

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Capital is the lifeblood of the business organization. Every business enterprise requires short term, intermediate and long term capital for the smooth operation and expansion of the organization activities. Among these types of fund, the long term fund plays highly significant role for future growth and prosperity of the organizations. Most business organizations gather long term funds from financial market (Van horne; 2000:484).

1.2 Financial Market

Financial Market is the place where the financial instruments are traded. Financial instruments include share, bond, debenture etc .It is a means to transfer funds from savers to those in need of funds. Financial experts have mentioned it as a brain of the entire economic system. The failure of the financial market obstructs the progress of the whole economy.

Financial markets can be defined as the centers or arrangements, which provide facilities for buying and selling of financial claims and services. Specifically, financial market chiefly refers to money market and capital market. It facilitates to transfer the funds from the savers to those who are in need of funds in order to invest in capital goods.

Techniques of classification:

1.2.1 According to life Span

1.2.1.1 Money market

Money market can be defined as short term financial market, which facilitates liquidity and marketability of securities. It is the market for short term marketable instruments having less than one year maturity period.

Money markets are sometimes defined as organized and unorganized money markets. The organized or formal money market provides an institutional mechanism for the transactions of short term securities. The commercial banks, finance companies and other saving/credit unions are the players in the money market. Local merchants, indigenous bankers and relatives come under the informal or the unorganized sector.

The development of efficient market requires the development of institutions, instruments and operating procedures that aids widening and deepening of the market and allocation of short term resources with minimum transactions costs and delays.

1.2.1.2 Capital Markets

Capital Markets also play a vital role in the national economy. Capital market facilitates the allocation of funds between the savers and borrowers. This allocation will be optimum if the Capital Market has efficient pricing mechanism. If the capital market is efficient, the current share price of the company fully reflects the available information and there will be no question of the share price being over or under priced. Capital Market is concerned with the long term finance. The funds collected in the market are raised and traded by long term financial instruments such as equities and bonds.

1.2.2 According to Trading

1.2.2.1 Primary market

Primary market denotes the market mechanism for the original sale of securities in time of their initial issuance. In other word market for newly issued securities is called primary market. Corporate bodies issue new securities in the primary market. The issue may be a brand new company or one that has been in business for the years. The securities offered might be a new type for the issue or additional amount of security used frequently in the

past. The key is that these securities absorb new funds for the coffers of the issuer (Gittman; 2000: 33-34).

All the securities whether in the money market or capital market, are initially issued in the primary market. This is the only market in which the corporate or government issuer is directly involved in the transaction and receives direct benefit from the issue that is the company actually receives the proceeds from the sale of securities (Gittman; 2000: 33-34).

1.2.2.2 Secondary Market

Secondary Market is the market in which securities are traded that has been issued at some previous point of time. In other words, where outstanding securities are traded is referred to as the secondary market or more popularly known as the stock market. Share or stock is the major components of the securities market. Stock market is the medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. The efficient collection of small amounts of savings and transferring funds into the complete and efficient users requires a well functioning capital market to facilitate the process (Mahat;1981). Thus, secondary market deals with previously issued shares mainly traded through stock exchange, over the counter market or direct selling.

Secondary market in simple sense, are market in which existing, already outstanding securities are traded between investors. It is the market that creates the price and allow for liquidity, if the secondary market do not exists, the investors would have no place to sell the assets. Without liquidity many people would not invest at all. The function of the security market is to provide liquidity for the securities purchased in the primary market.

“Stock Exchange is a market for long term capital where both new capitals can be raised by companies and where existing shares can also be bought and sold.

By providing a second hand market for investors to sell their shares, it facilitates the raising of new capital on the new issues market. The stock exchange also provides a market for government loans and securities, and increasingly involved in the buying and selling of securities in the overseas companies. In the market, the main operators are the market makers who trade in a group of Shares, and the Stock brokers who act as agents for their clients, who are the investors who are actually buying and selling shares(Collins;2002).”

New York Stock Exchange (NYSE), London Stock Exchange, Tokyo Stock Exchange, Paris Stock Exchange, Frankfurt Stock Exchange, Toronto Stock Exchange, is the biggest Stock exchange of the world. Mumbai Stock Exchange is the largest stock exchange of South Asia and Nepal Stock Exchange (NEPSE) is the only organized stock exchange of Nepal.

1.3 Constituent of Capital Market in Nepal Security Board, Nepal (SEBO/N)

Security Board, Nepal was established on May 26, 1993, under the provision of the Security Exchange Act, 1983. It was established with the objectives of promoting and protecting the interest of investors by regulating the securities market. It also assumes the responsibility of development of securities market in the country, besides the regulatory role. Security Board has identified the policy development, legal and regulatory reform, standardizing disclosures, bringing enforcement to insure compliance and promoting broad based market as priority area to reform. The private sector has also been participating equally in establishing a sound system of security exchange. In private sector-investors, listed companies, financial and market intermediaries and in government sector-Ministry of Finance, Registrar of Companies (Ministry of Industry, Commerce and supply), Nepal Rastra Bank, Nepal Stock Exchange, Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Institute of Chartered Accountants of Nepal (ICAN) and Association of Chartered

Accountants have been playing vital role in promoting the capital market of the country.

The objectives of the board are to promote and protect the interests of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities, to supervise, to look after and monitor the activities of the stock exchange and other related firms on securities business, and to render contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible (SEBON).

Nepal Stock Exchange (NEPSE)

Along with the formation of Security Exchange Board, The Government of Nepal converted the securities Exchange Centre Ltd into Nepal Stock Exchange Ltd. NEPSE in 1993 with a view to reform the capital market. It is a non profit making organization operating under Securities Exchange Act 1983. Brokers and market makers operate on the trading floor as per the Securities Exchange Act rules and by-laws of NEPSE. Nepal Stock Exchange started its trading operation on 31 January 1994 through its licensed members. The securities Board was constituted in 1993 under Sec.1 of the Securities Exchange Act 1983.

Its main objective is to provide essential policy direction for the systematic and regular exchange of securities and develop competitive stock exchange market by protecting and promoting the interest of the investors. Nepal stock Exchange is a trading (operational) institution, whereas Securities Board is the regulatory body. Before the Board came into existence, the securities exchange centre carried on both the functions. Though any corporate body desirous to carry out the transaction of securities can submit application to the Board for obtaining the license, till now Nepal Stock Exchange Ltd alone is representing the securities market in the country.

At present, there are 22 valid member brokers (out of 27 brokers whom 7 of them are either not working or suspended) and 114 listed companies. NEPSE has adopted “Open-Out-Cry” system. It means transactions of the securities are conducted on the open auction principle on the trading floor, where the price is determined when bid and offer price match. The rate of brokerage on equity transactions ranges from 1 to 1.5 percent depending on the traded amount.

Similarly the basic objectives of the NEPSE is to impact free marketability and liquidity to the government and corporate securities by facilitating transaction on its trading floor through market intermediaries such as brokers, market makers etc. Nepal Stock Exchange (NEPSE) is the only organized stock exchange of Nepal.

1.3.1 Securities Market

In simple sense, securities market is the place where people buy and sell financial instruments. These financial instruments may be in the form of government bonds, corporate bonds or debentures, ordinary share, preference share etc. So far security market is concerned; it is an important constituent of capital market. It has a wide term embracing the buyers and sellers and all the agencies and institutions that assist the sell and resell of corporate securities (Rugh;1996:50). Although security market is concerned in few locations, they refer more to mechanism rather to place designed to facilitate the exchange of securities. Security market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading .In order to allocate capital efficiency to maintain higher degree of liquidity in securities, the securities market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information.

An efficient market is one where current price of the shares gives the best estimate of its true worth. Thus, the securities market is a place where shares of

listed companies are traded or transferred from one to another a fair price through the organized brokerage system. The major function of securities market is a competitive price thereby, importing future market ability and liquidity. It is a medium through which scattered savings and scarce resources are transferred to productive areas that ultimately help in the economic development and industrialization of the nation. The first public flotation of shares in the securities market was initiated by Biratnagar Jute Mills Ltd in 1937. There were very few companies in Nepal issuing shares to the general public until another company Act came into operation in 1951. In the absence of a developed security market in Nepal, the government was the sole issuing authority of Development Bonds and National Saving Certificates. Therefore, the securities generally in the market were mainly the Government Securities. Government Securities are fully traded under the management and supervision of Nepal Rastra Bank (NRB). Institutional Development of securities market in Nepal started from the year 1976 when securities Exchange Centre (SEC) was established under the Companies Act with the joint capital contribution of Nepal Rastra Bank and Nepal Industrial Development Corporation. The Industrial Policy of the Government also encouraged the promotion of securities exchange activities in Nepal. The main objective of the establishment of the centre was to mobilize public savings and encourage the people to participate in the ownership of industries and business enterprises. As a securities market intermediary, its role was to organize and provide marketing facilities of channeling securities exchange business through the centre. Its activities included the purchase, underwrite and sale, directly or through the licensed brokers or sub-brokers of the centre, the shares, stocks and debentures of public limited companies and also Development Bond as well as Treasury Bills issued by the Government.

1.4 Statement of the Problem

Basically stock price is determined by the demand and supply. Both the qualitative and quantitative factors determine the stock price is controversial/unpredictable issue. Share price is the function of the several

factors. The stock price fluctuates time to time and stock exchange react the environmental changes. However, for some environmental changes, the stock exchanges have no effect. This study will try to identify the determinants of stock price and find out the degree of affection of those determinants. More specifically, this study is expected to answer the following research question:

1. What are the major factors affecting the capital market in Nepal?
2. What are the major determinants of the stock price in NEPSE?
3. How earning and book values affect to the stock price of the company in NEPSE?
4. What is the effect of the dividend to the stock price of the company in NEPSE?
5. Is it rational to invest in the certain shares?

1.5 Objective of the Study

Investors require proper knowledge of share price i.e. how it is formed? Why does it fluctuate? What factors are responsible for the determination of its price and so on? A few studies have been made regarding securities listed in NEPSE. However, most of the studies made up to present and capital market are related to the financial performance evaluation, capital structure analysis, dividend policy, risk and return etc. But sufficient researches have yet not been done to provide core perspective on the determinants of stock price. Thus, the present study will be very much important to the investors, planners, researchers, student and policy makers to get a deep factors responsible for the determinants of stock price in NEPSE and their relationship with the stock price, so that it will give insight into the stock price. Furthermore, this study is proposed to meet the following objectives:

- To identify qualitative as well as quantitative factors affecting the stock price in NEPSE.
- To determine the effect of earning and book value to the stock price in NEPSE.

- To determine the effect of dividend to the stock price in NEPSE.
- To suggest and recommend for the betterment of the stock market

1.6 Research Hypothesis

“A hypothesis is a conjectural statement of the relation between two or more variables. Hypothesis is always in declarative sentences form, and they relate either generally or specifically, variables to variables(Karlinger;2002:18).”

Generally, two complimentary hypothesizes are setup at one time. If one of the hypotheses is accepted then other is rejected and vice versa. The null hypothesis is also called hypothesis of no difference and the alternative hypothesis is called the hypothesis of difference (Sharma and Chaudhari; 2002:18-22).

The first hypothesis is based on the significance for correlation coefficient between market price of share and earning. (T-Test)

Null Hypothesis:

Ho: $p = 0$

That is the earning is not related to the market price of share or earning does not affect the market price of stock (share)

Alternative hypothesis:

Ho: $p \neq 0$

That is the earning and market price of share are related to each other or earning affects the market price of stock (Share).

The second hypothesis is based on the significance for correlation coefficient between market price of share and book value of the share. (T-Test)

Null Hypothesis:

Ho: $p = 0$

That is the book value and market price of share are not related or the book values does not affect the market price of the stock (share).

Alternative hypothesis:

Ho: $p \neq 0$

That is the book value and market price of share are related or the book values affects the market price of the stock (share).

The third hypothesis is based on the significance for the correlation coefficient between market price of stock (share) and dividend. (T-test)

Null Hypothesis:

Ho: $p = 0$

That is the dividend is not related with market price of the share or dividend does not affect the market price of the stock (share).

Alternative Hypothesis:

Ho: $p \neq 0$

That is the dividend and market price of share is related or dividend affects the market price of the stock (share).

The test statistic is:

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

That is t follows t- distributions with (n-2) degree of freedom, n being sample size and r is correlation co efficient between variables.

To test the significance of the effects of the qualitative factors, collected from primary sources-test will be carried out. Z-test is made, since the sample size is

more than 30. The test of significance of single mean for large samples ($N > 30$) is:

Null Hypothesis:

$$H_0: \mu = \mu_0$$

That is the population mean has specified value μ_0 . In other words, there is no significance difference between samples between sample mean (\bar{x}) and the population means (μ).

Alternative Hypothesis:

$$H_0: \mu \neq \mu_0$$

That is the population mean is not equal to μ . In other words, there is a significant difference between sample mean and the population means (μ).

The test statistic under null hypothesis is, H_0 is given by,

$$Z = \frac{\bar{x} - \mu}{S.E.(\bar{x})} = \frac{\bar{x} - \mu}{\frac{\sigma}{\sqrt{n}}}$$

Where $S.E.(\bar{x}) = \text{Standard error of mean} = \frac{\sigma}{\sqrt{n}}$

In this study, the population mean (μ) will be assumed as zero, assuming that such qualitative factors does not affect market price of shares.

1.7 Limitations of the Study

This study tries to explore the factors determining the stock price in Nepal Stock Exchange. Both primary and secondary data are analyzed. However, this study cannot be isolated from the limitations may face the following limitation during the course of research.

- Time constrains
- Focus on the determinants of the stock price of the listed companies of the NEPSE.

- Most of the primary data are based on research questionnaire and accompanied by personal interview and email.
- Takes into account the only latest available few years' data.
- For the evaluation of qualitative factors, only licensed members of NEPSE was selected which is a small part of capital market in Nepal.
- Simple research techniques /procedures were followed for the collections, processing presentation and analysis of data.

1.8 Focus of the study

NEPSE is an organized stock exchange for trading stocks in secondary market. Although small investors can invest their money by purchasing shares of companies in primary market (during initial public offering) or in the secondary market, they (general public or investors) lack effective knowledge of capital market and its mechanism. The price of the stock is determined by the interaction of buyers and sellers (demand and supply) in NEPSE.

Investing in stock is highly risky as being ownership capital. It represents only a final claim while in liquidation. Stock price is determined by a number of factors. Some factors are quantitative whose effect can be quantified. This study focused to the sensitivity of stock price in NEPSE with special focus to Commercial banks towards various factors. In other words, this study intends to determine the factors affecting the price (i. e market value) of the stock.

1.9 Organization of the Study

The **First Chapter** is the introduction chapter. This chapter consists of general background of the study with the reference to the existing economic and political scenarios of Nepal, introduction of capital market and Nepal stock exchange .Beyond these, this chapter comprises of focus, significance and objectives of the study, statement of problem, a research hypothesis, a brief introduction to the sample listed companies and limitation of the study.

The **Second Chapter** is review of literature. This chapter reviews the relevant previous studies made on the stock price determinants and principle set on stock market. This chapter includes the conceptual framework on common stock, stock certificates, securities as well as security markets. Stock price etc. Except that, this chapter reviews the published books, journals, unpublished thesis and reports separately.

The **Third Chapter** is the research methodology. This chapter included the detailed framework of study such as data collection and analysis techniques.

The **Fourth Chapter** of this research is concerned with presentation and analysis of data. In this chapter, the primary and secondary data collected from different sources are presented in systematic formats (like table, charts, figures) and analyzed using different analytical tools for instance: average, standard deviation, coefficient of variation, correlation, regression). In addition to that the major findings of the are drawn out.

Eventually, **Fifth Chapter** involves the summary, conclusions and recommendation of the study and concludes the reports with the major recommendations/suggestions to the investors, listed commercial banks and government about the stock price determination.

CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is one of the most significant part of research .It will be better to review some fundamental aspects of relevant literature before doing analysis. So, it is attempted to present brief glimpses on the common stock as well finding of the related previous studies. The review of literature has been divided into two broad categories. Which are as follows:

2.2 Conceptual Framework

Conceptual framework involves some of the technical terms, which are in frequent use in researches regarding capital market and finance. Thus, before going to details of factors affecting stock price of Commercial Banks, some of the relevant technical terms related to capital market are defined and discussed here.

2.2.1 Common Stocks

The common stocks present ownership in a company. The holders of common stocks, called shareholders or stockholders, are the legal owners of the common stocks .The common stocks are the permanent and vital source of capital since they do not have a maturity date. For the capital contributed by the share holders by purchasing common stocks, they are entitled to dividend. The amount or rate of dividend is fixed by company's Board of Directors. The common stock is, therefore known as variable income security. Being the owners of the company, the stockholders bear the risk of ownership; they are entitled to dividend after the claims of others have been satisfied. Similarly, when the company is wound up, they can exercise their claims on assets after the claims of the other suppliers of capital have been met. The common stocks are issued by the firms to raise ownership capital and the investors buy them

with the expectation that they receive a share of profit periodically, the common stocks legally represent the equity of business firm, and the holders are the owners who share all the profits and losses of the business. They enjoy all earnings after meeting the obligation of interest on debts and dividends on preferred stocks. Thus, they enjoy all the benefits of the business by assuming the risk of losing their capital (Sharpe, et al;2000:458).

2.2.2 Stock Certificates

“The ownership of a firm’s stock has typically been represented by a single certificate, with the number of shares held by the particular investor noted on it. Such a stock certificate is usually registered, with the name, address, and holding of the investor including in the corporation’s book. Dividend payments, voting materials, annual and quarterly reports and other things are then sent directly to investors, taking into account the size of his or her holdings.

Shares of stock held by an investor may be transferred to a new owner with the assistance of either the issuing corporation or, more commonly, its designated transfer agent. This agent will cancel the old stock certificate and issue a new one in its place, made out of the new owner. Frequently, a register will make sure that this canceling and issuing of certificate has been done properly. Usually, banks and trust companies act as transfer agents and registrars. Many stock holders have chosen to avoid these rather cumbersome procedures. Instead, depository trust companies are used which substitute computerized records for embossed certificates.”

2.2.3 Securities

“When someone borrows money from a pawnbroker, he or she must leave item of value as security. Failure to repay the loan (plus interest) means that the pawnbroker can sell the pawned item to recover the amount of the loan

(plus interest) and perhaps make a profit. The terms of agreements are recorded via pawn tickets.

When a college student borrows money to buy a car the lender usually holds formal title to the car until the loan is repaid. In the event of the default, the lender can repossess the car and sell it to recover his/her costs. In this case, the official certificate of title issued by the state, serves as the security for the loan. A person who borrows money for a vacation may simply sign a piece of paper promising repayment with interest. The loan is unsecured, in the sense that there is no collateral, meaning that no specific assets have been promised to take the borrower to court to try to recover the amount of the loan. Only a piece of paper called promissory note stands as evidence of such loan.

When a firm borrows money, it may not offer collateral. For example, some loans may be secured (backed) with specific pieces of property (building or equipment). Such a loan is recorded by means of mortgage bonds, which indicate the term of repayment and the particular assets pledged to the lender in the event of default. However, it is much more common for a corporation to simply pledge all of its assets, perhaps with some provision for the manner in which the division will take a place in the event of default. Such a promise is known as a debenture bond.

