

CHAPTER I

INTRODUCTION

1.1 General Background

Sandwiched between the two big countries, China and India, Nepal is the kingdom of hills and mountains, with an area of 147,181 square meters. Nepal is poor in mineral resources but very rich in huge potential for hydroelectric power. It is famous in the world for its high Himalayan ranges, diversity in natural beauty, caste, religion, culture, language, archaeology, etc.

Agriculture is the backbone of the Nepalese economy, means of livelihood for the majority of population, and the main source of gross domestic production, income and employment generation. But non-agricultural sector has also significant contribution in the national economy. 'The overall economic growth rate remained 3.6 percent in the fiscal year 2060/61, while those of agricultural and non-agricultural sectors were 3.7 percent and 3.3 percent respectively.' (*Budget Speech, 2061/62*)

The smooth continuity of development activities widely depends on the adequate supply of medium as well as long-term capital funds in productive investment projects, which is concerned with finance. The finance is directly concerned with conversion or accumulation of capital funds to meet the financial needs of various institutions. For efficient mobilization of financial resources, the financial market has an intermediary role to bridge funds from surplus units to deficit units. "Financial markets provide a forum in which suppliers and demanders of funds can transact business funds directly. Financial market constitutes money market and capital market. The money market is created by a financial relationship between suppliers and demanders of short-term funds, which have maturities of one year or less. Most of the money market transactions are made in marketable securities, which are short-term debt instruments such as treasury bills, commercial papers and negotiable certificates of deposit issued by government, business and financial institutions. The money market exists because certain individuals, businesses, governments and financial institutions have temporary idle funds that they wish to place in some type of liquid asset or short-term, interest-earning instrument. At

the same time, other individuals, businesses, governments and financial institutions find themselves in need of seasonal or temporary financing. The money market thus brings together the suppliers and demanders of short-term liquid funds.” (*Gitman, 1988:30-31*) On the other hand, capital market is the place where financial claims and obligations are brought and sold that have maturity period of more than one year. We can further divide capital market into primary and secondary markets. In primary market, stocks and bonds are initially issued and sold. This task may be undertaken by issuing firms and banking firms that purchase the securities from the issuing firms and sell them through an underwriting syndicate or group. On the other hand, secondary markets are those places where securities are subsequently traded that have been issued in the primary market. The majority of the market transactions occur in this market and proceeds do not go to the original issuers but to the owners of securities.

The stock exchange market or stock market is one of the forms of secondary market. It is a major component of the securities market and also the medium through which corporate sector mobilizes funds to finance the productive projects by issuing shares in the market. It is a place where shares of listed companies are transferred from one hand to another at a fair price through the organized brokerage firms. The stock market is a financial market, which probably has the greater glamour and is perhaps the least understood. Moreover, security (stock) market exists in order to bring together buyer and seller of securities to facilitate the exchange of financial assets. Hence, it creates and enhances liquidity in the securities.

In order to make transaction of securities, there is a tradition of listing the stock of public companies in the stock exchange, for which they must meet exchange requirements to such factors as: size of company, number of years in business, earning records, number of shares outstanding and their market value. The listed companies receive a certain amount of free advertisement, publicity and the status of being listed enhances their prestige and reputation. The securities markets provide at least four economic functions which are as follows:

-) Security exchanges facilitate the investment process by providing a market place to conduct efficient and relatively less-expensive transactions. The investors thus assured that they would have place to see their securities.
-) The investors are capable of handling 2 continuous transactions; testing the

value of securities; the purchase and sale of securities; record judgments on the values and prospects of companies. Those prospects are judged favourably by the investors; have higher values, which facilitate new financing and growth.

-) Security prices are more stable because of the operation of the security markets. They improve liquidity by providing continuous markets that make a more frequent but smaller price change.
-) The securities markets aid in the digestion of security issue and facilitate their successful flotation. (*Weston and Copelan, 1992:86-92*)

Most of the investors are risk avoider who often are reluctant to tie up their saving into the long-term investment. So, they are highly attracted by the liquid stock market that makes the investment less risky and more attractive. This encourages savers to invest even in the long-term projects, because they can sell their securities easily and quickly if they want to get back their savings before the maturity period of their holdings. Then, the companies get easy access to the capital through issuance of shares. "Stock market liquidity is positively and robustly correlated with contemporaneous and future rates of economic growth, capital accumulation and productivity growth." (*Ross & SARA, 1998:554*) Thus, the stock market is the backbone for the development, growth and smooth functioning of capital market.

