparently. NEPSE is suggested for privatization, decentralization and modernization. The number of broker should increase. The license to the brokers should be given and renewed based on selling specified eligibility criteria: minimum qualification, tract record, code of conduct, experience etc and brokers should be professionalized. Central depository system should be implementing. Proper rules and regulations regarding the listed companies should be formed and duly implemented.

5.4.4 To Listed Companies

Listed companies are suggested to disclose timely and frequently information (financial as well as non financial) without manipulation to shareholders by organizing frequent interaction programs with shareholders. They should conduct their AGM and audit regularly within prescribed time period. They are suggested to implement Accounting and Auditing Standards Board to enhance investors'.

5.4.5 To Government

The researcher suggests the government to formulate and duly implement effective laws and polices regarding capital market with compulsory participation of shareholders in various policy making board and organizational committee and to promote share holders organizations with high priority. Since the shareholders and investors have less knowledge of capital market educational package to the potential investors and shareholders should be provided and an investors' protection fund should be established. The monitoring and supervision of the listed companies financial performance as well as non financial performance should be strengthened.

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Annex-I

Questionnaire

Dear sir/madam

You are kindly requested to fill up the following questionnaire with the best answer in your view. I would be grateful to you for the contribution of your valuable time and effort.

Please note that all the questions are related to the **share price movement of commercial banks listed in NEPSE.**

Name Sex M () F () Age.....

Occupation (Tick one)

Professional Investor

Potential Investor

Market Analyzer

Others (Specify).

Academic qualification

Under S.I.C.

Higher secondary

Graduate

Post graduate

Questions:-

Please tick the best alternative

1. In your view, which is major purpose to invest in company stock?

To earn maximum profit

Safe Investment

For capital gain

To help capital mobilization

Others (If any)

2. It has been observed that the Investors of Nepal are highly attracted in the share of commercial banks, what is the prime cause for their Investment?

Continuous declaration of dividend

Capital gain

Bank are the viable sector of Investment.

Others (If any).....

3. Do you think that Nepalese investor make investment decision after?

The analysis of the relevant indicator

Yes () No () don't know ()

4. In your experience the prevailing laws and policies regarding the

Buying and selling of share are sound,

yes () No () can't say ()

Please indicate with the appropriate letters in the gap to which extent

Do you agree with following statement by filling in blanks provided?

SA for strongly agree

A for agree

U for Undecided

D for Disagree

SD for strongly disagree.

5. Earning per share is the main determinants of share price because

Higher EPS indicates higher share price

6. Dividends pattern plays vital role on the determination of price

Because higher the DPS more will be the share price.....

7. Better capital structure results higher share price

8. Annual general meeting and election of board of Director influence the share price.....

9. Higher the risk of the company, higher will be the share price.....
10. Share price decline with instability of government
11. Share price sensitive towards global economy
12. Fall in value of US \$ cause fall in share price
13. NEPSE and securities board are able to protect investor's interest effectively

Please rank 1, 2, 3.....6 (one for the best factor)

14. Which of the following do you think affect the share price of the company ?

Earning per share

Dividend pattern

Company assets.....

Capital structure

AGM/ election of BOD...

Political situation

Please write your opinion.

15. In your opinion, what reforms should be made in NEPSE for protecting stock investors interest?

a).....

b).....

c).....

d).....

e).....

16. In your opinion what reform should be made on government policies for protecting stock investors interest?

a).....

b).....

c).....

d).....

e).....

Winod Paudel

Shanker Dev

Campus

Roll No.916/59

Annex –II

Name of Respondents

SN	Name	Sex	Age
1	Anju Regmi	Female	25
2	Bhoja Raj Paudel	Male	32
3	Bhagirathi Adhakari	Female	40
4	Bisnu Pd. Koirala	Male	31
5	Damodar Bhattra	Male	50
6	Deepak Dhakal	Male	29
7	Dhasarath Thapa	Male	56
8	Gayatri Paudel	Female	26
9	Ganesh Acharya	Male	32
10	Gita Khanal	Female	36
11	Goma Devi Dhakal	Female	26
12	Kabita Khadka	Female	35
13	Kushma Gajurel	Female	34
14	Lab kush Ghimire	Male	55
15	Manoj Nepal	Male	28
16	Mithun Paudel	Male	23
17	Mohan Chandra Joshi	Male	36
18	Motiram Thapilya	Male	43
19	Mohan Kafle	Male	29
20	Nabaraj Adhakari	Male	38
21	Pratap Aryal	Male	19
22	Pravat Aryal	Male	21
23	Prakash Basukala	Male	29
24	Padam Paudel	Male	32
25	Promptod Adhakari	Male	25
26	Samjhana Ghimire	Female	24
27	Sudarsan Paudel	Male	31
28	Suman Regmi	Male	29

29	Saul Sretha	Male	27
30	Shree Narayan Jha	Male	35
31	T.J. Pandey	Male	33
32	T.N.Paudel	Male	37