Finally, a firm may promise a right to share in its profits in return for an investor's funds. Nothing is pledged, and no irrevocable promises are made. The firm simply pays whatever its directors deem reasonable from time to time. However, the investor is given the right to participate in the determination of who will be the members of the board of directors. The right protects the investors against serious malfunctions. The investor's property right is represented by a share of common stock, which can be sold to someone else, who will then be able to exercise the right. The holder of common stock is said

to be as owner of the corporation and can, in theory, exercise over its operation through the board of directors.

Generally, only a piece of paper represents the investor's right to certain prospects or property and the 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 rights and conditions. Thus everything from pawn ticket to share of GM common stock is security(Sharpe, e tal;2000:2-3).

2.2.4 Security Market

The security market is known as the market where all types of securities are traded. The security market is a broad term embracing a number of markets in which securities are bought and sold. Securities market includes how an individual investor goes about the business of placing any order to buy or sell, how the order is executed, and the process of setting the payment and transfer costs, and one hope the payment of federal personal income taxes on the profits from the transaction (Fisher and Jordan;1992:16). These securities include common shares, preference shares and debentures.

The security market may be divided into two categories:

Primary market: in the primary market the original issuance of the financial instruments of the company is traded. The company should sell its approved share through the authorized issues and sales agent. The company had to register its hares in the SEBO to get the valid authority to the issuance of shares. Primary markets provide as important allocate function by channeling the funds to those who can make the best use of them-presumably, the most productive.

Secondary Markets: In the secondary Market the share once issued in the primary market are traded. So, the secondary market liquidates the shares and provides the opportunity between the investor and the seller of the securities. The company must list the security market for the transaction purpose.

“If the owner of 100 shares sells his/her stocks, the trade is said to have occurred in the secondary market. Thus, the Market for outstanding shares or the used share is the secondary market. The company receives no new money when sales occur in the market(Brigham;1999:327)”

In the secondary market existing securities are traded and thus enabling disposal of these securities whenever the owner wishes. An active secondary market is therefore a necessary condition for an effective primary market, as an investor wants to feel ‘locked in’ to an investment.

2.2.5 Stock Market & Stock Exchanges

“Secondary markets are those in which outstanding previously issued securities are traded. By far the most active market secondary market, and the most important one to financial managers, is the stock market. It is here that price of firm’s stock are established, and since the primary goal of financial management is to maximize the firm’s stock price, knowledge of the market in which this price is established is essential for anyone involved in managing a business.

There are two basic types of stock market –the organized stock exchanges, which include the New York Stock Exchange (NYSE), The American Stock Exchange (AMEX), and several regional exchanges, and the less formal over-the – counter market. Since the organized exchanges have actual physical market location and are easier to describe and understand, we shall consider them first.

The organized security exchanges are tangible physical entities. Each of the larger one occupies its own building, had specially designated members, and has an elected governing body-its board of governors. Members are said to have “seats” on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange (Western and Bringam;1987:78).”

2.3 Stock Price

Stock price is the amount of money that one has to pay to purchase/receive a stock of a company. If A buys 10 shares of the Bank of Katmandu from B, He/She pays Rs. 2000 for these 10 shares, and then the price of share is Rs. 200(i.e. 2000/10).Thus, stock price is the amount of money paid by a buyer to buy one stock or the amount received by the seller by selling a stock. The stock price is determined in stock market; by the forces i.e. demand (buyer’s force) and supply (seller’s force).The demand and supply are based on the environmental forces and individual’s 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 of common stock, each of which will often carry a specified par value. Legally a corporation may be precluded from making payments to common stockholders if doing so would reduce the balance sheet value of stockholders equity below the amount represented by the par value of outstanding stock. For this reason par value is typically low relative to the price for which the stock is initially sold. Some corporation issues no par stock. (“In the case, a stated value must be recorded in place of the par value”(Sharpe and Alexander;2000:46). The initial offering price of the share may vary from the par value if stocks are issued on premium or discount.

2.3.2 Earning per share (EPS)

Accounting earning that represent the difference between revenues and expenses, including the expenses associated with non-equity source of funds(such as interests to debt, dividend to preference shares)is also known as total earnings available for common stock, If this portion of income is divided by number of outstanding shares, we get earning per share(Sharpe and Alexander;2000:622).

2.3.3 Dividend per Share (DPS)

The percentage of earning the firms pays in cash to its shareholders is known as dividend. The dividend, of course, reduces the amount of earnings retained in the firm and affects the total amount of internal financing.

Nothing is more important than dividends to stock holders. They buy shares of the firm with the hope of sharing profits earned by firms. The sole motive of stockholders is to receive return in their investment; nothing pleases them more than knowing the firm's earning and more profits mean more dividends coming in.

Krishna man opines that of stocks with identical earnings record and prospect, but the one paying a large dividend than the other, the former will undoubtedly command higher price merely because stockholder prefer present to future values. Stockholders often act upon the principle that a bird in the hand is worth two in the bush and for this reason that are willing to pay a premium for the stock with the higher dividend rate.

Forms of Dividend

Cash dividend: Payments made in cash to stockholders are termed cash dividends, for which, a firm to have enough cash in its bank account. When cash dividend is declared, the cash account and reserves amount of the form

will be reduced, thus both the total assets and the net worth of the firm are reduced in case of distribution of cash dividends.

Bonus share (stock dividend): An issue of bonus share represents a distribution of share in addition to cash dividend (known as stock dividend in USA) to the existing stockholders. This practice has the effect of increasing the number of outstanding shares of the company, which are distributed proportionate ownership of the company, which are distributed proportionate ownership of the company.

2.3.4 Net Worth per Share (NWPS)/Book Value per Share (BPS)

A corporation will generate income, much of which is paid out to creditors (as interests) and shareholders (as dividend). Any remainder is added to the amount shown as cumulative retained earnings on the corporation's books. The sum of capital contributed in excess of the par values) under shareholder's equity is the book of the equity by the numbers of share outstanding (Sharpe and Alexander;2000:605).

The book value of the equity reflects the historical costs of brick and meters the assets of the company. A well run company with strong management and an organization that functions effectively should have a market values greater than that the historical book values of its physical assets(Weston and Copeland;1992:695).

Cumulative retained earnings + Capital Contributed in excess of par + Common stock = Book value of equity.

The accounting value of share of common stock equal to the common equity of the firm (common stock plus retained earning) divided by the number of shares outstanding (Weston and Brigham;1987:674).

Book value is generally considered to be relatively unimportant in the determination of the value of the company, since it represents only the historical investments made in the company, investment that may have little relation to current value of price (Weston and Copland;1992:111).

2.3.5 Market Price per Share (MPS)

A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter. Generally, par values of most of stocks are set fairly low figures with compare to their market value and the market value per share is the current price at which the stock is traded. Market value per share of common stock is the function of the current and expected future dividend of the company and perceived risk of the stock on the part investors (Van Horne;2000:546).

“Common stock holders are sometimes referred as the residual owner since in essence s/he 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 high return. The return from common stock is usually from the capital gain earned. If they increase in value after public buy them. That’s why price for common shares can be more volatile. They move up and down due to the factors like economy and company performance(Gitman;1991:573).”

The market price of share gives the value of shares, and the value of the organization. The market price of shares is that price in which shares are traded or the amount which is paid by the buyer to the seller to purchase the stock of company. The market price of shares varies from one company to another. Since, the common stock holders are the owner of the organization and have least priority to claim in liquidation, the share price is highly volatile and very sensible to environmental factors. An organization has two types of

environment .i.e. internal & external. The environment within the organization is called internal environment and is somehow in control of the organization. So the organization tries to maintain the favorable environment to maximize the share price in stock market. On the other hand, external environmental factors are not within the control of the organization, but such forces highly affect the market price of share. So, the firm tries to adjust themselves according to the changing environmental forces, and such adjustments are intended to maximize the share price of the value of the firm.

Since the market price of share is very much sensitive to the environmental forces, the share price increases if there is favorable environment and vice versa. This increase in share price is based on the market mechanism or market forces, i.e. demand and supply. If the earning and dividend of an organization increases, then the investors have positive perception towards the organization, as a result demand increases on the other hand the supplier like to hold the shares and supply decreases and there is a gap between demand and supply, so the market price of the shares increase. The investors determine the share price they would like to receive by selling shares based on their assumptions towards organization and future expectation. Such assumptions and expectations vary from individual to individual, since different person analysis the same situation differently with their level of knowledge.

The index of stock gives the surrogate of market price of share. NEPSE index is the surrogate of all the listed companies in NEPSE. So, it consists one of the indicators of the 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 number in the same series of the index number. An index number is usually a ratio tabulated from average of different securities. Typically, a time series of index number is constructed from the same base date and base value (usually set 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 order to impart perspective to index(Francis;1991:183). The base of the NEPSE is 12 February 1994 (Kathmandu Post: March 11; 2004).

2.4 Review of Books.

In this section of Review of literature the well established principles for the valuation of common stock in global contexts are reviewed from various books. The share price is somehow set with the valuation of stock. The internationally set principles are viewed and the abstracts of such principles are presented here.

2.4.1 Capitalization of Income Method of Valuation

The capitalization of income method of valuation states that the “true” or “intrinsic” value of any assets is based on the cash flow that the investors expect to receive in the future from owning the assets because these cash flows are expected in future, they are adjusted by a discount rate to reflect not only the time value of money but also the riskiness of the cash flows.

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

Where “ C_t ” denotes the expected cash flows 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 the same for all the periods(Sharpe, Alexander and Bailey;2000:523-524).

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

$$= \sum_{t=1}^{\infty} \frac{C_t}{(1+K)^t} \dots \dots \dots (2.1)$$

2.4.2 Net Present Value

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 difference of its intrinsic value (V) and cost.

I.e. NPV= V- P

$$= \left[\sum_{t=1}^{\infty} \frac{C_t}{(1+K)^t} \right] - P \dots \dots \dots (2.2)$$

Simply, NPV is the excess of present values of all the cash flows over the present value (NPV) of cash outflow (investments). Positive NPV is favorable and vice versa.

2.4.3 Internal Rate of Return

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

$$\text{i.e } 0 = \sum_{t=1}^{\infty} \frac{C_t}{(1+K)^t} - p \dots \dots \dots (2.3)$$

For rational decision making, the investment is viewed favorably of $K^* > K$ and unfavorably if $K < K^*$.

2.4.4 Stock Valuation

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

2.4.4.1 Single Price Valuation Model

“An investor who buys a share of the Avery Corporation’s stock for \$ 50 and then sold for \$ 55 a year later, after collecting a cash dividend of \$2.50, earned a rate of earning of 15 percent.

$$r = \frac{(p1 - p0) + d1}{p1} = \frac{(\$55 - \$50) + \$2.50}{\$50} = \frac{\$7.50}{\$50} = 15\%$$

If the stock market is efficient, then 15% is an equilibrium rate of return for Avery’s stock.....The single period valuation model is given by,

$$p0 = \frac{p1 + d1}{1 + r} \dots\dots\dots(2.4)$$

Figuring out the risk adjusted discount rate to use in the valuation model is an important part of the valuation process.

A fundamental principle of valuation says that in perfectly efficient markets, all securities in an equivalent risk class should be priced 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 risk adjusted discount rate to find the present value of Avery’s stock (Francis; 1991:524).”

Where, p1 = market price of a security at period 1

Q d1 = dividend per share for period of 0 to 1 year

Po = 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 relating the value of an equity share to its cash dividends. They hypothesized that the value of V of a share of stock equals the present value of the infinite ($t = \infty$). Stream of dividend

to be received by that stock's owner (Francis; 1991:455), this model known as dividend discount model (DDM).

$$V = \frac{D_1}{(1+K)^1} + \frac{D_2}{(1+K)^2} + \frac{D_3}{(1+K)^3} + \dots + \frac{D_\infty}{(1+K)^\infty} = \sum_{t=1}^{\infty} \frac{D_t}{(1+K)^t} \dots \dots \dots (2.5)$$

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

2.4.4.2.1 The Zero Growth Model

If the dividend amount per share paid over the past year D_0 will also be paid over the next D_1 and year after D_2 , and the year after that D_3 and so on;

That is $D_0 = D_1 = D_2 = D_3 \dots \dots \dots D_n$

This is equivalent to assuming that the dividend growth rates are zero because if $g = 0$, then $D_1 = D_{t-1}$: The present value of stock with zero growth is (from equation 2.5)

$$VO = DO \left[\sum_{t=1}^{\infty} \frac{1}{(1+k)^t} \right] \dots \dots \dots (2.6)$$

Using the property of indefinite series from mathematics, if $K > 0$, then

$$\sum_{t=1}^{\infty} \frac{1}{(1+k)^t} = \frac{1}{k} \dots \dots \dots (2.7)$$

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

2.4.4.2.2 The Constant –Growth Model

“The next type of DDM to be considered is one that assumes that dividend will grow from period at the same rate forever and therefore known as the constant growth model. Specifically, the dividend per share that were paid over the previous year D_0 are expected to grow at given rate ‘g’ so that the dividends expected over the next year D_1 are expected to be equal to $D_0 (1+g)$. The dividends the year after that are again to grow by the same rate g, meaning that $D_2 = D_0(1+g)^2$ and in general

$$D_t = D_{t-1} (1+g) \dots \dots \dots (2.9)$$

$$D_t = D_o (1+g)^t \dots \dots \dots (2.10)$$

Now in the equation (2.5) substituting D_1 by $D_o + (1+g)^1$ we get,

$$V = \sum_{t=1}^{\infty} \frac{D_o(1+g)^t}{(1+k)^t}$$

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

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

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

Then,

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

Substituting the equation (2.13) into equation (2.12) results in the valuation formula for the constant growth model:

$$V = \frac{1+g}{D_o(k-g)} \dots \dots \dots (2.14)$$

$$\text{Or, } \sum_{t=1}^{\infty} \frac{(1+g)^t}{(1+k)^t} = \frac{(1+g)^1}{(1+k)^1} \dots \dots \dots (2.15)$$

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

Because, $D_1 = D_o (1+g)$.

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

$$K = \frac{D_1}{P} + g \dots \dots \dots (2.17)$$

Where, "V" is substituted by 'P', the current price of the security.

2.4.4.2.3 The Multiple –Growth Model

“A more general DDM for the valuing the common stock is the multiple – growth ,with this model, the focus is on time in the future(T),after which dividends are expected to grow at a constant rate 'g'. Although the investor is still concerned with forecasting dividends, these dividends up to T (D₁, D₂, D₃.....D_t) will be forecast individually by the investor. Thereafter, dividends are assumed to grow by a constant rate 'g' that the investor must also forecast, meaning that:

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

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

$$D_{t+3} = D_{t+2}(1 + g) = D_t(1 + g)^3 \text{ and so on}$$

2.4.4.3 Valuation Based on Infinite holding period

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

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

Where D₁ and P₁ are the expected dividend and selling price at t = 1, respectively.

“To use equation (2.18) the price of the 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 1 is:

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

P₁ from (2.18) & (2.19) we get,

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

Or,

$$V = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^1} + \frac{D_3}{(1+k)^2} + \frac{D_4}{(1+k)^3} + \frac{D_5}{(1+k)^4} + \dots = \sum_{t=1}^{\infty} \frac{D_1}{(1+k)^t} \dots (2.19a)$$

This results to the equation (2.5). Thus, valuing a share of common stock by discounting its dividends up to some point in the future and its expected selling price at the time, is equivalent to valuing stock by discounting all future dividends.”

2.4.4.4 Models Based on Price Earning Ratio

In order to show the interaction of earnings, dividends, retained earnings, and the growth rate of the firm, the model can be reformulated to treat these variables explicitly. Dividends are related to earning by defining dividends to be equal to the payout ratio of (1-f) times earning as in equations (2.20 and 2,20a)

$$D_t = (1-f) E_t = \text{Corporation's total cash dividends} \dots (2.20)$$

$$d_t = (1-f) e_t = \text{Cash dividend per share} \dots (2.20a)$$

Total corporate retained earnings of dollars are assumed to be reinvested within all equity firms to earn a rate of return or “r”. Since the firm we are discussing here has borrowed money, it can only grow from retained earnings period, as shown in equation (2.21), assuming no external capital is invested in the firm.

$$E_1 = e_0(1 + g)^1 = E_0(1 + fr)^1 \dots\dots\dots(2.21)$$

$$e_1 = e_0(1 + g)^1 = e_0(1 + fr)^1 \dots\dots\dots(2.21a)$$

$$d_1 = (1 + f)(1 + fr)^1(e_0) \dots\dots\dots(2.22)$$

$$d_1 + (1 - f)(1 + g)^1 e_0 \dots\dots\dots(2.22a)$$

$$d_1 = (1 - f)(e_1) \dots\dots\dots(2.22b)$$

As long as the relation ratio is positive number >0, dividend per share will change each period as indicated in equation (2.22) if no new shares are issued. When some fraction of earning is retained and earns a return of r within the form, the present value of a share of stock is determined by substituting equation (2.22) into (2.19) to obtain (2.23). In equation (2.23) the beginning cash dividend per share is stated in terms of the beginning earnings per share by substituting $e_0(1 - f)$ in place of d_0 .

$$V_o = \sum_{t=1}^{\infty} \frac{e_0(1 - f)(1 + fr)^t}{(1 + k)^t} \dots\dots\dots(2.23)$$

$$\text{or, } V_o = \sum_{t=1}^{\infty} \frac{d_0(1 + fr)^t}{(1 + k)^t} = \sum_{t=1}^{\infty} \frac{d_0(1 + g)^t}{(1 + k)^t} = \frac{d_1}{k - g} \dots\dots\dots(2.24)$$

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

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

$$\text{or, } V_o = \frac{e_1(1 - f)}{k - g} \dots\dots\dots(2.26)$$

One advantage of the dividend valuation model is that it may be written equivalently in different forms. Equations (2.19a), (2.23), (2.24), (2.26) all are useful representation of the same model. Equation (2.23) explicitly shows the relationship of earning e, dividend policy f, internal profitability r, the firms cost of capital k and the firm's growth rate g in the determination of value of stock. The model may be used to determine 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 equations (2.20) and (2.21).

2.4.4.5 Signaling

“A relatively simple view of dividend changes is that an announced increase in dividend is a signal that management has increased its assessment of the firm’s future earnings. The announced increase in dividends is therefore good news and will in turn, cause investors to raise their expectations regarding the firm’s future earnings. Conversely an announced decrease in dividends is a signal that management has decreased its assessment of the firm’s future earnings. The announced decrease in dividends is therefore bad news and will, in turn, cause investors to lower their expectations regarding the firm’s future earnings. An implication is that an announced increase in dividends will cause the firm’s stock price to rise, and an announced decrease will cause it to fall” (Sharpe, Alexander and Bailey; 2000:567).

There is nothing inconsistent with dividends being used as a signal and with the dividend irrelevancy argument of Miller and Modigliani. In particular, stockholders will neither be better off nor worse off if the level of dividends, relative to earnings, is high or low. Changes in dividends may, however, be important because they convey information to the public about the future earnings prospects for the firm (Sharpe, Alexander and Bailey; 2000:567-568).