In order to allocate capital efficiently and to maintain higher degree of liquidity in securities, the stock market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information.

Efficiency in the stock market implies that all available relevant information regarding a given stock is instantly reflected in its' price. An efficient market is one where the current price of security (share) gives the best estimate of its true worth. It is not possible to systematically gain or lose abnormal profits on the basis of available public information. In such an efficient market, the prices of securities reflect investors' estimates of level of return and risk in future cash flows. The higher securities that are priced efficiently guide the financial market allocating funds to the most productive use.

Nepal's economy is in developing phase. So, in order to speed up this pace of economic development, financial sectors may have crucial role, as they accumulate scattered savings for capital formulation. The public investors are interested to invest their money in the common stocks of financial institutions. As a result, such institutions' shares are being traded among the investors in the secondary market, in larger volume every day.

Securities Board (SEBO) and Nepal Stock Exchange (NEPSE) are the main bodies to make the stock market as competent and efficient as possible. Actual efforts have been made to develop the Nepalese stock market with the promulgation of Securities Transaction Act in 1983, which was subjected to frequent amendments. (*Shrestha, 2001*)

NEPSE is the only stock exchange in the country, owned by the government (52.55%), Nepal Rastra Bank (39.72%), Nepal Industrial Development Corporation (7.04%) and Security Businesspersons (0.69%). [*Annul Report, SEBO, 2001 (2057/58):4*] The securities businesspersons such as stockbrokers, market makers and securities dealers registered with SEBO, have to get membership of the stock exchange for conducting security business. Similarly, the managers, who are engaged in the primary issuing activities, also have to get membership of the stock exchange to conduct their business. According to *The Security Bylaws, 1996* and the membership of *The Stock Exchange and Transactions Bylaws, 1998*, it is mandatory for the issuing companies to have their securities listed in the stock exchange within three months of the closure of offering. The stock exchange provides its' floor for the trading of shares of the listed companies. Hence, it creates liquidity on shares of the listed companies.

After the restoration of democracy in 1991, the government has adopted liberalization and open-market policy. As a result, there have been continued financial reforms and frequent amendments of bylaws related to the financial market to create a conducive environment for the development of competitive and efficient stock market. Accordingly, the Nepalese stock market is taking its pace for development. However, here a question arises whether the Nepalese stock market is efficient enough to maintain the MPS according to financial position of a company. The highly fluctuating stock market prices at NEPSE may not be the symptom of the efficient market. In the recent stock market turmoil, most of the investors complain that they are suffering from unexpected fluctuations of share prices at NEPSE.

Therefore, this study attempts to relate the share price with major financial indicators and the risk and return analysis for providing suitable bases for investment in common stocks of the sampled companies.

1.2. Introduction of Joint Venture Commercial Banks

1.2.1 Standard Chartered Bank Nepal Limited (SCB)

It 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 of the largest international bank currently operating in Nepal.

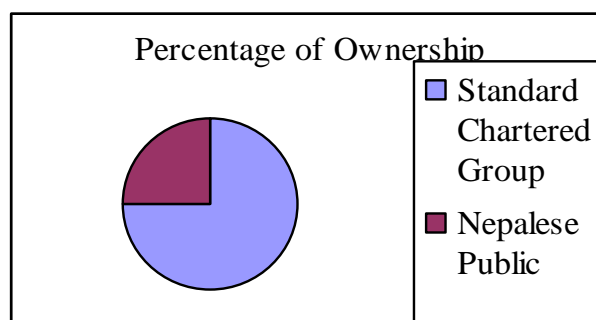
Standard Chartered Groups employs almost 60000 people representing over 100 nationalities in over 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

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.

Ownership of SCB

Figure 1.2.1

S.N.	Name of Subscriber	Percentage of Ownership
1	Standard Chartered Group	75%
2	Nepalese Public	25%



Capital Structure

Table 1.2.1

Share structure	Amount (Nrs.in Million)
Authorized capital	1000.00
Issued capital	500.00
Paid up capital	413.26