2.4.4.6 January Effects.

There is no obvious reason to expect stock returns to be higher in certain months than in others. However, in a study that looked at average monthly returns on NYSE listed common stocks, significant seasonality was found. In particular, the average return in January was higher than the average return in any other months..... It appears that the average return in January has been approximately 3% higher than the average monthly returns in February through December (Sharpe, Alexander and Bailey; 2000:497).

2.4.4.7 Day –Of-The-Week-Effect

Studies looked at the average daily return on NYSE listed securities found that the return on Monday was quite different than the returns on other days. In particular, the average return on Monday was found to be much lower than the average returns on any other day of the week. Furthermore, the average return on Monday was negative, whereas, the other days of the week had positive average returns(Sharpe, Alexander and Bailey;2000:497).

2.4.4.8 Size Effect

The past evidence suggests that the size effect also exists in Japan. The securities of the Tokyo stock exchange classified into two sections, the second is less than 10% of the size of the first, measured by the market value of the examined over the period on it. Two indices were prepared and examined over the period from 1952 to 1980.They include the same stocks but are compiled differently. The equally weighted (EW) index weights the stocks by market value waited (VW) index weights the stock by market value. Hence, the EW index is influenced much more by the performance of small stocks than the VW index is Te EW index returned 5.1% more, suggesting the preference of a size effect(Sharpe, Alexander and Bailey;2000:501).

2.4.4.9 Earning Announcement & Price Changes

A number of studies have shown large price changes for stocks of companies that reports earning that differ substantially form consumers expectations. One study looked at three groups of 50 stocks. The first group consisted of the 50 stocks listed on the NYSE that expected the greatest price rise during 1970.The second group consisted of 50 stocks chosen randomly from all those on the NYSE during 1970.The third group consisted of the 50 stocks listed on the NYSE that experiences the greatest price decline during 1970.....It is found that the median changes in actual earnings per share for the top random, groups

were 21.4%.....10.5% and -83% respectively(Sharpe, Alexander and Bailey;2000:578).

2.5 Reviews of the Previous Studies

This section includes the previous studies regarding stock markets price and organized stock exchange both in the national as well as international contexts.

2.5.1 Foreign Context

According to www.stocksabout.com “stocks trade in an open market, where buyers and sellers agree on a price. There is no fixed price like you’ll find at convenience store, instead, prices follow the simple laws of supply and demand. Therefore, when a stock’s price rises, it means that buyers are continually willing to pay more for the stock (and sellers are demanding more before they’ll part with their shares)

What causes Buyer Demand?

As more and more buyers flock to a stock, the supply at a lower price diminishes (partly because all the shares are sold out and partly because sellers realize they can raise the price). Three main factors drive buyers demand, they are

- Company profitability
- Dividend Income
- Speculation

Most investors value company profitability. A business that makes money is worth purchasing for a variety of reasons. It won’t be bankrupt, it will grow, and it might be purchased by any other company. Therefore, the company becomes more valuable.

We might notice that the stock market pays attention to earnings release. These releases are the company’s proof that it is valuable enterprise. When company

can demonstrate consistent earnings growth, it attracts more and more investors.

Dividend stocks can attract more and more investors just like growth stocks. If a stock has a history of always paying a heavy dividend, one can expect that history to continue it's even better if the dividends growth will continually attract investors. Also, stocks that offer a relatively high dividend yield (dividend payment divided by share price) attract buyers.

Finally, speculation can cause a stock's price to change dramatically. While earnings growth and attractive dividends are reasonable approaches to investigating speculating is harder to understand.

The basic idea is that buy a stock because we think someday else will pay more for it in future. The reason for the price increase doesn't really matter (after all, any profit in the stock market is a good profit). All the matters are the belief that will be an increase.

Speculators typically don't base their buying behavior on historical performance (such as earnings growth or constituent dividend growth). Rather, they are hoping to predict the future of a stock. The markets saw plenty of speculation in the internet boom. Buyers hoped that internet stocks would make a bundle of money, but they weren't quite sure how, some gained, some lost.

What Causes Prices to fall?

Now that we have known what causes buyer demand, we will start to understand what drives prices down. When a stock becomes unattractive (due to poor earnings outlook, missed dividends payment, or speculation), shareholders want to get rid of their Shares. Sellers will sell for less (because they just want to make a sale) and buyer demands are limited

Next time somebody asks why the market is up, we can respond with the old Wall Street joke: "More buyers than sellers" but you will have a better idea why they, are buying."

In an journal published on www.Utk.edu by Debosah L. Murphy, Ronald E. Shrieves and Samuel L. Tibbs entitled "Determinants of Stock Price Reaction to Allegation of Corporate Misconduct: Earning Risk and Size Effects" studied using the most Extensive sample to date. They examined the source and magnitude of market imposed penalties experienced by firms alleged to have committed illegal acts. Stratification of the sample by crime category reveals significant verification in the announcement- related wealth effects. Also examined were the linkages between the observed wealth effects and changes in reported and expected earnings, risks, firm sizes and reputation. They found the allegations of misconduct were accompanied by Statically significant control firm adjusted decline in reported earnings increased in return variability and a decline in concordance among analysis' earning estimates. The magnitude of the market- imposed penalties accompanying allegations is systematically related to the type of misconduct, firm size, uncertainty. However, the statistical relationship between earnings changes around the allegations and the wealth effects of criminal allegations was ambiguous. Their results offer the strongest evidence regarding a link between market- imposed penalties associated with allegations of misconduct and subsequent changes in the level of Uncertainty of earnings.

In the Journal of Financial Economics, summer 1996, entitled "Commonality in the Determinants of expected Stock returns" by Robert A Haugen and Vardin L Baker, they presented with evidence that the determinants of the cross section of expected stock return were stable in their identity and influence from period to period and from country.

The determinants were related to risk, liquidity, price level, growth potential

and stock price history .Out of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper from others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

In 1997 International Monetary Fund (IMF), Policy Development and Review Development Division published a working paper entitled "Determinants of Stock Prices: The case of Zimbabwe". The working paper examined the general relationship between stock price and macroeconomic variables in Zimbabwe, using the revised DDM, error –Correction model and multi facto return generating model. Despite the large fluctuation in stock prices since 1991, the analysts indicated that Zimbabwe Stock Exchange functioned quite constitutently during the period. Whereas, sharp increases in the share prices in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization. The monetary aggregate and market interest rate explained by the rapid increase of 1990's in stock prices.

CEO Charisma Affects Stock Prices

The head honcho's clever working influence all aspects of a company, and according to a recent University of Florida study, their power of persuasion don't tend with the firm.

The study found securities analysts predict a firm's performance based not only on its track record but also on how favorable they view the company, which is

influenced largely by how charismatic they consider its chief executive officer.

That influences indirectly affects the price of a company's stock because investors use tainted predictions to decide whether to buy or sell stock, said Angelo Fanelli, who conducted the study for his doctoral dissertation at the UF Warrington College of Business.

“The essence (of this study) is in particular relationship between the CEO and securities analysts, a charismatic leader will make a security analysts excited and then he will rate a company more favorably in his recommendation to stockholders,” said Funelli.

However, the effects of CEO charisma do not mean an analyst is more accurate in predicting the future performance of a company.

The results showed CEO charisma significantly affected the perceptions of analysts, leading them to recommend to investors the stock of a firm with a charismatic CEO in a more favorable way. The Study also found, as a group, securities analysts are more likely to have more similar high recommendations for a firm that received a high score for CEO charisma.

[source:www.napa.ufl.edu/200news]

Equity funds-What affects Price?

What factors influence the priced of stocks, and therefore the value of equity mutual funds? There are several fundamental factors: expectation, external events, fiscal and tax policies, government spending, monetary policy, inflation, and business cycles. Technical factors include: the condition of securities markets, price movements, trading volume and supply and demand.

Fundamental factors include everything outside the security markets themselves which might influence price. Because market security price are

negotiated between buyer and seller, future expectations help determine price.

[Source:ByRickWay an/www.invetopedia.com/articles/analysts/03/070903.asp]

Stock price Behavior in Small Emerging markets: Tests for Predictability and seasonality on the Bahamas International Securities Exchange

This paper presents evidence on the behavior of stock prices on the Bahamas International Stock Exchange(BISX) over the first eighteen months of its existence (January 2 2001 to June 29 2002).The paper is unable to reject the hypothesis of randomness in the rates of return series for the majority of the seventeen stocks listed on the BISX. One is therefore unable to reject the notion of that the BISX is weak form efficient. The paper finds no evidence that many of the seasonal patterns in the stock returns identified on developed stock markets, do not generally carry over to emerging markets. The paper also provides further evidence that stock prices are not generally drawn from normal distribution and that no-parametric statistics are potentially important in the statistical of stock prices.

[Source: by Justin Robinson, University of the west Indies, Cave Hill Campus, Barbados]

Why The Market Rises And Fall? / What Moves The Stock Market?

That complex question has many answers. Some market movers are obvious, while others creep up on us unseen. In this and subsequent articles, I'll look at some of the economic, political, and societal issues that: may cause the market to change direction or speed up or slow down its momentum.

A quick list of the obvious includes:

- Inflation
- Interest rates.
- Earnings
- Oil/Energy Prices .War/Terrorism .Crime/ fraud

- Serious domestic political unrest

As you can see, many of these have serious long-term implications, while others may only cause temporary disruptions.

However, the one factor not listed above that drives the market absolutely crazy is uncertainty. The market cannot stand surprises and when there is the chance that something may change, it rattles the market.

[Source: www.stocksabollt.com]

What Factors Influence A Share Price?

When you look at the performance of the stock market at the end of a trading day it can be hard to work out why shares have either risen or fallen in value.

Broadly speaking, share prices are influenced by news or information: new data on employment. Manufacturing, directors' dealings, political events or even the weather, all kinds of news can influence the way shares move.

You will sometimes, however, see little move in share prices when, for example, interest rates shift. This is because investors try to anticipate what is going to happen in the next few months and try to move their portfolios in or out of these stocks before the rest of the market catches on. Sometimes, of course, these expectations can be wrong and if this happen, markets can move very sharply

If you want to trade successfully in the stock market you will need to know what news other investors look at and how they will look at it. This will help you pick the best moment to buy and sell your shares. Read more about monitoring news on a company.

- The economy
- Company news

- Analysis reports
- Press recommendations
- Sentiment
- Technical influences

▪ **The Economy**

The health of the global economy has a fundamental influence on share prices because it is ultimately responsible for driving company profits. Broadly speaking, if the economy is growing, company profits improve and shares will become more highly valued. If the economy is weakening, company profits will fall and share prices will go down.

Investors look at a vast amount of data to try and work out what is going to happen in the economy and shift their portfolios before the events occur. This is why you often see markets move well ahead of an actual event occurring. You may, for example, get little reaction from the stock market when interest rates rise. This is because investors have already anticipated the shift months in advance and adjusted their portfolios beforehand.

You can usually assume that the stock market will anticipate moves in the economy by around six to nine months. So if you want to stay ahead of the game you will need to follow economic data as closely as the professionals.

The kind of information you need to pay close attention to is: employment data, the reports put out by the Monetary Policy Committee (to get an idea where interest rates are headed), trade with other countries, retail sales and manufacturing. Sentiment surveys produced by trade bodies such as the Confederation of British Industry are also important indicators of where the economy is heading.

It is not only news about the UK economy that will impact on share prices.

The signals coming out of other major economic, particularly the UK's major trading partners, such as the US and Europe will affect UK shares as what happens in these Economies will have an impact on our own.

When looking at economic data, you need to think not only how the wider economy will be affected but whether certain areas will be more affected than others. A rise in interest rates is, for example, often bad news for house builders as people feel less confident about taking on debt. Retailers are often badly affected too as people spend less. Pharmaceutical companies are, however, usually unaffected as people's demand for drugs is not influenced by the state of the economy.

Companies whose profits are closely tied to the health of the economy are known as 'cyclical' stocks. Those businesses that aren't too affected by the economy are called 'defensive' stocks. If economic conditions deteriorate you will often see investors shift from cyclical stocks to defensives.

- **Company News**

The way investors interpret news coming out of companies is also a major influence on share prices. If, for example, a company puts out a warning that business conditions are tough, shares will often drop in value. If, however, a business conditions are tough, shares will often drop in value. If however, a director buys shares in the firm, it may be a signal that the company's prospects are improving.

Companies put out a great deal of news and most of the major announcements are covered by the financial press. But some announcements not regarded as so important and sometimes, particularly among smaller firms that are monitored less by investors and financial journalists, indicators of the company's health can be missed.

You can stay one step ahead of the game by looking carefully at all the information sent out by companies you own, their competitors and other companies you are interested in. This information is usually available in companies' websites. Try to think laterally about the information you are getting. If, for example, a competitor to a company you have shares in produces a revolutionary new product, it will probably hit profits at the company you own. Also think about the impact it will have on suppliers to that business. An increase in sales of mobile phones with cameras in them will not only be good for the phone company but the firms that supply the technology in the phones. Takeovers or even rumors of takeovers also have a big influence on prices. This is because investors expect the bidder to pay a premium to shareholders.

▪ **Analysts' Reports**

Reports produced by independent analysts also influence share prices. If an analyst changes their recommendation from 'sell' to 'buy', for example, the shares will often rise in value. Analysts' reports are produced primarily by investment banks for professional investors, although some stockbrokers will make their research available to private investors. You may find summaries of some reports published on financial news websites or in news papers and magazines. Some investment banks also publish their reports on their websites for free. You should remember that the recommendation an analyst puts on a company will affect its share price very quickly and can become irrelevant within hours. This is because the analyst will usually say a stock is a 'buy' within a particular price range. If the price moves above their targets the improvements the analyst expects may be 'priced in' and the shares not worth buying.

But analysts' reports are always worth reading; even if the recommendation is out of date the reports usually contain a great deal of useful information on the Company and how its business is developing. They also often look at how the company rates against its competitors.

- **Press recommendations**

The financial pages of most national newspapers and investment magazines usually contain share tips. Like analysts' reports these tips can have a major influence on share prices. If a journalist recommends a share, the price will usually rise and if they write a negative story the price will fall. These moves usually happen very quickly so .if you are going to allow the recommendation it often makes sense to do so as soon as possible.

- **Sentiment**

Investors sentiment is almost impossible to predict and can be infuriating if, for example, you have bought shares in accompany that you think is a good 'buy' but the price remains flat. Investor sentiment is influenced by a wide variety of factors. Share prices can, for example, be flat during the summer simply because so many major investors are on holiday or attending major sporting events such as Royal Ascot and Wimbledon, hence the adages 'sell in May and go away'.

Investor sentiment can lead to irrational buying or selling of shares and result in bull and bear markets. A bull market is when share prices rise while a bear market is when they fall. In the technology boom of the late 1990s, for example, investors paid extremely high prices for shares and ignored traditional valuation measures, such as *P/E* ratios. This carried on until 2000 when investors belatedly realized these shares has risen too far and resulted in a three year bear market in shares.

- **Technical Influences**

Share prices can rise and fall for a variety of technical reasons that may have nothing to do with the actual outlook for an individual company or the outlook for the market. It is. For example, a common occurrence for share prices to drop back after a strong rally'. This happens because investors take profits on some of the shares that have risen in value, protecting their gains just in case

the shares start to slip back. Investors often refer to this as market consolidation.

Another technical reason for share prices to rise or fall is the quarterly adjustment in the FTSE 100™ index. Shares that are expected to enter the FTSE 100™ may experience a sharper rise than one would expect in the weeks before hand while shares that leave the index can fall more sharply. This happens because funds that simply track the index have to match the composition of the index. Some professional fund managers who hold the affected stocks also adjust their portfolios as they do not want their holding to be too far above or below the company's weighting in the index.

Share prices can also be affected by investors by investors who use technical analysis to drive their investment techniques. Technical analysis, also known as Chartism, is simply the study of past share price movements and stock market index trends, which are then used to forecast how shares and stock markets will behave in future. Read more about strategies for investment.

Market makers can also influence prices. If they, for example, do not own enough shares to balance their books they will have to buy more. Market makers also influence prices if the market is looking flat, reducing prices to attract buyers.

[Source: www.londonstockexchange.com]

2.5.2 Nepalese Context

There are very few independent studies in Finance in Nepalese perspective. On the core concept of capital market and determinants of the stock price in stock market, very negligible studies have been made'. Such research studies are made on shareholder's democracy and dividend policy etc. Even though, these studies have been made many years ago, these can provide intellectual ground, since there are no researches made on the specific topic.

Prof. Dr. Rahde Shyam Pradhan (1993) entitled, " *Studied the Market Behavior in Nepal*" Concluded that:

Large stocks have large PE ratios; large ratios of the market value to book of equity and smaller dividends. PE ratios and dividend ratio are more variable for smaller stocks where as market value to book value of equity is more variable for the large stocks.

Large stocks also have lower liquidity, higher leverage, lower profitability, and lower assets turnover interest coverage stocks.

Smaller dividends, lower profitability, lower assets turnover, and lower interest coverage for large stock may be attributed-to the fact that most of the large stocks are at their initial stage of operation.

Stocks with large market value to book value of equity, large PE ratios and lower dividends, PE ratios are more variable for stocks with large market value to book value ratios and dividends ratios are more variable for stocks with smaller market value to book value.

Stocks with large market value to book ratios have lower liquidity, higher leverage. Lower earnings, lower turnover and lower interest coverage, However, liquidity and leverage are more variable for stocks with large market value to book value ratios while earnings, assets turnover and interests coverage are more variable for stocks with smaller market value to book value ratios.

Stock with large ratios large PE has large market value to book value of equity and smaller dividends ratios. However, their ratios of market value to book value of equity, and dividends are more variable for smaller stocks than for large stocks.

Stocks with large PE ratios have lower liquidity, higher leverage, and lower profitability, Lower assets turnover and lower interest coverage. However, liquidity, leverage, earning turnover and interest coverage are all more variable for stocks with smaller PE ratios as compared to large ones.

Stocks paying higher dividends have higher liquidity, lower leverage, higher earnings and higher turnover and higher interest coverage. However, liquidity and leverage ratios are more variable for the stocks paying lower dividends while earnings, asset: turnover and interest coverage is more variable for the stocks higher dividends

Prof. Dr. Rahde Shyam Pradhan and MR Nabaraj Adhikari entitled “*Impact of Dividends on Share Price in Nepal*” leads to three important conclusions first, dividends have positive impact on share price. Second, dividends have comparatively more favorable impact on the share price of the non-finance sector. Third, past earnings have more impact than retained earnings and dividends on share private of finance sector?

Mr. Khagendra Prasad Ojha (2002) entitled, “*Financial Performances and Common Stock pricing*” concluded by was also reviewed for this study. The major findings of the research were: Nepalese stock market is in infancy stage. Dominant of banking sector is prevalent in the market due to other industries including finance and insurance companies. Manufacturing companies are not encouraging. He also concluded that people have misconceptions that the issuance of the bonus shares and right shares which actually decreases price and this makes them to invest even at a too high price with expectation of getting the same to increase their overall wealth. Further, he concluded that stock price in Nepal is determined more by other factors rather than the financial performance of the concerned company.

2.5.2.1 Review of Unpublished Thesis

There are numerous thesis reports for the partial fulfillment of Master of Business Administration, Master of Business Studies and Masters in Arts in Tribhuvan University. Among those thesis reports some are related to the capital market and very few are related to the stock price in Nepal Stock Exchange. Some of those thesis reports are viewed here:

A Study done by Mr. Bhattarai (1996), in his thesis entitled, "*Dividend Decision And Its Impact On Stock valuation*" Concluded that though the stockholders have not good enough return, market price of shares are increasing due to the high expectations in future. If there are rational investors and stable dividend influences considerable impact on valuation of shares. There is positive relationship between cash dividend and valuation of shares. There are five companies out of ten, having positive coefficient of correlation between cash dividend and valuation of shares. The market price is considerably higher than the actual net worth. In some cases, market price of share is two or three times higher than the net worth. This certainly includes that investors do not have adequate knowledge on how to evaluate the value of shares before investing in them.

A Study done by **Mr. Surya Chandra Shrestha (1999)**, in his thesis entitled, "*A Study on Stock Price Behavior in Nepal*" Concluded that the price changes of the past and present can be very helpful to forecast future price and present can be very helpful of future price changes. When long days increase, the mean value of sent correlation of coefficient is lower, that indicates the past price changes may have low power to predict the future price in the long run. The price changes in the present and the future stock market may not be independent of the price changes in the past and present respectively. There elitists no profitable trading rules to make greater profit than they would make the buy-and-hold strategy on past price changes. Nepal Stock Exchanges are not efficient in pricing shares.

A Study done by Ms. Sangita Gautam, in her thesis entitled, "*A Study of Stock Market Behavior in Nepal*" by Concluded that political instability and other laws related issues are the prominent factors for the underdevelopment of security market in Nepal. She further concluded that the stockbrokers and stock market are not being much active to create investment environment in stock market. Most of the investors are influenced through media only. Information deficiency in the capital market may be one of the reasons for determination of share price by excessive speculation. The available information is of low quality and people have very little knowledge of the trading procedure and price formation mechanism in NEPSE. Lack of effective laws and effective implication of the existing laws are the contributing factors for the less development of the capital market. She also argued that some of the major problems experienced by stock market are the poor regulatory controls and supervision by SEBO/N and NEPSE.

A Study done by Mr. Poudyal (2001), in his thesis entitled, "*A study on Share Price Behavior of Joint Venture banks in Nepal*" concluded that the growth rate analysis as a stand alone may not be adequate for the analysis of share prices behavior and may not represent the bank's performance in the secondary market. The ordinary least square equation of the book value per share on market value per share reveals that the independent variable does not full). points; Nepal Stock Exchange operated in a weak form of efficient market hypothesis, including that the market prices move randomly. The market value per share does not accommodate all the available historical information. Having good track record of the financial position, the market potential investors buy the shares of joint venture commercial banks. Therefore, the shares of joint venture bans emerge as a blue-chip in the Nepalese Stock Market. The beta coefficient, which measures the risky ness of individual security in relative term, suggests that none of the shares of eight sampled banks are risky. Therefore, even a risk averter can go for making an investment in shares of these banks. The shares of publicity quoted joint venture

commercial banks are less risky as compared to the other average stocks traded in the stock exchange.

A Study done by Mr. Apar Neupane (2004), in his thesis entitled, "*Determinants of Stock Price in NEPSE*" concluded that Nepalese investors have not adequate education about the capital market: They do not have good knowledge and information to analyze the scenario and to forecast share price. Perhaps due to In NEPSE, DPS, BPS & EPS individually do not have constituent relationship with the market price of the share among the listed companies. The pricing behavior varies from one company to another. But DPS, BPS & EPS, jointly have significant effect in market price of the share. So, there may be other major factors affecting the share price significantly. NEPSE is in its primary stage, adopting open out cry system for stock trading and stockbrokers lack professionalism to create investing opportunities in NEPSE. This reason stock price in NEPSE rather shows irrational behavior. Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing & processing, trading and hotel sectors have weak performance. So financial intermediaries are strong but their ultimate investment is suffering.

Companies' performances (earning, dividend, book value, risk etc) information disclosed, timely AGM, political stability, national economy, demand & supply situation, strikes, demonstrations, ceasefire and peace talks (and their outbreak) are the major factors affecting the rate, retention ratio, cost of equity, tax rate, gold price. Value of US &, global economy, market liquidity reason, day of the weak, size of the firm, change in the management do not significantly affect the price of the share in NEPSE. There is deficiency of proper laws and policies regarding the capital market. Shareholders are feeling unsecured to invest in security markets due to poor regulatory mechanism to protect shareholders interests. The implementation of existing laws is weak. Listed companies do not provide sufficient information (financial as well as non financial) to their shareholders and they are not able to act according to the shareholders'

interests. The performance of most of the listed companies is not transparent. Since NEPSE is in increasing trend, in spite of unfavorable environment for investment. Nepalese citizens have a huge amount of scattered fund remained unproductive, which can be used in the industrial development through capital market to accelerate the economic growth of the nation. With the existing Maoist problem, industrial development and capital market development is impossible. So, the peaceful solution of the Maoist problem is preliminary condition for capital market and economic development in Nepal.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools. Detail research methods are described in the following headings:

3.2 Research Design

In order to make type of research a well-set research design is necessary to fulfill the objectives of the study. Generally, research design means definite procedure and techniques which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data. To achieve the objectives of this study; descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to identify factors determining stock prices of commercial banks in the NEPSE.

3.3 Population and Sample

This study intends to identify the factors affecting the stock price of the Public Commercial Banks in NEPSE. So, the population of the study is all the listed companies in NEPSE up to July 4, 2005 i.e. 144 listed companies. Out of listed commercial banks only five banks have been selected to analyze and compute data in the basis of share trading frequency.'

Table No 3.1**Listing Date of Nepalese Commercial Banks**

S. no	Name of the commercial Banks	Listing Date(L.D)
1	Bank of Kathmandu	1997/07/17
2	Everest Bank Limited	1994/10/18
3	Himalayan Bank Limited	1993/01/18
4	Kumari Bank Limited	2001/04/03
5	Laxmi Bank Limited	2002/04/03
6	Lumbini Bank Limited	1998/07/17
7	Macchapuchhre Bank Limited	2000/10/03
8	Nabil Bank Limited	1984/07/16
9	Nepal Credit & Commerce Bank Limited	1996/10/14
10	Nepal Bangladesh Bank Limited	1993/06/05
11	Nepal Ind. & Commercial Bank limited	1998/07/21
12	Nepal Investment Bank Limited	1986/02/27
13	Nepal SBI Bank Limited	1993/07/07
14	Siddhartha Bank Limited	2002/12/24
15	Standard Chartered Bank Limited	1987/01/30

Source: SEBO Annual Report 2005/06

Sample of this Study

S.no	Name of the Commercial Bank	Listing Date(L.D)
1	Standard Chartered Bank Limited	1987/01/30
2	Nabil Bank Limited	1984/07/16
3	Nepal Investment Bank Limited	1986/02/27
4	Everest Bank Limited	1994/10/18
5	Himalayan Bank Limited	1993/01/18

The secondary date of sample organizations is analyzed to determine the relationship of earning, dividend and book value with market price of shares 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 the listed banks, SEBO/N, NEPSE, and security Brokers.

3.4 Sources & Nature of Data

The study is based on primary data as well as secondary data. To show the relationship between variables (share price-earnings, share price-book value, share price-dividend), Secondary data are collected from respondent through research questionnaire. The respondents of the primary data are listed commercial banks and stock brokers etc.

The sources of secondary data are AGM reports of listed companies, SEBO/N, NEPSE and other concerned organizations, bulletins, publications, researches, journals, unpublished thesis reports, newspaper, journals, and internet websites.

3.5 Data Collection Techniques

The research consists of both primary and secondary data. Since the nature of these two types of data is different, the data collection procedure also varies. To collect the secondary data, published materials are viewed in various spots. Books by different authors, unpublished thesis reports, journals, magazines, internet, AGM reports of the listed companies, SEBO/N, NEPSE etc. Trading reports of NEPSE are the major source of secondary data. To collect these secondary data, the researchers visited NCC library's library, Central Library, NRB Library and library of SEBO/N. On the other hand, the primary data collected through questionnaire with private commercial banks and security brokers.

3.6 Methods of Data Presentation

The primary and secondary data collected from various sources leads to the logical conclusion, only if the appropriate tools and techniques are adapted to analyze such data. The collected data has been no meaning, if such data are not

analyzed. To analyze the data in this research, the researcher has used some statistical and financial tools, which are explained here:

3.6.1 Secondary Data Analysis Tools

3.6.1.1 Statistical Tools

Statistical tools are the measures or 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 researchers have used the following statistical tools to analyze the data:

Average Mean

An average is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (A.M, Simple & Weighted), Median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the A.M. The value of the A.M is obtained by adding together all the items and by dividing this total by the number of items:

Mathematically;

Arithmetic mean (A.M) is given by,

$$\bar{X} = \sum \frac{x}{n} \dots\dots\dots (3.1)$$

Where, \bar{X} = Arithmetic mean

x = sum of all the values of the variable X

n = Number of observations

Standard Deviation

The standard deviation (σ) measures the absolute dispersion. The greater the standard deviation, the 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,

$$\sigma = \sqrt{\frac{1}{n} \sum (X - \bar{X})^2} \dots\dots\dots (3.2)$$

Coefficient of Variance

The standard deviation is absolute measures of dispersion; where as the coefficient of variation (CV) is a relative measures. To compare the variability between two or more series, CV is more appropriate statistical tool.

Mathematically,

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

Correlation Coefficient

When the relationship is of quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it in a brief formula is known as correlation. If the values of the variables are directly proportionately then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation is said to be negative but the correlation coefficient always remains within the limit of +1 to -1. By Karl Pearson, the simple correlation coefficient (between two variables, say X and Y) is given by:

$$r^{xy} = \frac{Cov(x, y)}{\sigma_x \sigma_y} \dots\dots\dots (3.4)$$

Where,

r^{xy} = is the correlation coefficient between two variables x and y

‘r’ lies between +1 to -1

When $r = +1$, there is perfect positive correlation

When $r = -1$, there is perfect negative correlation

When $r = 0$, there is no correlation

Simple Regression

Regression and correlation analysis are the techniques 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 variable is called correlation analysis and using the relationship between a known variable and unknown variable to estimate the know 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 regression line where the dependent variables Y is determined by the independent variable X is given by:

$$Y=a+bx..... (3.5)$$

a= y –intercept

Where,

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

Multiple Regressions

Assuming that all variables are closely related, we can estimate the unknown value of one variable from the given or know values of the other variables. Multiple regression analysis is a logical extension of the simple liner regression analysis. In multiple regression analysis, instead of single independent variable, two or more independent variable are used to estimate the unknown values of dependent variables.

The multiple regression equation describes the average relationship between dependent variable and two or more independent variables and this relationship is very much useful for estimating(or predicting)the dependent variables. Thus, the multiple regression equation of X_1 on X_2 , X_3 and X_4 is an equation for estimating a dependent variable X , from three independent variables X_2 , X_3 , X_4 .

The multiple regression equation of dependent variables X_1 on three independent variables X_2 , X_3 & X_4 is given by:

$$X_1 = a + b_1x_2 + b_2x_3 + b_3x_4 \dots \dots \dots (3.6)$$

Where,

a = x_1 -intercept=the value of x_1 when three independent variables x_2 , x_3 & x_4 are zero.

b_1 =the partial regression coefficient of x_1 on x_2 when x_3 & x_4 are held constant.

b_2 =the partial regression coefficient of x_1 on x_3 when x_2 & x_4 are held constant.

b_3 =the partial regression coefficient of x_1 on x_4 when x_2 & x_3 are held constant.

Coefficient of Determination

The coefficient of determination gives the percentage variable in the dependent variable that is accounted for by the dependent variable. In other words, the coefficient of determination gives the ratio of expected variance 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),

$$r^2 = \frac{\text{Expected variance}}{\text{Total variance}} \dots \dots \dots (3.7)$$

Test of Hypothesis

A quantitative statement about 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 in verification.

The act of verification involves testing the validity of such assumptions which, when undertaken on the basis of sample evidence, is called statistical hypothesis or testing of hypothesis. The main goal of testing hypothesis is to test the characteristics of hypothesized population parameter based on sample information whether the difference between the population parameter and sample statistics is significant or not. The act of verification involves testing the validity of such assumption which, when undertaken on the basis of sample evidence, is called statistical hypothesis or the testing of hypothesis.

For the test of hypothesis t-test is made in this study

t-statistics

t-statistics is applied for the test of small sample. If the sample size is less than 30 i.e. called small sample and t-test is used.

The following formula is used to test an observed sample correlation coefficient.

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

Where, r = simple correlations coefficient

n = number of observations.

z- Statistics

To test the significance of effects of the qualitative factors collected from primary sources- test is carried out. Z test is made, since the sample size is more than 30. The test of significance of single mean for large sample (N>30) under H₀ is:

$$Z = \frac{\bar{x} - \mu}{S.E(\bar{x})} = \frac{\bar{x} - \mu}{\frac{\sigma}{\sqrt{n}}}$$

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

3.6.1.2 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:

Earning Per Share

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

Mathematically,

$$EPS = \frac{\text{TotalEarningOfcompany}}{\text{NoOfsharesouts tan ding}} \dots\dots\dots(3.8)$$

Dividend per Share

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

Mathematically,

$$DPS = \frac{\text{TotalDividendpaid}}{\text{NoOfSharesoutstadning}}$$

Market Price per Share

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

Mathematically,

$$MPS = \frac{\text{TotalMarketCapitalization}}{\text{NoOfSharesouts tan ding}}$$

Book Value per Share

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

Mathematically,

$$\text{BPS} = \frac{\text{Networth}}{\text{NoOfOutstandingShares}}$$

3.6.2 Primary Data Analysis Tools

The collected data (from both primary and secondary sources) are presented in 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, and pie chart which ever is relevant to explain the data more effectively, based on the nature of data, After presenting such data in the tables and figures, are analyzed using various statistical, mathematical and financial tools and techniques.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter is the backbone of the research. In this chapter, both the primary and secondary data are presented in systematic manner. The sources of data were company brochures, annual reports, NEPSE website, SEBO/N website and library, and banks and stock broker (questionnaire). Those collected data are presented in systematic formats and analyzed using different appropriate tools and techniques. In this chapter, in addition to that the relationship of the variables is presented in graphs and figures. That analysis of data consists of organizing, tabulating and performing statistical analysis. In this chapter, the secondary as well as primary data, collected from different sources are presented in understandable form and analyzed separately using both qualitative and quantitative measures whichever is appropriate.

Table No 4.1
Listed Companies by the End of the Fiscal Year 2005/06

S. no	Sector	Number of Listed Company	Percent
1	Commercial Bank	15	10.42
2	Development Bank	22	15.20
3	Finance Company	55	38.19
4	Insurance Company	16	11.11
5	Hotel	4	2.76
6	Manufacturing & Processing Company	21	14.51
7	Trading company	5	3.71
8	Other company	6	4.10
	Total	144	100

Source: SEBO Annual Report 2005/06

Classification of the Listed Companies

Out of 144 listed companies NEPSE classified 129 companies consisting of 15 commercial banks, 22 development bank, 55 finance companies, 16 insurance companies and 2 manufacturing and processing company under group A and the rest under B, as per the provision of “Securities Listing By-Laws, 1996”. As per the provision of “Securities Listing By-Laws, 1996” those listed companies which have profit track record of the last three years, book value higher than paid up value, submitted its financial statement to NEPSE within six months after the expiry of fiscal year, paid up capital exceeding Rs. 20 million, have at least 1000 shareholders falls on category “A”. The commercial banks which fall on category “A” are given below:

Table No 4.2
Listed Commercial Banks under Group “A”

S.no	Name of the commercial Banks	Operation Date(A.D)
1	Bank of Kathmandu Limited	1995/03/12
2	Everest Bank Limited	1994/10/18
3	Himalayan Bank Limited	1993/01/18
4	Kumari Bank Limited	2001/04/03
5	Laxmi Bank Limited	2002/04/03
6	Lumbini Bank Limited	1998/07/17
7	Machapuchhre Bank limited	2001/10/03
8	Nabil Bank Limited	1984/07/16
9	Nepal Credit & Commerce Bank Limited	1996/10/14
10	Nepal Bangladesh Bank Limited	1993/07/07
11	NIC Bank	1998/07/21
12	Nepal Investment Bank Limited	1986/02/27
13	Nepal SBI Bank Limited	1993/07/07
14	Siddhartha Bank Limited	2002/12/24
15	Standard Chartered Bank limited	1987/01/30

Source: SEBO Annual Report 2005/06

Sample of this Study

S.No	Name of the Commercial Banks	Listing Date(A.D)
1	Standard Chartered Bank limited	1987/01/30
2	Nabil Bank Limited	1984/07/16
3	Nepal Investment Bank Limited	1986/02/27
4	Everest Bank Limited	1994/10/18
5	Himalayan Bank Limited	1993/01/18

4.1.1 Analysis of Individual Company

From among the listed companies, the researcher has chosen five listed public commercial banks that falls under group “A”. The summary of the financial data of the sample listed companies of the study are presented with 6 years data(from fiscal year 2000/01 to 2005/06 i.e 2057/58 to 2063/64) including market price of share(MPS), Earning Per Share(EPS), Dividend Per Share(DPS) and book value per share(BPS).

Table No 4.1

Data Presentation & Analysis

Year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
1. STANDARD CHARTERED BANK LIMITED						
MPS	2144	1575	1640	1745	2345	3775
DPS	100	100	120	110	120	140
BPS	327.5	363.86	403.15	399.25	422.38	468.22
EPS	126.88	141.13	149.30	143.55	143.14	175.84
2. NABIL BANK LIMITED						
MPS	1500	700	740	1000	1505	2240
DPS	60.11	30	50	65	70	85
BPS	216	233	267	301	337	381
EPS	59.26	55.25	84.66	92.61	105.49	129.21

3. NEPAL INVESTMENT BANK LIMITED						
MPS	1150	760	795	940	800	1260
DPS	-	30	20	15	12.50	55.46
BPS	275.96	307.95	216.24	246.89	200.80	239.67
EPS	33.18	33.59	39.56	51.70	39.50	59.35
4. EVEREST BANK LIMITED						
MPS	650	405	445	680	870	1379
DPS	-	20	-	-	20	-
BPS	173.01	170.76	150.10	171.68	219.87	217.67
EPS	31.56	32.91	29.90	45.58	54.22	62.78
5. HIMALAYAN BANK LIMITED						
MPS	1500	1000	836	840	920	1100
DPS	57.50	35	25	20	31.58	35
BPS	399.42	220.02	247.81	246.93	239.59	228.72
EPS	93.57	60.26	49.45	49.05	47.91	59.24

[Source: SEBO Annual Report 2005/06]

4.2 Relationship between EPS, DPS & BPS to MPS

To analyze the relation of EPS, DPS & BPS to MPS, it is assumed that the market price of share influenced with the change in EPS, DPS and BPS. So MPS is the dependent variable: whereas BPS, EPS & DPS are independent variable. Here in this section, relationship of EPS, DPS, & 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, & BPS with MPS. To determine the effect of DPS, EPS & BPS on MPS, simple correlation as well as their coefficient of determination are calculated. For the test of hypothesis of simple and multiple coefficient; calculated t-value are compared with the tabulated t- value at 95% level of significance .To determine the magnitude of the effect of the magnitude is identified after determining the regression equation. In addition to that, multiple correlation coefficient, multiple coefficient of determination (MPS being independent variables),

standard errors of estimate are analyzed during the correlation and regression analysis.