Source : www.nepalstock.com/ Annual Report 2006/2007

1.2.2. Nabil Bank Limited (NABIL)

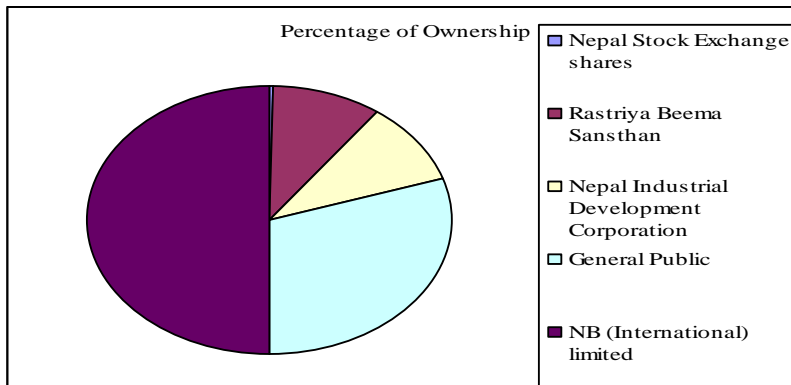
It is the first foreign joint venture bank of Nepal started operations in July 1984. Dubai Bank Limited, Dubai was the foreign joint venture partner who extended Nabil a technical service agreement in the initial period Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Ownership of NABIL

Figure 1.2.2

S.N.	Name of Subscriber	Percentage of Ownership
1	Nepal Stock Exchange	.33%
2	Rastriya Beema Sansthan	9.67%
3	Nepal Industrial Development Corporation	10%
4	General Public	30%
5	NB (International) limited	50%



Source : Nabil Bank Annual Report 2006/07 page 13

Capital Structure

Table 1.2.2

Share structure	Amount (Nrs.in Million)
Authorized capital	500.00
Issued capital	491.65
Paid up capital	491.65

Source www.nepalstock.com

1.2.3. Everest Bank Limited (EBL)

It was established in 2051 B.S. and started its operation with 1st branch at New Baneswor on 1st Kartik 2051. In the beginning, it has shared with United Bank of India Ltd. But in 2053 B.S. United bank of India Ltd. handed over its properties of equity to Punjab National Bank with a view and objective of extending professionalized and efficient banking service to various segments of this society ,EBC joined hands with Punjab National Bank (PNB), India as its joint venture partner. Under the technical service agreement signed between two banks, PNB has been providing to management services and banking experience to EBC. PNB has helped the bank in laying down sound system and procedure. Drawing its strength from its size and operation and since its inception and today it has established itself a leading private sector bank in the nation, reckoned as one of the fastest growing Commercial Bank .

EBL is to evolve and position the bank as a world class, progressive, cost effective and customer friendly institution providing comprehensive financial and related service, integrating technology and serving various segment of society especially the middle class society.

Share Subscription

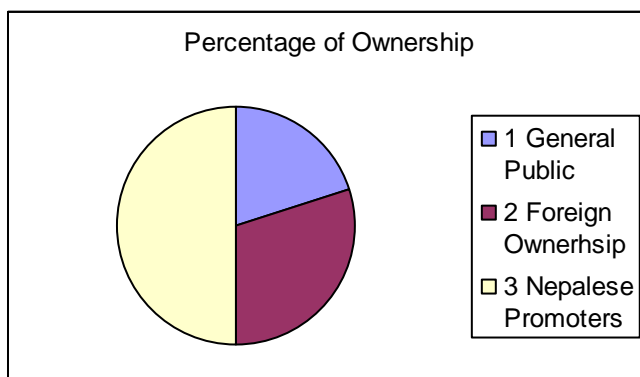
The share subscription of the EBL is divided in 3 parts. Promoter shareholders has taken 50% International Organization has taken 30% and remaining 20% share is taken by Nepalese Public Shareholders. The graphical representation of the share subscription should be seen in Table 1.2.3

Ownership of EBL

Figure 1.2.3

S.N.	Name of Subscriber	Percentage of Ownership
1	General Public	20%
2	Foreign Ownerhsip	30%
3	Nepalese Promoters	50%

Source Annual Report of EBL



Capital Structure:

Table 1.2.3

Share structure	Amount (Nrs.in Million)
Authorized capital	1000.00
Issued capital	518.00
Paid up capital	518.00

www.nepalstock.com

1.2.4. Nepal SBI Bank Limited (SBI)

It is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agriculture Development Bank of Nepal through a Memorandum of Understanding signed on 17th July 1993 with an Authorized Capital of Rs. 12 Crore and commenced operation with one full-fledged office at Durbar Marg, Kathmandu. The main objective of the bank is to carry out modern banking business in the country. It provides loan to agriculture, commerce and industrial sectors. The bank is one of the largest share holder based company

SBI is committed to be a "With You All The Way"