4.2.1 Correlation & Regression Analysis of Standard Chartered Bank Limited.

Table 4.2 (a&b) summarizes the financial performance of SCB over last 6 (six) year and table 4.2 shows the relationship (correlation) of EPS, DPS & BPS to MPS along with the significance of such relationship

**Table No 4.2 (a)
Summary of the Financial Performance of SCB**

Year	MPS(a)	DPS(b)	BPS(c)	EPS(d)
2000/01	2144	100	327.5	126.88
2001/02	1575	100	363.86	141.13
2002/03	1640	120	403.15	149.30
2003/04	1745	110	399.25	143.55
2004/05	2345	120	422.38	143.14
2005/06	3775	140	468.22	175.84
Total	13225	690	2384.36	879.84
Mean (\bar{x})	2204	115	397.39	146.64
S.D (†)	754.53	13.844	44.134	14.7327
C.V.	34.234	12.038	11.10	10/046

Source: Table 4.1

**Table No 4.2 (b)
Relationship of BPS, EPS, and DPS with MPS**

Variables	r	r^2	t- cal	t-table	Remarks
r_{ab}	0.7944	0.6311	2.6158	2.776	Insignificant
r_{ac}	0.6805	0.4632	1.8575	2.776	Insignificant
r_{ad}	0.7488	0.5608	2.2597	2.776	Insignificant

Source: Table 4.1

Where,

T- Table value is at 95% level of significance ($n-2=6-2=4$ degree of freedom)

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

r^2 = Coefficient of (simple) determination

SD= Standard deviation

CV= Coefficient of Variation

Mean=Arithmetic Mean

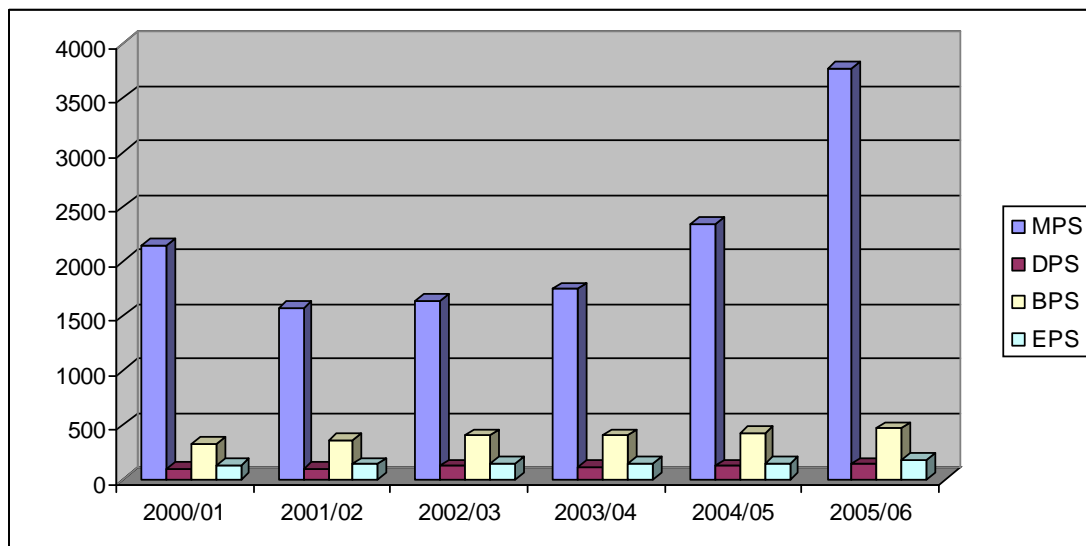
For SCB, it is found from the table 4.2 (a & b) and figure 4.1 that the BPS and EPS are in the increasing trend till the year 2002/03 and have slightly decreased in 2003/04. BPS and EPS are very less volatile with 11.10% coefficient of variation (CV) of BPS and 10.04% CV of EPS. In comparison to these, DPS is little bit more volatile with 12.04% of CV whereas MPS is highly volatile with 34.23% CV in the last six years period. Looking at the simple correlation analysis, MPS decreases and vice versa. On the other hand, MPS is positively correlated with BPS and EPS. However, there is low degree of correlation. The coefficient of simple determination shows that 63.11% of changes in the MPS is explained by DPS, whereas only 46.32% and 56.08% of the changes in the MPS is explained by BPS and EPS respectively. Even though the MPS is affected by DPS, BPS and EPS, the degree of correlation are not significant at 95% level of confidence for all these three independent variables even the MPS is relatively more positively correlated with DPS, BPS and EPS. Similarly, while comparing SCB with industrial benchmark (i.e. the average performance of selected five banks) it is revealed that MPS, mean MPS of SCB is greater (2204) than industrial mean of MPS (1241.30), standard deviation of MPS is greater (754.53) than industrial mean of MPS (538), and coefficient of variation is lesser (34.23) than industrial CV (42.60). This result shows that MPS has very good coefficient of variation is lesser (12.04) than industrial average (88.72) but standard deviation is greater (13.84) than industrial SD(39.46), thus, is good however it is more risky than industrial average DPS or BPS SCB mean is greater(397.39) than industrial average

mean (276.42), standard deviation is lesser (44.134) than industrial average SD (81.79) and less coefficient of variation (11.10) is lesser than industrial CV(29.53). It proves that SCB's BPS is satisfactory, Finally for EPS, SCB mean EPS is greater (146.67) than industrial average (75.99), standard deviation is lesser (14.73) than industrial average (41.08) and CV is also lesser (10.05) than industrial average (54.60). Thus, EPS has very good performance. Thus, in overall, SCB has very good performance in the last six years.

[Source: Annex: VI]

The linear relationship of DPS, EPS, BPS, and MPS of SCB is presented in the figure 4.1

Figure 4.1



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

MPS on DPS

$$MPS = 2933.4105 - 6.3427 \text{ DPS}$$

The regression constant 2933.4105 implies that when DPS is zero, MPS is 2933.4105. The constant for DPS -6.3427 implies that when DPS increases by

Rs 1, MPS decreases by Rs 6.3427 and vice versa. The simple correlation coefficient is 0.7944 with 561.304 standard error of estimate.

MPS on BPS

$$\text{MPS} = -2419.7112 + 11.6351 \text{ BPS}$$

The regression constant -2410.7112 implies that when BPS is Zero; MPS is -2419.7122. The constant for BPS 11.6351 implies that when DPS increases by Rs. 1 MPS increases by Rs. 11.6351 and vice versa. The simple correlation coefficient is 0.6805 with 677.090 standard error of estimate.

MPS on EPS

$$\text{MPS} = 2203.9853 + 0.0001 \text{ EPS}$$

The regression constant 2203.9853 implies that when EPS is zero, MPS is 2203.9853. The constant for EPS 0.0001 implies that when EPS increases by Rs. 1, MPS increases by Rs. 0.0001 and vice versa. The simple correlation coefficient is 0.7488 with 612.415 standard error of estimate.

4.2.2 Correlation & Regression Analysis of Nabil Bank Limited

Table 4.3(a&b) summarize the financial performance of SCB over last 6 (six) years and table 4.3 shows the relationship (correlation) of EPS, DPS, & BPS to MPS along with the significance of such relationship.

Table No: 4.3 (a)

Summary of the Financial Performance of NBL

Year	MPS(a)	DPS(b)	BPS(c)	EPS(d)
2000/01	1500	60.11	216	59.26
2001/02	700	30	233	55.25
2002/03	740	50	267	84.66
2003/04	1000	65	301	92.61
2004/05	1505	70	337	105.49
2005/06	2240	85	381	129.21

Mean (\bar{x})	1280.83	60.02	289.16	87.75
S.D (†)	536.42	17.07	57.53	25.60
C.V	41.88	28.45	19.89	29.18

Source: Table 4.1

Table No: 4.3 (b)

Relationship of BPS, EPS, and DPS with MPS

Variables	R	r^2	t-cal	t-table	Remarks
r_{ab}	0.8676	0.7528	3.4899	2.776	Significant
r_{ac}	0.6699	0.4488	1.8046	2.776	Insignificant
r_{ad}	0.6879	0.4732	1.8955	2.776	Insignificant

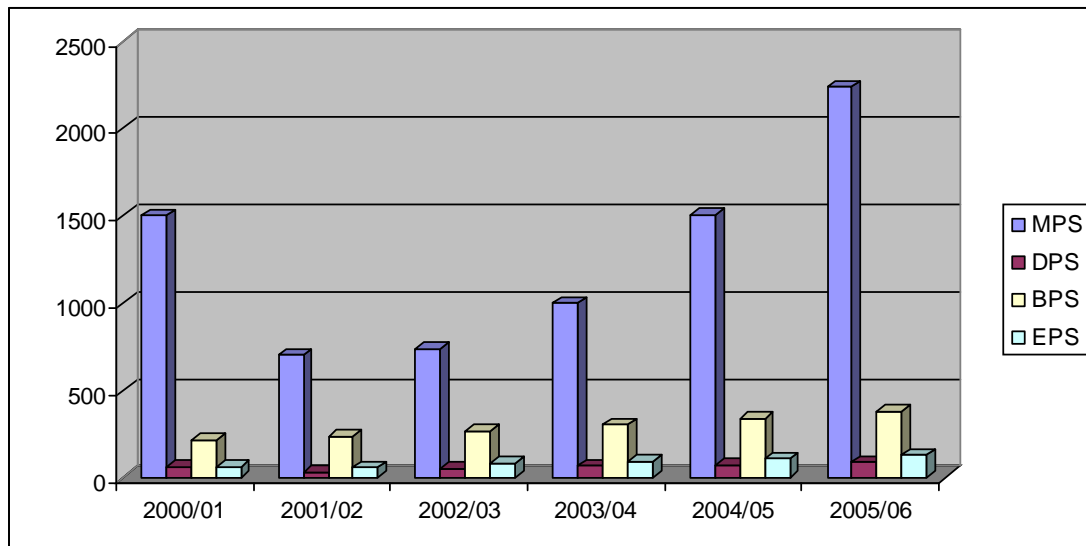
Source: Table 4.1

It is revealed from above tables 4.3 (a & b) and figure 4. 2 that the NBL has not consistent performance over the six years period. MPS is more volatile with 41.88% of C.V. In comparison to MPS, DPS, and EPS are less volatile with 29.18/% CV of EPS and 28.45% CV of Psion the other hand, BPS has relatively consistence performance with lower CV of 19.89%. The simple correlation analysis revealed that the MPS is positively correlated with the independent variables DPS and EPS which indicates that on increasing EPS and DPS, MPS also increases and vice versa. DPS is more correlated to MPS than EPS & EPS is more correlated to MPS than BPS. The coefficient of determination shows that the 44.88% of changes in the MPS is explained by BPS, 47.33% changes in the MPS is explained by EPS and this ratio to DPS is 75.28%. The simple correlation of coefficient of DPS, EPS, and BPS with MPS are significant and not significant at 95% level of significance. Similarly, the comparison of NBL with industrial benchmark yields the following results:

For MPS of NBL, Mean MPS is higher, SD is lesser and CV is also lesser than that of industrial average indicates clearly that MOS of NBL is satisfactory. For DPS, Mean DPS is nearly same, SD and CV are lesser than industrial; average

meaning that it is also satisfactory, for BPS, NBL has higher mean of BPS, and lesser SD and CV, so BPS can be taken as a good performer and finally for EPS of NBL, Mean EPS is greater, and SD and CV are lesser than that of industrial average, meaning that is also good. Thus, it is revealed from above analysis that NBL had good performance in last six years. (Source: Annex: VI)

Figure 4.2



From the simple regression analysis, the regression equations are found (MPS being dependent variables: (Annex I)

MPS on DPS

$$MPS = -354.1995 + 27.2422 \text{ DPS}$$

The regression constant -354.1995 implies that when DPS is zero, PS is -354.1995. The constant for DPS 27.2422 implies that when DPS increases by Rs. 1, MPS increases by Rs. 27.2422 and vice versa. The simple correlation coefficient is 0.676 with 327.213 standard error of estimate.

MPS on BPS

$$MPS = -525.4240 + 6.2464 \text{ BPS}$$

The regression constant -525.4240 implies that when BPS is zero, MPS is -525.4240. The constant for BPS 6.2464 implies that when BPS increases by

Rs.1, MPS increases by Rs. 6.2464 and vice versa. The simple correlation coefficient is 0.6699 with 487.877 standard error of estimate.

MPS on EPS

$$\text{MPS} = 16.7688 + 14.4058 \text{ EPS}$$

The regression constant 16.7688 implies that when EPS is zero, MPS is 16.7688. The constant for EPS 14.4058 implies that when EPS increases by Rs. 1 MPS increases by Rs. 14.4058 and vice versa. The simple correlation coefficient is 0.6879 with 477.089 standard error of estimate.

4.2.3 Correlation & Regression Analysis of Nepal Investment Bank Limited:

Table 4.4 (a&b) summarizes the financial performance of SCB over last six years and table 4.4 shows the relationship (correlation) of EPS, DPS, & BPS to MPS along with the significance of such relationship.

Table No: 4.4 (a)

Summary of the Financial Performance of NIBL

Year	MPS(a)	DPS(b)	BPS(c)	EPS(d)
2000/01	1150	-	275.96	33.18
2001/02	760	30.00	307.95	33.59
2002/03	795	20.00	216.24	39.56
2003/04	940	15.00	246.89	51.70
2004/05	800	12.50	200.80	39.50
2005/06	1260	55.46	239.67	59.35
Total	5705	132.96	1487.51	256.88
Mean(\bar{x})	950.83	22.16	247.92	42.81
S.D (†)	190.97	17.37	35.78	9.59
C.V	20.08	78.39	14.43	22.73

Source: Table 4.1

Table No: 4.4 (b)

Relationship of BPS, EPS, and DPS with MPS

Variables	R	r²	t-cal	t-table	Remarks
<i>r_{ab}</i>	0.314	0.099	0.6622	2.776	Insignificant
<i>r_{ac}</i>	0.089	0.008	0.1779	2.776	Insignificant
<i>r_{ad}</i>	0.534	0.285	1.2621	2.776	Insignificant

Source: Table 4.1

It is revealed from above tables 4.4 (a & b) and figure 4.3 that the NIB has not consistent performance over six years period. DPS is more volatile with 78.39% of CV. In comparison to DPS, MPS, BPS and EPS are volatile in decreasing rate with 22.73% CV of EPS and 20.08% CV of MPS. On the other hand, BPS has relatively consistence performance with lower CV of 14.43%. The simple correlation analysis revealed that MPS is positively correlated with the independent variables DPS, BPS and EPS which indicates that on correlated with the independent variables DPS and increasing EPS which indicates that on increasing DPS, EPS, and BPS, MPS also increases and vice versa. MPS has moderate degree of correlation with MPS. On the other hand there is low degree of correlation of DPS and BPS with MPS. The coefficient of determination shows that the 9.9% of changes in the MPS is explained by DPS, 0.8% of changes in the MPS is explained by BPS and this ratio is to EPS is 28.5%. The simple correlation of coefficients of DPS, EPS and BPS with MPS are significant and not significant at 95% level of significance.

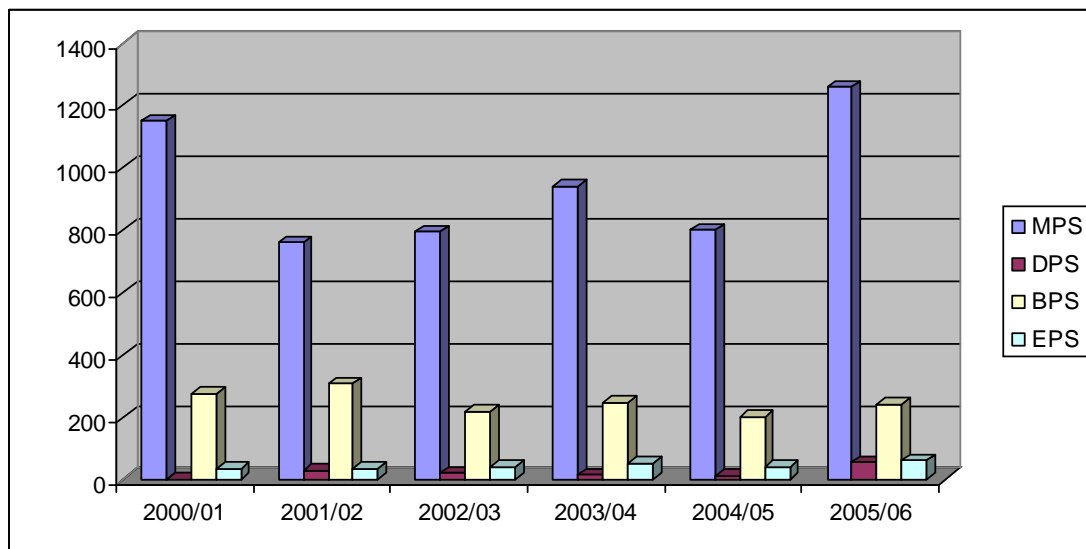
Similarly, the comparison of NIB with industrial benchmark yields the following results:

For MPS of NIB, Mean level of risk and volatility is less than the industrial average meaning that MPS does seem good. For DPS, Mean and SD as well as CV is lesser than industrial average. BPS is satisfactory. Finally, for EPS,

Mean, SD and CV are less than industrial average. The level of risk seems very lower. Thus, in overall, the NIB does not reach the industrial benchmark because of lower mean of independent variable. [Source:Annex:VI]

The linear relationship of DPS, BPS and EPS to MPS of NBL are presented in figure 4.3

Figure 4.3



From the simple regression analysis, the regression equation are found (MPS being dependent variables as:(Annex 1)

MPS on DPS

$$MPS=874.2595+3.4555 \text{ DPS}$$

The regression constant 874.2595 implies that when DPS is zero, MPS is 874.2595. The constant for DPS 3.4555 implies that when DPS increases by Rs.1,MPS increases by Rs. 3.3555 and vice versa. The simple correlation coefficient is 0.1679 with 222.036 standard error of estimate.

MPS on BPS

$$MPS=830.9648+0.4835 \text{ BPS}$$

The regression constant 830.9648 implies that when BPS is zero, MPS is

830.9648. The constant for BPS 0.4835 and vice versa. The simple correlation coefficient is 0.0886 with 232.971 standard error of estimate.

MPS on EPS

$$\text{MPS} = 495.8732 + 10.6266 \text{ EPS}$$

The regression constant 495.8732 implies that when EPS is zero, MPS is 495.8732. The constant for EPS 10.6266 implies that when EPS increases by Rs. 1, MPS increases by Rs. 10.6266 and vice versa. The simple correlation coefficient is 0.5337 with 197.801 standard error of estimate.

4.2.4 Correlation & Regression Analysis of Everest Bank Limited

Table 4.5 (a & b) summarizes the financial performance of SCB over last six years and table 4.5 shows the relationship (correlation) of EPS, DPS & BPS to MPS along with the significance of such relationship.

Table No: 4.5 (a)

Summary of the Financial Performance of EBL

Year	MPS(a)	DPS(b)	BPS(c)	EPS(d)
2000/01	650	0	173.01	31.56
2001/02	405	20	170.76	32.91
2002/03	445	0	150.10	29.90
2003/04	680	0	150.10	29.90
2004/05	870	20	219.87	54.22
2005/06	1379	0	217.67	62.78
Total	4429	40	1103.09	256.95
Mean(\bar{x})	738.17	6.67	183.8483	42.825
S.D (†)	325.61	9.42	25.8755	12.43
C.V	44.11	141.22	14.07	29.03

Source: Table 4.1

Table No: 4.5 (b)

Relationship of BPS, EPS, and DPS with MPS

Variables	R	r^2	t-cal	t-table	Remarks
r_{ab}	-0.2187	0.04782	-0.4482	2.776	Insignificant
r_{ac}	0.838	0.701	3.066	2.776	Insignificant
r_{ad}	0.9148	0.8369	4.517	2.776	Insignificant

Source: Table 4.1

It is revealed from above tables 4.5 (a & b) and figure 4.4 that the EBL has not consistent performance over the six years period. DPS is more volatile with 141.22% of CV. In comparison to DPS, MPS, EPS and BPS are volatile in decreasing rate with revealed that the MPS is positively correlated with the independent variables DPS, BPS and EPS which indicates that on correlated with the independent variables DPS and EPS which indicates that on increasing DPS, EPS, and BPS. MPS also increases and vice versa. MPS has moderate degree of correlation with EPS. On the other hand there is low degree of correlation of DPS and BPS with MPS. The coefficient of determination shows that the 4.782% of changed in the MPS is explained by DPS 70.1% of changes in the MPS is explained by BPS and this ratio to EPS is 83.69%. The simple correlation of coefficient of DPS, EPS and BPS with MPS are not significant at 95% level of significant.

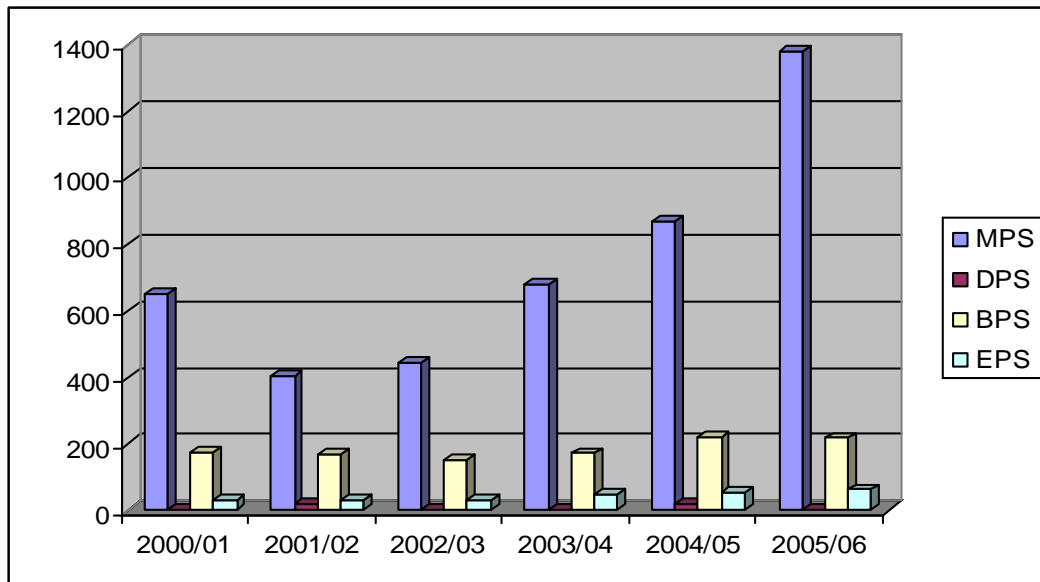
Similarly, the comparison of EBL with industrial benchmark yields the following results:

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

because of lower Mean of independent variable. [Source: Annex: VI]

The linear relationship of DPS, BPS, and EPS to MPS of EBL are presented in figure 4.4

Figure 4.4



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

MPS on DPS

$$\text{MPS} = 788.50 - 7.55 \text{ DPS}$$

The regression constant 788.50 implies that when DPS is zero, MPS is 788.50. The constant for DPS -7.55 implies that when DPS increases by Rs. 1, MPS decreases by Rs. 7.55 and vice versa. The simple correlation coefficient is -0.2187 with 389.150 standard error of estimate.

MPS on BPS

$$\text{MPS} = 3718.6423 - 16.2116 \text{ BPS}$$

The regression constant 3718.6423 implies that when BPS is zero, MPS is 3718.6423. The constant for BPS -16.2116 implies that when BPS increases by Rs. 1, MPS decreases by Rs. 16.2116 and vice versa. The simple correlation

coefficient is 0.0347 with 217.901 standard error of estimate.

MPS on EPS

$$\text{MPS} = -287.1452 + 23.9419 \text{ EPS}$$

The regression constant -287.1452 implies that when EPS is zero, MPS is -287.1452. The constant for EPS 23.9419 implies that when EPS increases by Rs. 1, MPS increase by Rs. 23.9419 and vice versa. The simple correlation coefficient is 0.9148 with 161.456 standard error of estimate.

4.2.5 Correlation & Regression Analysis of Himalayan Bank Limited

Table 4.6 (a & b) summarizes the financial performance of SCB over last six years and table 4.6 shows the relationship (correlation) of EPS, DPS & BPS to MPS along with significance if such relationship.

Table No: 4.6 (a)

Summary of the Financial Performance of HBL

Year	MPS(a)	DPS(b)	BPS(c)	EPS(d)
2000/01	1500	57.50	399.42	93.57
2001/02	1000	35	220.02	60.26
2002/03	836	25	247.81	49.45
2003/04	840	20	246.93	49.01
2004/05	920	31.58	239.59	47.91
2005/06	1100	35	228.72	59.24
Total	6196	204.1	1582.5	359.48
Mean(\bar{x})	1032.66	34.01	263.75	59.91
S.D (†)	228.55	11.8117	61.46	15.84
C.V	22.13	34.73	23.30	26.43

Source: Table 4.1

Table No: 4.6 (b)

Relationship of BPS, EPS, and DPS with MPS

Variables	R	r^2	t-cal	t-table	Remarks
r_{ab}	0.800	0.640	2.667	2.776	Insignificant
r_{ac}	-0.370	0.137	-0.797	2.776	Insignificant
r_{ad}	0.893	0.797	3.964	2.776	Significant

Source: Table 4.1

It is revealed from above tables 4.6 (a &b) and figure 4.5 that the HBL has not consistent performance over the six years period. DPS is more volatile with 34.73% of CV. In comparison to EPS, BPS and MPS are volatile in decreasing rate with 26.43% CV of EPS and 23.30% CV of BPS. On the other hand, MPS has relatively consistence performance with lower CV of 22.13%.The simple correlation analysis revealed that the MPS is positively correlated with the independent variables DPS and EPS which indicates that on increasing DPS, EPS and BPS, MPS also increases and vice versa. MPS has moderate degree of correlation with EPS. On the other hand there is low degree of correlation of DPS and BPS with MPS. The coefficient of determination shows that 64% of changes in the MPS is explained by DPS, 13.7% of changes in the MPS is explained by BPS and the ratio to EPS is 79.7%. The simple correlation of coefficient of DPS, EPS and EPS with MPS are significant at 95% level of significance.

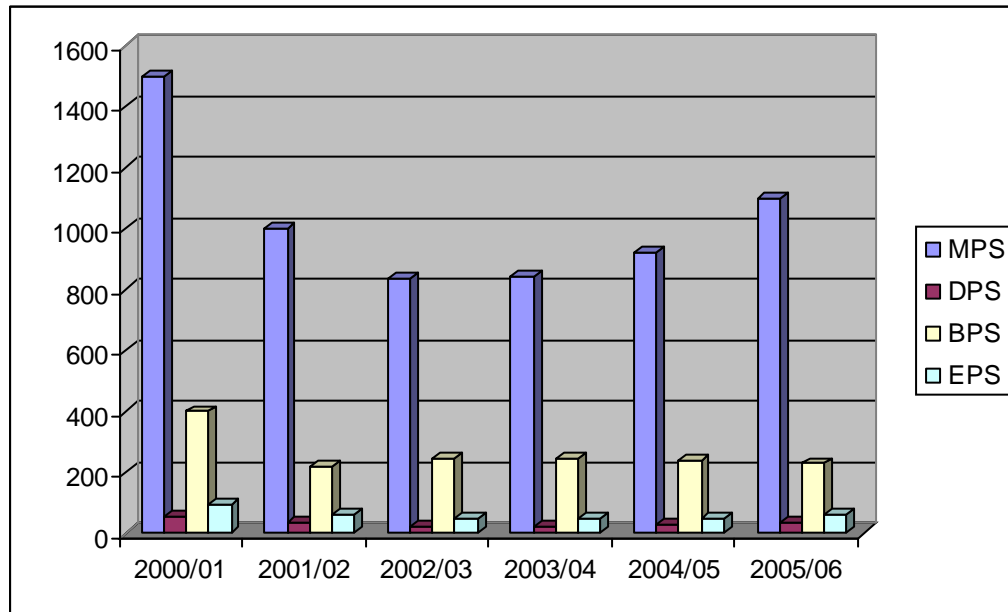
Similarly, the comparison of HBL with industrial benchmark yields the following results:

For MPS of HBL, Mean, level of risk and volatility is less than the industrial average meaning that MPS does seem good. For DPS, Mean and SD as well as CV is lesser than industrial average. BPS is satisfactory, finally for EPS, Mean, SD and CV are less than industrial average. The level of risk seems very lower.

Thus, in overall, the NIB does not reach the industrial benchmark because of lower mean of independent variable. [Source: Annex: VI]

The linear relationship of DPS, BPS and EPS to MPS of HBL are presented in the figure.

Figure 4.5



from the simple regression analysis, the regression equations are found (MPS being dependent variables as:(Annex I)

MPS on DPS

$$MPS = 392.4256 + 18.8232 \text{ DPS}$$

The regression constant 392.4262 implies that when DPS is zero, MPS is 392.4262. The constant for DPS 18.8232 implies that when DPS increases by Rs.1, MPS increases by Rs.18.8232 and vice versa. The simple correlation coefficient is 0.0728 with 63.041 standard error of estimate.

MPS on BPS

$$MPS = 199.8714 + 3.1575 \text{ BPS}$$

The regression constant 199.8714 implies that when BPS is zero, MPS is

199.8714. The constant for BPS 3.1575 implies that when DPS increases by Rs. 1, MPS increases by Rs. 3.1575 and vice versa. The simple correlation coefficient is 0.84912 with 147.06 standard error of estimate.

MPS on EPS

$$\text{MPS} = 189.0750 + 14.0802 \text{ EPS}$$

The regression constant 189.0750 implies that when EPS is zero, MPS is 189.0750. The constant for EPS 14.0802 implies that when EPS increases by Rs. 1, MPS increases by Rs. 14.0802 and vice versa. The simple correlation coefficient is 0.9763 with 60.289 standard error of estimate.

4.3 Analysis of Primary Data

This thesis involves primary data also which were collected through questionnaire (Annex-v). During the course of collecting primary data, the researcher visited the private commercial banks as well as security brokers. Among the various factors affecting the share price, twenty factors were considered and primary information was collected from thirty one (Nine private commercial Bank and twenty two security brokers) institutions. The answers of the respondent were marked with +2 to -2 on the basis of the degree of agreement to disagreement of the respondents (-2 for strongly disagree, -1 for disagree, 0 for undecided, 1 for agree and 2 for strongly agree; using five degree liker – type. The summaries of the respondent's response for necessary calculations for these sections are presented in appendices III and IV with the help of MS Excel software.

4.3.1 Higher the Earning (EPS), Higher the Share Price

The responses of the respondents for the affect of EPS to the market price of share were found as shown in table 4.7

Table No: 4.7

Higher the Earning (EPS), Higher the Share Price

S.no	Responses	No	Percentage
1	Strongly Agree(SA)	5	13.89
2	Agree(A)	26	72.22
3	Undecided(U)	3	8.33
4	Disagree(D)	2	5.56
5	Strongly Disagree(SD)	0	0.00
	Total	36	100.00

From the primary responses it is found that 86.11% of the respondents were agree that the increased earnings increase the share price in the market. Only, 5.56% were disagreed and 8.33% were undecided with the statement. So, the increase in EPS significantly increases the market price of the share and vice versa at 95 % level of significance. (Source: Annex: V)

4.3.2 Higher the Cash Dividend, Higher the Share Price

The responses of the respondents for the affect of cash dividend to the market price of share were found as shown in table 4.8

Table No: 4.8

Higher the Cash Dividend, Higher the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	6	16.66
2	Agree(A)	23	63.88
3	Undecided(U)	3	8.33
4	Disagree(D)	3	8.33
5	Strongly Disagree(SD)	1	2.80
	Total	36	100.00

From the primary responses it is found that 80.54% of the respondents were agree that the increased cash dividend increases the share price in the market. Only, 11.13% were disagreed and 8.33% were undecided with the statement. So, the increase in cash dividend significantly increases the market price of the share and vice versa at 95% level of significance. (See Annex: V)

4.3.2 Higher the Growth Rate (g), Higher the Share Price

The responses of the respondents for the affect of growth rate to the market price of share were found as shown in table 4.9

Table No: 4.9

Higher the Growth Rate (g), Higher the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	0	0.00
2	Agree(A)	3	8.33
3	Undecided(U)	8	22.22
4	Disagree(D)	22	61.11
5	Strongly Disagree(SD)	3	8.34
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 8.33% of the respondents were agree that the decreased rate increases the share price in the market. Only, 69.45% were disagreed and 22.22% were undecided with the statement. So, the decrease in growth rate significantly increases the market price of the share and vice versa at 95% level of significance. (Source: Annex:V)

4.3.4 Higher the Interest Rate(r), Higher the Share Price

The responses of the respondents for the affect of interest rate to the market price of share were found as shown in table 4.10

Table No: 4.10

Higher the Interest Rate(r), Higher the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	1	2.77
2	Agree(A)	16	44.44
3	Undecided(U)	8	22.22
4	Disagree(D)	10	27.77
5	Strongly Disagree(SD)	1	2.80
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 47.21% of the respondents were agree that the increase in interest rate increases the share price in the market. Only, 30.57% were disagreed and 22.22% were undecided with the statement. So, the increase in interest rate does not significantly increases the market price of the share and vice versa at 95% level of significance. (Source: Annex: V)

4.3.5 Higher the Retention Ratio, Better the Share Price

The responses of the respondents for the affect of retention ratio to the market price of share were found as shown in table 4.11

Table No: 4.11

Higher the Retention Ratio, Better the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	2	5.55
2	Agree(A)	16	44.44
3	Undecided(U)	7	19.44
4	Disagree(D)	9	25
5	Strongly Disagree(SD)	2	5.57
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 50% of the respondents were agree that the increase in retention ratio increases the share price in the market. Only, 30.57% were disagreed and 19.44% were undecided with the statement. So, the increase in retention ratio does not significantly affect the market price of the share and vice versa at 95% level of significance. (Source: annex V)

4.3.6 Stock Dividend Increases the Share Price

The responses of the respondents for the affect of stock dividend to the market price of share were found as shown in table 4.12

Table No: 4.12
Stock Dividend Increases the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	2	5.55
2	Agree(A)	17	47.22
3	Undecided(U)	6	16.67
4	Disagree(D)	10	27.77
5	Strongly Disagree(SD)	1	2.79
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 52.77% of the respondents were agree that the increased earning increases the share price in the market. Only, 30.56% were disagreed and 16.13% were undecided with the statement. So, the stock dividend significantly affects the market price of the share and vice versa at 95% level of significance (Source: Annex: V)

4.3.7 Higher Cost of Equity Reduces the Share Price.

The responses of the respondents for the affect of cost of equity to the market price of share were found as shown in table 4.13

Table No: 4.13

Higher Cost of Equity Reduces the Share Price.

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	2	5.55
2	Agree(A)	16	44.44
3	Undecided(U)	7	19.44
4	Disagree(D)	10	27.77
5	Strongly Disagree(SD)	1	2.80
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 50% of the respondent were agree that the higher cost of equity decreases the share price in the market. Only, 30.57% were disagreed and 19.44% were undecided with the statement. So, the higher cost of equity does not significantly affect the market price of the share and vice versa at 95% level of significance. (Source: Annex :V)

4.3.8 Lower Personal Tax Rate Reduces the share price

The responses of the respondents for the affect of personal tax rate to the market price of share were found as shown in table 4.14

Table No: 4.14

Lower Personal Tax Rate Reduces the share price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	1	2.77
2	Agree(A)	8	22.22
3	Undecided(U)	9	25
4	Disagree(D)	16	44.44
5	Strongly Disagree(SD)	2	5.57
	Total	36	100.00

Source: Annex III

From the primary responses, it is found that 25% of the respondents were agree that the lower tax rate decreases the share price in the market. Where as, 50% were disagreed and 25% were undecided with the statement. So, the personal tax rate significantly affects the market price of the share and vice versa at 95% level of significance. (Source: Annex:V)

4.3.9 Fall in Gold Prices Causes Fall in the Share Price

The responses of the respondents for the affect of gold price to the market price of share were found as shown in table 4.15

Table No: 4.15

Fall in Gold Prices Causes Fall in the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	0	0
2	Agree(A)	8	22.22
3	Undecided(U)	17	47.22
4	Disagree(D)	10	27.77
5	Strongly Disagree(SD)	1	2.79
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 22.22.% of the respondents were agree that the fall in gold price causes fall in the share price in market. Whereas, 30.56% were disagreed and 47.22% were undecided with the statement. So, change in gold price does not significantly decreases the market price of the share and vice versa at 95% level of significance.

The responses of the respondents for the affect of fall in the value of US\$ exchange rate to the market price of share were found as shown in table 4.16

Table No: 4.16

Fall in Value of US \$ Exchange Rate Causes Fall in the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	0	0.00
2	Agree(A)	7	19.44
3	Undecided(U)	19	52.77
4	Disagree(D)	10	27.79
5	Strongly Disagree(SD)	0	0.00
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 19.44% of the respondents were agree that the fall in the value of US\$ causes fall in the share price in the market. Whereas, 27.79% were disagreed that 52.77% were undecided with the statement. So, fall in the value of US\$ does not significantly decreases the market price of the share and vice versa at 95% level of significance. (Source: Annex: V)

4.3.11 Instability of the Government Causes Fall in the Share Price

The responses of the respondents for the affect of the instability of the government to the market price of share were found as shown in table 4.17

Table No: 4.17

Instability of the Government Causes Fall in the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	4	11.11
2	Agree(A)	24	66.67
3	Undecided(U)	5	13.88
4	Disagree(D)	3	8.34
5	Strongly Disagree(SD)	0	0.00
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 77.78% of the respondents were agree that the instability of government causes fall in the share price in the market. Where as 8.34% were disagreed and 13.88% were undecided with the statement. So, instability of the government significantly decreases the market price of the share and vice versa at 95% level of significance. (Source: Annex:V)

4.3.12 Strikes, Demonstration etc causes fall in the share Price

The responses of the respondents for the affect of strikes, demonstration to the market price of share were found as shown in Table 4.18

Table No: 4.18

Strikes, Demonstration etc Causes Fall in the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	3	8.34
2	Agree(A)	26	72.23
3	Undecided(U)	3	8.34
4	Disagree(D)	3	8.40
5	Strongly Disagree(SD)	1	2.69
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 80.57% of the respondents were agree that the strikes, demonstration etc causes fall in the share price in the market. Whereas, 11.09% were disagreed and 8.34% were undecided with the statement. So, strikes demonstration etc significantly decreases the market price of the share and vice versa at 95% level of significance. (Source: Annex: V)

4.3.13 Cease-Fire/Peace Talks Affect positively the share price

The responses of the respondents for the affect of cease-fire/peace talks to the market price of share were found as shown in table 4.19

Table No: 4.19

Cease-Fire/Peace Talks Affect Positively the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	5	13.89
2	Agree(A)	25	69.44
3	Undecided(U)	3	8.33
4	Disagree(D)	2	5.56
5	Strongly Disagree(SD)	1	2.78
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 83.33% of the respondents were agreed that the cease-fire peace talks affect positively the share price in the market. Whereas, 8.34% were disagreed and 8.33% were undecided with the statement. , cease-fire peace talks significantly affects the market price of the share and vice versa at 95% level of significance.(Source: Annex V)

4.3.14 Out Break of Cease-fire increases the share price

The responses of the respondents for the affect of outbreak of cease-fire/peace talks to the market price of share were found as shown in table 4.20

Table No: 4.20

Out Break of Cease-Fire Increases the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	0	0.00
2	Agree(A)	3	8.33
3	Undecided(U)	4	11.11
4	Disagree(D)	22	61.11
5	Strongly Disagree(SD)	7	19.45
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 8.33% of the respondents were agree that the outbreak of cease-fire affect positively the share price in the market. Where as 80.56% were disagreed and 11.11% were undecided with the statement. So, outbreak of cease fire significantly affects the market price of the share and vice versa at 95% level of significance. (Source :annex V)

4.3.15 Better the National Economy, Better the share price.

The responses of the respondents for the affect of national economy to the market price of share were found as shown in table 4.21

Table No: 4.21

Better the National Economy, Better the Share Prices

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	4	11.11
2	Agree(A)	23	63.89
3	Undecided(U)	5	13.89
4	Disagree(D)	3	8.33
5	Strongly Disagree(SD)	1	2.78
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 75% of the respondents were agreed that the better national economy affect positively the share price in the market. Where as 11.11% was disagreed and 13.89% were undecided with the statement. So, better national economy significantly affects the market price of the share positively at 95% level of significance. (Source: Annex V)

4.3.16 Better the Global Economy, Better the Share Price

The responses of the respondents for the affect of global economy to the market price of shares were found as shown in table 4.22

Table No: 4.22

Better the Global Economy, Better the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	2	5.56
2	Agree(A)	12	33.33
3	Undecided(U)	14	38.89
4	Disagree(D)	7	19.44
5	Strongly Disagree(SD)	1	2.78
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 38.89% of the respondents were agreed that the better global economy affect positively the share price in the market. Where as 22.22% was disagreed and 38.89% were undecided with the statement. So, better global economy does not significantly affects the market price of the share and vice versa at 95% level of significance. (Source:Annex :V)

4.3.17 Higher the Market Liquidity, Lower the share Price.

The responses of the respondents for the affect of market liquidity to the market price of share found as shown in table 4.23

Table No: 4.23

Higher the Market Liquidity, Lower the Share Price.

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	2	5.56
2	Agree(A)	9	25
3	Undecided(U)	10	27.78
4	Disagree(D)	12	33.33
5	Strongly Disagree(SD)	3	8.33
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 30.56% of the respondents were agreed that the higher market liquidity affect negatively the share price in the market. Where as 41.66% was disagreed and 27.78% were undecided with the statement. So, higher market liquidity does not significantly affects the market price of the share and vice versa at 95% level of significance. (Source:Annex V)

4.3.18 Share price is influenced by Season

The responses of the respondents for the affect of share price is influenced by season to the market price of share were found as shown in table 4.24

Table No: 4.24
Share Price is Influenced by Season

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	1	2.78
2	Agree(A)	7	19.44
3	Undecided(U)	16	44.44
4	Disagree(D)	11	30.56
5	Strongly Disagree(SD)	1	2.78
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 22.22% of the respondents were agreed that the share price is influenced by season. Whereas, 33.44% were disagreed and 44.44% were undecided with the statement. So, the season i.e. summer or winter does not significantly affect the market price of the share and vice versa at 95% level of significance. (Source:Annex :V)

4.3.19 Share price is lower in Sunday than on Thursday

The responses of the respondents for the affect of week of the day to the market price of share were found as shown in table 4.25

Table No 4.25

Share Price is Lower in Sunday than on Thursday

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	2	5.56
2	Agree(A)	9	25
3	Undecided(U)	18	50
4	Disagree(D)	6	16.67
5	Strongly Disagree(SD)	1	2.78
	Total	36	100.00

From the primary responses it is found that 30.56% of the respondents were agreed that share price is lower in Sunday than on Thursday. Whereas, 19.45% were disagreed and 50% were undecided with the statement. So, the week of the day effect does not significantly affect the market price of the share and vice versa at 95% level of significance. (Source: Annex: V)

4.3.20 Higher the risk, higher the share price

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

Table No 4.26

Higher the Risk, Higher the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	1	2.78
2	Agree(A)	2	5.56
3	Undecided(U)	7	19.44
4	Disagree(D)	22	61.11
5	Strongly Disagree(SD)	4	11.11
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 8.34% of the respondents were agreed that the higher the risk, higher the share price. Where as 72.22% were disagreed and 19.44% were undecided with the statement. So, the risk factor significantly affects the market price of the share and vice versa at 95% level of significance. (Source: Annex: V)

4.3.21 Larger companies have higher share price

The responses of the respondents for larger companies have higher price were found as shown in table 4.27

Table No 4.27
Larger Companies have Higher Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	3	8.33
2	Agree(A)	15	41.67
3	Undecided(U)	8	22.22
4	Disagree(D)	9	25
5	Strongly Disagree(SD)	1	2.78
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 50% of the respondents were agreed with the higher the risk, higher the share price. Whereas, 27.78% were disagreed and 22.22% were undecided with the statement. So, the larger company size significantly affects the market price of the share and vice versa at 95% level of significance. (source: Annex:V)

4.3.22 Share price increases with changes in Management

The responses of the respondents for share price increases with the change in management were found as shown in table 4.28

Table No 4.28

Share Price Increases with the Change in Management

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	0	0.00
2	Agree(A)	6	16.66
3	Undecided(U)	19	52.78
4	Disagree(D)	10	27.78
5	Strongly Disagree(SD)	1	2.78
	Total	36	100.00

From the primary responses it is found that 16.66% of the respondents were agreed that the share price increases with change in management. Whereas, 30.56% were disagreed and 52.78% were undecided with the statement. So, change in management does not significantly affects the market price of the share and vice versa at 95% level of significance. (Source: Annex:V)

4.3.23 Lower the BPS, Higher the Share Price

The responses of the respondents for lower the BPS, higher the share price were found as shown in table 4.29

Table No 4.29

Lower the BPS, Higher the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	0	0.00
2	Agree(A)	3	8.33
3	Undecided(U)	6	16.67
4	Disagree(D)	23	63.88
5	Strongly Disagree(SD)	4	11.12
	Total	36	100.00

From the primary responses it is found that 8.33% of the respondents were agreed with lower BPS causes higher the share price. Whereas, 75% were

disagreed and 16.67% were undecided with the statement. So BPS significantly affects the market price of the share and vice versa at 95% level of significance.(Source :Annex: VI)

4.3.24 Share price is influenced by Demand and Supply.

The responses of the respondents for share price is affected by demand and supply were found as shown in table 4.30

Table No 4.30
Share Price is Influenced by Demand and Supply

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	5	13.88
2	Agree(A)	22	61.12
3	Undecided(U)	3	8.34
4	Disagree(D)	5	13.89
5	Strongly Disagree(SD)	1	2.77
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 75% of the respondents were agreed with lower share price is affected by demand and supply. Whereas 16.66% were disagreed and 8.34% were undecided with the statement. So, the fact that demand and supply of stock significantly affects the market price of the share and vice versa at 95% level of significance. (Source:Annex:V)

4.3.25 Rumors and Whims Affect the Share Price

The responses of the respondents for share price are affected by rumors and whims were found as shown in table 4.31

Table No 4.31

Rumors and Whims Affect the Share Price

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	4	11.11
2	Agree(A)	19	52.77
3	Undecided(U)	7	19.44
4	Disagree(D)	4	11.12
5	Strongly Disagree(SD)	2	5.56
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 63.88% of the respondents were agreed with the share price is affected by rumors and whims. Whereas, 16.68% were disagreed and 19.44% were undecided with the statement. So, the fact that rumors and whims significantly affects the market price of the share and vice versa at 95% level of significance.(Source:Annex:V)

4.3.26 Capital Market is not Developed due to Poor Regulatory Mechanism

The responses of the respondents for capital market is not developed due to poor regulatory mechanism were found as shown in table 4.32

Table No 4.32

Capital Market is not Developed due to Poor Regulatory Mechanism

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	5	13.89
2	Agree(A)	19	52.78
3	Undecided(U)	5	13.89
4	Disagree(D)	5	13.89
5	Strongly Disagree(SD)	2	5.55
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 66.67% of the respondents were agreed with capital market is not well developed due to poor regulatory mechanism. Where as 19.44% was disagreed and 13.89% were undecided with the statement. So, the fact that capital market is not well developed due to poor regulatory mechanism is significant at 95% level of significance. (See Annex: V)

4.3.27 Listed companies are not serious towards shareholder's Interests

The responses of the respondents for listed companies are not serious about shareholders interests were found as shown in table 4.33

Table No 4.33

Listed Companies are not Serious towards Shareholder's Interests

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	6	16.67
2	Agree(A)	18	50.00
3	Undecided(U)	4	11.11
4	Disagree(D)	6	16.67
5	Strongly Disagree(SD)	2	5.55
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 66.67% of the respondents were agreed with the fact that listed companies are not serious about shareholder's interests. Whereas, 22.22% were disagreed and 11.11% were undecided with the statement. So, the fact that listed companies are not serious about shareholder's interests is significant at 95% level of significance. (Source: Annex: V)

4.3.28 NEPSE and SEBO are not able to Protect Shareholder's Interests

The responses of the respondents for share NEPSE and SEBO are not able to

protect shareholders interests were found as shown in table 4.34

Table No 4.34

NEPSE and SEBO are not able to Protect Shareholder's Interests.

S.No	Responses	No	Percentage
1	Strongly Agree(SA)	2	5.55
2	Agree(A)	6	16.67
3	Undecided(U)	4	11.11
4	Disagree(D)	19	52.77
5	Strongly Disagree(SD)	5	13.90
	Total	36	100.00

Source: Annex III

From the primary responses it is found that 22.22% of the respondents were agreed with the fact that NEPSE and SEBO are not able to protect shareholder's interests. Whereas, 66.67% were disagreed and 11.11% were undecided with the statement. So, the fact that NEPSE and SEBO are not able to protect shareholders interests is significant at 95% level of significance. (Source: Annex: V)

4.4 Major Findings of the Study

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

4.4.1 Findings from Secondary Data Analysis

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

- For standard Chartered Bank, MPS is negatively correlated with DPS where as it is positively correlated with BPS and EPS. None of these relationships are significant at 95% level of significance. BPS, EPS and MPS are less volatile except DPS. In overall, SCB has very good performance in the last six years.
- For NBL, MPS is positively correlated with DPS and EPS whereas with BPS. However, the relationship is not significant at 95% level of significance. DPS, BPS and EPS as well as MPS are less volatile it is revealed from analysis that NBL has good performance in the last six years.
- MPS has positive correlation with DPS, BPS and EPS for NIB. However these degree of correlation are not significant at 95% level of significance. BPS has good performance and EPS and MPS are less volatile than DPS. In overall, the NIB does not reach the industrial benchmark because of lower mean of independent variables.
- For EBL, there exists lower degree of positive correlation of MPS with all independent variables. The t-test explains that these results do not show significance at 95% level of significance. The performance of BPS and EPS are good. MPS is a bit more volatile whereas DPS is more volatile which is not good. In overall, the good performance of EBL is lacked by lower mean of independent variables in the last six years period.
- While analyzing the HBL, MPS is positively correlated with DPS and EPS and negatively correlated with BPS. The degree of correlation is high however these relationships are not significant at 95% level of significance. BPS is very much consistent where as MPS and EPS are not bad and DPS is a bit more volatile. HBL in overall have satisfactory performance.

4.4.2 Major Findings from Primary Data Analysis

On the other hand, the analysis of primary data reveals the following results:

- MPS is significantly affected by company's performance such as earnings, cash dividends payment, book value, risk associated with the company and growth rate at 95% level of significance.
- When looking at the other relevant factors to share price such as interest rate, retention ratio, and cost of equity etc. These factors do not affect significantly whereas stock dividend significantly affects the share price at 95% level of significance.
- Similarly, the political economic, and environmental factors such as instability of government, strike and demonstration, cease-fire, national economy, tax rate, etc significantly affect the share price where as global economy insignificantly affect the share price at 95% level of significance.
- From other factors, gold prices, value of US \$ exchange rate, seasonal factors like summer and winter, day of the week, change in management have insignificantly impact on the share price.
- Similarly, size of the company, demand and supply, rumors and whims etc significantly affect the share price.
- While analyzing the response of capital market is not well developed in Nepal, Listed companies are not serious about shareholder's interests and NEPSE and SEBO/N are not able to protect share holder's interests and has shown significant implication at 95% level of significance.

CHAPTER V

SUMMARY, CONCLUSION & RECOMMENDATIONS

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

5.1. Summary

The history of securities market began with the flotation of share by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1973. Introduction of the Company Act in 1964, the first insurance of Government Bond in 1964 and the establishment of Securities Exchange Centre Ltd. in 1976 were other significant development relating to capital markets.

Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, Managing public issue, market making for government bonds and other financial services.

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

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market

makers etc. NEPSE opened its trading floor on 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of the NEPSE.

After the restoration of democracy in 1990, Government of Nepal initiated privatization and economic liberalization, the industrial development as well as the capital market development process took a place. However, with the initiation of Maoist armed revolution, the industrial and capital market development process got a break. The nation has been paralyzed in terms of economic development due to lack of peace and security. Similarly, lack of political stability and Royal take over to February 1 has added fuel in this issue. Nepalese capital market is still in primary stage. Most of the citizens are not aware of the basic knowledge regarding security market. As a result they have not been able to make investment and if even invested, are being exploited in the absence of proper knowledge. In spite of poor condition of the security market in Nepal, Government had not been able to create basic infrastructures, sound policies and laws and their effective implementations in the performance of the listed companies and the capital market due to which capital market is struggling to mature.

The researcher has tried to explore the factors affecting share price in NEPSE. with special focus to private commercial banks. The major objectives of the dissertation work are listed as:

- To identify qualitative as well as quantitative factors affecting the stock price in NEPSE with focus to commercial banks.
- To determine the effect of earning and book value to the stock price.
- To determine the effect of dividend to the stock price.
- To make appropriate recommendations/suggestions for the betterment of the stock market and so on.

To meet the desired objectives, the researcher identified the effect of

quantitative factors, DPS, BPS & EPS with MPS by correlation and regression analysis of secondary data. Whereas, to identify the qualitative factors affecting the share price, the researcher used the questionnaire approach.

On one hand, from the secondary data analysis it is found that, for some companies, the correlation coefficient of MPS with independent variables (i.e., BPS & EPS) is significantly positive whereas in some other cases significantly negative at 95% level of significance. MPS is significantly positively correlated with DPS, BPS and EPS of HBL where as MPS is significantly negatively correlated to none of the factors.

Even though DPS, BPS & EPS affect the MIPS positively, there are several other factors in the internal as well as external environment that affect the share price significantly. Theoretically, when earnings, dividends and book value per share increases, the market price per share also increases and vice versa. But in case of NEPSE, this theory does not seem to be true hundred percent meaning that there are various other factors too that affects the share price.

On the other hand, the qualitative factors affecting the share price are identified through the primary data analysis. Dividends, Earnings, book value per share, Growth rate and risk associated with the company growth rate and risk associated with the company are some internal factors affecting the market price per share. Among other internal factors affecting the share price are political stability, cease fire and peace talks. Strikes, Banda. Rumors and 'whims national economy Demonstrations. Demand and supply situations. While analyzing the effects of interest rate, retention ratio, stock dividend. Cost of equity, tax rate, value of US \$ exchange rate, gold price, global economy, market liquidity, season, day of the week, size of the organization, change in the management etc, it is found that these factors have nominal effects on share price.

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

5.2 Conclusion

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

- Adequate knowledge and information regarding the capital market is lacking in Nepalese investors. This is precisely the reason why they are cheated by the concerned companies and the NEPSE shows rather irrational behavior.
- Most of the listed companies do not provide sufficient and timely information to NEPSE as well as their shareholders and even the supplied information do not have similar among NEPSE. Annual report and their particular websites, meaning that they try to attract potential investors by providing exaggerated information regarding their performances.
- From the secondary data analysis it is revealed that, pricing behavior differs company. Even though, DPS, BPS and EPS jointly have significant effect on the share price, individually they do not have consistent relationship with MPS. It means that there may be other major factors influencing and determining the share price significantly.
- Whereas, analyzing of primary data(from view point of respondents) summaries company performance(EPS, Book Value, DPS, Risk), information disclosed, timely AGM, other political stability, national economy, peace, strikes/bandhas, demand and supply situation of the

share ,cease-fire etc are some important factors having significance influences on the share price. Similarly, other relevant factors interest rates, tax rate, seasonal factors, day of the week effect, gold price, global economy, value of US\$, cost of equity ,market liquidity, size of the firm and change in management do not have significant effect.

- Due to poor rules and regulations as well as effective regularity mechanism, one the one hand, shareholders are not confident to invest in the share whereas on the other hand, capital market has not been growing as per expectations. Similarly, lack of political stability, peace and Maoist revolution has constrained the smooth development of security market.
- The study concludes that the Nepalese stock market is in infancy stage. There is a gap between the theory and practice of the investment in Nepalese stock market due to lack of proper study/analysis of stock market. Professionalism is lacking.
- In spite of the several constraints, the NEPSE has been growing gradually. The commercial banking sector is the best performer among the listed companies. We can not undermine the truth that with the presence of peace and political stability, the capital market gets far better soon

5.3 Recommendations

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

To Investors

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

SEBON as well as of Government. They are encouraged to enrich their level of knowledge and make the investment opportunities fruitful.

To Brokers

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

To SEBON/ NEPSE

Perfect market requires that all information concerning future risks and returns of securities be readily available to all investors. As there exists various market imperfections, relevant information are not easily available to the investors. They are often published in national dailies, but most of the information is highly aggregated: and not reliable. Because of the lack of technical knowledge, majority of the investors is unable to analyze the available information. As such a single buyer and a single seller can affect the price of securities. NEPSE can expand its service to regional and local level so that it gives the equal opportunity to all the potential investors. The existing manual method of security trading should be replaced with computerized method to ensure the accuracy and systematic. Investors should be providing with investment guidelines and relevant information through media. It should monitor the activities of brokers as well as listed companies.

To Listed Companies

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

To Government

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

To further researcher

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

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ANNEX I
SUMMARY OF SIMPLE CORRELATION AND REGRESSION
ANALYSIS

1. Standard Chartered Bank

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Error of estimate	MPS Intercept	Variable Intercept	t-cal	t-tab	Remarks
MPS on DPS	0.7944	0.631	561.304	-277.00	43.296	2.6158	2.776	Insignificant
MPS on BPS	0.6805	0.4632	677.090	-2419.734	11.635	1.8575	2.776	Insignificant
MPS on EPS	0.7488	0.5608	612.415	-3420.179	38.334	2.2597	2.776	Insignificant

2. Nabil Bank limited

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Errors of estimate	MPS Intercept	Variable Intercept	t-cal	t-tab	Remarks
MPS on DPS	0.8676	0.7528	327.213	- 354.198	27.242	3.489 9	2.77 6	Insignificant
MPS on BPS	0.670	0.449	487.877	- 525.424	6.246	1.804 6	2.77 6	Insignificant
MPS on EPS	0.6879	0.4732	477.089	16.771	14.406	1.895 5	2.77 6	Insignificant

3. Nepal Investment Bank Limited

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Errors of estimate	MPS Intercept	Variable Intercept	t-cal	t-tab	Remarks
MPS on DPS	0.314	0.099	222.036	874.259 5	3.4555	0.662 2	2.77 6	Insignificant
MPS on BPS	0.089	0.008	232.971	833.584	0.473	0.177 9	2.77 6	Insignificant
MPS on EPS	0.534	0.285	197.801	495.869	10.627	1.262 1	2.77 6	Insignificant

4. Everest Bank Limited

Relationship	Correlation Coefficient	Coefficient of Determination	Standard Errors of estimate	MPS Intercept	Variable Intercept	t-cal	t-tab	Remarks
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		ination	estimate		pt			
MPS on DPS	-0.2187	0.04782	389.150	788.50	-7.55	- 0.448 2	2.77 6	Insignifica nt
MPS on BPS	0.838	0.701	217.901	1199.32 6	10.539	3.066	2.77 6	Insignifica nt
MPS on EPS	0.9148	0.8369	161.456	- 287.137	23.942	4.517	2.77 6	Insignifica nt

5. Himalayan Bank Limited

Relationsh ip	Correlati on Coefficie nt	Coefficien t of Determin ation	Standar d Erros of estimate	MPS Interce pt	Variabl e Interce pt	t-cal	t- tab	Remarks
MPS on DPS	0.800	0.640	63.041	392.426 2	18.8232	2.667	2.77 6	Insignifica nt
MPS on BPS	-0.370	0.137	147.06	199.871 4	3.1575	-0.797	2.77 6	Insignifica nt
MPS on EPS	0.893	0.797	60.289	189.64	14.071	3.964	2.77 6	Insignifica nt

ANNEX II

Questionnaire

Dear Sir/Madam

This is to bring your kind information that it is an attempt to identify the root

Determinants of NEPSE and market price of share of selected Commercial Banks for the partial fulfillment of Thesis required for MBS degree, TU. 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.

SA for Strongly Agree

A for Agree

U for Undecided

D for Disagree

SD for Strongly Disagree

[All statements are related to the NEPSE and market price of share of private commercial banks.]

Q.No.1 Higher the EPS higher would be the share price.....

Q. No 2 Higher the DPS/Cash dividend, higher would be the share price.....

Q. No 3 Lower the growth rate (g) of a company, higher would be the price.....

Q. No 4 If interest/reinvestment (r) increases, share price also increases

Q. No 5 Higher the retention ratio better will be the market price of the share.....

Q. No 6 Payment of stock dividend increases the share price in market.....

Q. No 7 Higher cost of equity (ke) reduces the share price.....

Q. No 8 Lower the personal tax rate; lower would be the share price.....

Q. No 9 Fall in the gold price, causes fall in share price.....

Q. No 10 Fall in the value of US \$,causes fall in share price.....

Q. No 11 Share price declines with the instability of the government

Q. No 12 Strikes/Bandhs/Demonstration badly affects the share price.....

Q. No 13 Peace talks with Maiost (cease-fire) affect positively to the share price

Q. No 14 Outbreaks of the cease-fire decrease the share price.....

Q. No 15 Share price is sensitive towards national economic environment.....

- Q. No 16 Share price is sensitive towards global economy.....
- Q. No 17 Share price decreases with increase in liquidity in market.....
- Q. No 18 Share price is influenced by seasonal factors.....
- Q. No 19 Share price is lower on Sunday than on Thursday.....
- Q. No 20 Higher the risk associated with a company, higher will be the share price
- Q. No 21 Larger companies have higher share price.....
- Q. No 22 Share price reacts positively with the change in management.....
- Q. No 23 Lower the book value of share, higher would be the share price.....
- Q. No 24 Share price is affected with demand and supply of the share.....
- Q. No 25 Rumors and whims affect share the share price.....
- Q. No 26 Capital market is not well developed due to poor regulatory mechanism
in Nepal
- Q. No 27 Public/listed companies are not serious towards shareholders interests....
- Q. No 28 NEPSE and Securities board are not able to protect investors interest
effectively.....

Thank You very much for your time and effort!

LOCHAN JOSHI
Master's in Business Studies
Tribhuvan University
Roll no: 1297/059
TU Registration No: 17928-95

ANNEX: III

Summary of the primary Data

S.n o	Variables	S A	A	U	D	SD	N
1	Higher the EPS, higher the share price	5	26	3	2		36
2	Higher the cash dividend, higher the share price	6	23	3	3	1	36
3	Lower the growth rate (g),higher the share price		3	8	22	3	36
4	Higher the interest rate (r), higher the share price	1	16	8	10	1	36
5	Higher the retention ratio, better the share price	2	16	7	9	2	36
6	Stock dividend increases the share price	2	17	6	10	1	36
7	Higher Cost of equity (Ke) reduces the share price	2	16	7	10	1	36
8	Lower tax rate reduces the share price	1	8	9	16	2	36
9	Fall in gold price causes fall in share price		8	1 7	10	1	36
10	Fall in value of US\$ reduces the share price		7	1 9	10		36
11	Instability of government reduces the share price	4	24	5	3		36
12	Strikes, Demonstration reduces the share price	3	26	3	3	1	36
13	Cease-fire/peace talk affect positively to the share price	5	25	3	2	1	36
14	Outbreak of ceasefire increased share price		3	4	22	7	36
15	Better the national economy, better the share	4	23	5	3	1	36

	price						
16	Better the global economy, better the share price	2	12	14	7	1	36
17	Higher the market liquidity, lower the share price	2	9	10	12	3	36
18	Share price is lower in winter than in Summer	1	7	16	11	1	36
19	Share price is lower in Monday than in Friday	2	9	18	6	1	36
20	Higher the risk, higher the share price	1	2	7	22	4	36
21	Larger companies have higher share price	3	15	8	9	1	36
22	Share price increases with change in Management		6	9	19	1	36
23	Lower the BPS, higher the share price		3	6	23	4	36
24	Share price is affected by demand and supply	5	22	3	5	1	36
25	Rumors and whims affects the share price	4	19	7	4	2	36
26	Capital market is not well developed due to poor regulatory mechanism	5	19	5	5	2	36
27	Listed companies are not serious towards shareholder's interest	6	18	4	6	2	36
28	NEPSE and SEBO are able to protect shareholder's interest	2	6	4	19	5	36

Where, weight for SA=2,A=1,U=0,D=-1,SD=-2

Source: Questionnaire

ANNEX: IV

Summary of the primary Data

S.no	Variables	SA	A	U	D	S D	N	fx	AM
1	Higher the EPS, higher the share price	5	26	3	2		36	34	0.944 4
2	Higher the cash dividend, higher the share price	6	23	3	3	1	36	30	0.833 3
3	Lower the growth rate (g),higher the share price		3	8	22	3	36	- 25	- 0.694 4
4	Higher the interest rate (r), higher the share price	1	16	8	10	1	36	6	0.166 7
5	Higher the retention ratio, better the share price	2	16	7	9	2	36	7	0.194 4
6	Stock dividend increases the share price	2	17	6	10	1	36	9	0.250 0
7	Higher Cost of equity (Ke) reduces the share price	2	16	7	10	1	36	8	0.222 2
8	Lower tax rate reduces the share price	1	8	9	16	2	36	- 10	- 0.277 8
9	Fall in gold price causes fall in share price		8	1 7	10	1	36	-4	- 0.111 1
10	Fall in value of US\$ reduces the share price		7	1 9	10		36	-3	- 0.083 3
11	Instability of government reduces the share price	4	24	5	3		36	29	0.805 6

12	Strikes, Demonstration reduces the share price	3	26	3	3	1	36	27	0.750 0
13	Cease-fire/peace talk affect positively to the share price	5	25	3	2	1	36	31	0.861 1
14	Outbreak of ceasefire increased share price		3	4	22	7	36	- 33	- 0.916 7
15	Better the national economy, better the share price	4	23	5	3	1	36	26	0.722 2
16	Better the global economy, better the share price	2	12	1 4	7	1	36	7	0.194 4
17	Higher the market liquidity, lower the share price	2	9	1 0	12	3	36	-5	- 0.138 9
18	Share price is lower in winter than in Summer	1	7	1 6	11	1	36	-4	- 0.111 1
19	Share price is lower in Monday than in Friday	2	9	1 8	6	1	36	5	0.138 9
20	Higher the risk, higher the share price	1	2	7	22	4	36	- 26	- 0.722 2
21	Larger companies have higher share price	3	15	8	9	1	36	10	0.277 8
22	Share price increases with change in Management		6	1 9	19	1	36	-6	- 0.166 7
23	Lower the BPS, higher the share price		3	6	23	4	36	- 28	- 0.777 3

24	Share price is affected by demand and supply	5	22	3	5	1	36	25	0.6944
25	Rumors and whims affects the share price	4	19	7	4	2	36	19	0.6278
26	Capital market is not well developed due to poor regulatory mechanism	5	19	5	5	2	36	20	0.5556
27	Listed companies are not serious towards shareholder's interest	6	18	4	6	2	36	20	0.5556
28	NEPSE and SEBO are able to protect shareholder's interest	2	6	4	19	5	36	-19	-0.5278

Where, weight for SA=2, A=1, U=0, D=-1, SD=

ANNEX: V

I. Standard Chartered Bank Nepal Ltd. [SCB]

Standard Chartered Bank Limited has been in operation in Nepal since 1987 when it

was initially registered as a joint -venture operation. Today the Bank is an integral part of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status the largest international bank currently operating in Nepal.

Standard Chartered Group employs 30,000 people in over 500 locations in more than 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and The United State of America. It is one of the world's most international banks, with a management team comprising 79 nationalities. The Bank is trusted across its network for its standard of governance and its commitment to making a difference in the communities in which it operates.

An integral part of the only international banking Group currently operating in

Nepal, the Bank enjoys an impeccable reputation of a leading financial institution in the country with 11 points of representation (7 Branches) and 9 , ATMs across the Kingdom and with over 300 local staff. Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through a large domestic network. In addition to which the global network of Standard Chartered Group give the Bank the unique Standard Chartered Nepal Limited offers a full range of banking products and from individuals to mid-market local corporate to multinationals and large public sector companies as well as embassies, aid agencies, Airlines, hotels and government corporations.

The Bank has been the pioneer in introducing customer focused products and services in the country and aspires to continue to be a leader in introducing new products and highest level of service delivery. It is the first Bank in Nepal that has implemented the Anti money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts. SCB has highest market capitalization of Rs. 6537.47 million as on July 16. 2006 with the highest per share value of Rs. 3775 amongst the listed companies in NEPSE.

II .Nabil Bank Ltd. [NBL]

Nabil Bank Limited (NBL) commences its operation on 12 July 1984 as the first joint venture bank in Nepal. Dubai bank Limited, Dubai (Later acquired by Emirates Bank International Limited, Dubai) \,3.5 the first joint venture partner of Nabil. Currently, NB (International) Limited. Ireland is the foreign partner. Nabil Bank Limited had the official name Nepal Arab Bank limited till 31st December 2001. Nabil is the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal with 15 branches and 2 countries in all major cities. It is the only Bank having its presence at Tribhuvan International airport, only international airport of the country .Also the number of outlets in the country is the highest among the joint venture and private banks operating in Nepal. Success of Nabil is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institution. Nabil provides a full range of commercial banking services through its outlets spread across the nation and

reputed correspondent banks across the global. Moreover, Nabil has a good name in the market for its highly personalized services to its customers.

It has the market price per share or Rs. 2240 with market capitalization of Rs. - 4909.95 in million) as on July 16.2006-

III. Nepal Investment Bank Ltd. [NIBL]

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd. was established in 1986 as joint venture -between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) as Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to invest, a group or companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholdings of Credit Agricole Indosuez in Nepal Indosuez Bank Limited.

The name of the bank has been changed to Nepal Investment Bank Ltd. Upon approval of bank's Annual General Meeting, Nepal Rastra Bank and company Registrar's office with the following shareholding structures:

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the capital
- Rashtriya Beema Sansthan holding the same percentage

The remaining 20% being held by the General Public (which means that NBL is a Company listed on the Nepal Stock Exchange).

According to the data of July, 16, 2006, the market price per share of NIBL is Rs. 1260 with the market capitalization or Rs. 2775.75 (in million).

IV. Everest Bank Ltd [EBL]

Everest Bank Limited (EBL) was established in 1994 and started its operations with a view and objective of extending professionalized and efficient banking services to various segment of the society, EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Sector Bank of India having 109 years of banking history with more than 4400 offices allover India and is known for its strong systems and procedures and distinct work culture.

Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations ever since inception and today it has established itself as a leading Private Sector Bank of the nation, reckoned as one of the fastest growing commercial bank of the country.

The bank's paid up capital has increased to 455 million against the authorized capital 750 million whereas the core capital of the bank is around 700 million. The local Nepalese promoters hold 50% stake in the bank's equity, while 20% of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the public.

Despite fragile law and order situation especially during last 2-3 years, the Bank has doubled its deposits, advances as well as profiles during the period. Its operating profit has grown by 55% during the financial year 2060, the net profit has increased by 52%. The average credit growth has been 26% reaching a figure of 6099 million, deposits having reached a figure of 8064 million. A notable feature of the bank's achievement is its containment of NPAs with gross NPAs restricted to 1.72% of the total credit whereas net NPA is being reduced to NIL.

The bank provides a wide range of banking facilities through a wide network of 15 branches covering all the 5 regions of the country and over more than 250 reputed correspondent banks across the globe. All the branches in the valley and as also those at important business centers like Biratnagar, Birgunj, Butwal and Bhairawaha are interconnected through Anywhere Branch Banking Systems (ABBS), a facility which enables its customers to do banking transactions from any of these branches irrespective of their having accounts in the other branch.

Being a pioneer in opening a representative office in New Delhi, India, EBL has successfully taken another historical step in the banking history of the country. Its representative office facilitates the remittance of Nepalese workers residing in India by opening their accounts from the identified branches of their

joint venture partner, Punjab National Bank, India and also attracts Indian Investment to Nepal.

In the present perspective, EBL has the market price per share of Rs. 1379 with market capitalization of Rs. 2142 (in million) as on July 16, 2006.

V. Himalayan Bank Ltd [HBL]

Himalayan Bank Limited was incorporated in 1972 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, One of the largest commercial bank of Pakistan, Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector, Besides commercial banking services, the bank also offers industrial and merchant banking services.

The bank has five branches in Kathmandu Valley at the following locations: Thamel, New Road, Maharajgunj, Pulchowk and Suryabinayk (moved from Nagarkot)

In addition, the bank also has nine other branches outside Kathmandu Valley in Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhirawa, Biratnagar, Pokhara and Dharan. The bank also operates a counter in the premises of the Royal Palace. The Bank will be aggressively opening new branches at different parts of the kingdom to serve its customers better; a new branch at Butwal will be opening soon.

Himalayan Bank has always been committed to providing a quality service to its valued customers, with a personal touch. All customers are treated with utmost courtesy as valued clients. The Bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirement of

different clients. To further extend the reliable and efficient services to its valued customers. Himalayan Bank has adopted the latest banking technology. This has not only helped the Bank to constantly improve its service level but has also prepared the Bank for further adaptation to new technology .The bank already offers unique services such as SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future.

In the present context, HBL has the market price per share of Rs. 1100 with the market capitalization of Rs. 4410 (in million) as on July 16, 2006.

CURRICULUM- VITAE

Lochan Joshi

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Personal Details:

Father's Name: Purna Bir Joshi

Permanent Address: Kupondol-01, Gusingal, Lalitpur, Nepal

Date of Birth: 23 August 1978

Gender: Male

Academic Qualification

- Currently studying ACCA(Association of Chartered Certified Accountants)
- Master's Degree in Business Studies (*MBS*), with Specialization in Finance (thesis to be submitted) from Tribhuvan University, Shanker Dev Campus.
- Bachelor's Degree in Business Studies (*BBS*), with Specialization in Account and Taxation from Tribhuvan University, Shanker Dev Campus.
- Proficiency Certificate Level (*PCL*) in Business Administration from Tribhuvan University, Shanker Dev Campus.
- School Leaving Certificate (*SLC*) from Viswa Niketan Higher Secondary School Tripureswor, Kathmandu.

Work Experience:

- Currently working as Finance Officer in Equal Access International, Jhamsikhel, Lalitpur.
- **2003-2006**
 - Worked as Senior Officer-Finance in Lotus BizPort Private Ltd (A lotus Opportunities Company), Sanepa for 3 Years.
- **1999-2001**
 - Worked as an accountant in Hotel Centre Point Private Ltd Thamel, Katmandu.
- **2000-2002**
 - Worked as an part time accountant in Hotel Mount Holiday Private Ltd Thamel ,Katmandu
- **Trainings & participation :**

- “Accounting of NGOs & INGOs” conducted by Chartered Academic International (CAI).
- “ Vat & Income Tax 2058” conducted by Lotus BizPort and GTZ-RAS
- “Developing Project Proposal” conducted by ELD Nepal.
- “Training on Nepal Accounting Standard (NAS)” Conducted by Chartered Academic International.
- “ Training on Ordinance 2062 And Income Tax Act 2058” facilitated by Mr. Padmav Singh Karki (Income Tax Expert –GTZ/DANIDA) and Shivanath Pandey (Chartered Accountant-Inland Revenue Department)
- “Managerial Skills Development” organized by Real Solutions Pvt Ltd.

Achievements:

- Conducted Training On “Business Support Service” to the BDOs of BDS Maps Project as a Resource Person
- Resource Person in “Training on Accounting & Marketing” given to the 45 participants of Lalitpur Cloth Association.
- Co -facilitator in “Strategic Planning of FAN (Floriculture Association Of Nepal)”
- Developed accounting and Inventory system of several Manufacturing, Service companies and Social Organizations.
- **Computer Skill :**
 - Graduate in Tally Accounting Software
 - Confident in using Microsoft Office application