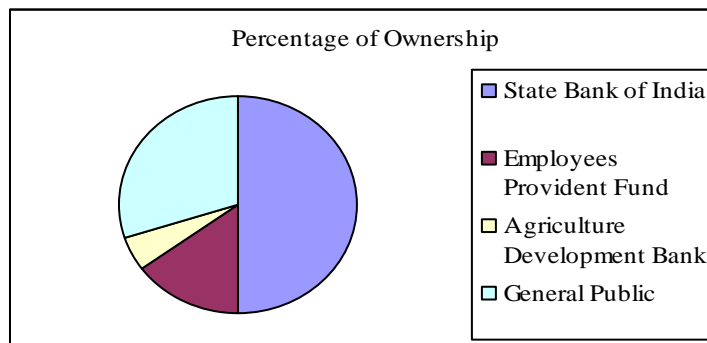
Share subscription

The share subscription of SBI is divided in 4 parts. State Bank of India holds 50%, Employees Provident Fund holds 15%, Agriculture Development Bank holds 5% and General Public holds 30%. The graphical representation of the share subscription could be seen in Figure 1.2.4

Ownership of SBI

Figure 1.2.4

S.N.	Name of Subscriber	Percentage of Ownership
1	State Bank of India	50%
2	Employees Provident Fund	15%
3	Agriculture Development Bank	5%
4	General Public	30%



Capital Structure

Table 1.2.4

Share structure	Amount (Nrs. In Million)
Authorized capital	1000.00
Issued capital	650.00
Paid up capital	640.24

Source: www.nsbl.com.np

1.2.5. Himalayan Bank Limited (HBL)

It was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with Employee Provident Fund and Habib Bank Limited, one of the largest commercial Banks of Pakistan. But the Banks operation was commenced from January 1993 only. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. The bank offers commercial activities, industrial and merchant banking.

Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. The Bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements. To extend more efficient services to its customers, HBL has been adopting innovative and latest banking technology and unique service such as SMS banking and Internet Banking to customers and will be introducing more services like these in the near future. This has not only helped the bank to constantly improve its service level but has also kept it prepared for future adaptation of new technology.

HBL is committed to be a "Banking is done with a difference."

Share subscription

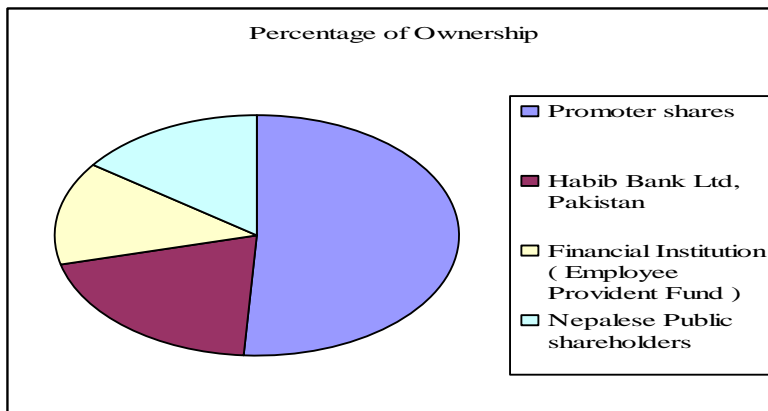
The Share subscription of the HBL is divided in 4 parts. Promoter share holders has taken 51%, Habib Bank Ltd, Pakistan has taken 20%, Financial Institution (Employees Provident Fund) has taken 14% and the remaining 15% of share has taken by Nepalese Public Share

holders. The graphical representation of the share subscription could be seen in Figure 1.2.5

Ownership of HBL

Figure 1.2.5

S.N.	Name of Subscriber	Percentage of Ownership
1	Promoter shares	51%
2	Habib Bank Ltd, Pakistan	20%
3	Financial Institution (Employee Provident Fund)	14%
4	Nepalese Public shareholders	15%



Share Structure

Table 1.2.5

Share structure	Amount (Nrs. In Million)
Authorized capital	1000.00
Issued capital	810.81
Paid up capital	810.81

HBL Annual Report 2006/07

1.2.6. Nepal Bangladesh Bank Limited (NBL)

It was established in June 1994 with an authorized capital Rs.240 million and Paid up capital of Rs 60 million as a Joint Venture Bank with IFIC Bank Ltd of Bangladesh. Its head office is situated at New Baneshwor, Bijuli Bazar. The bank has made agreement between IFIC Bank Ltd. and Nepali promoter. The prime objective of this bank is to render banking services to the different sectors like industries, traders, businessmen, priority sector, small entrepreneurs and weaker section of the society and every other people who need Banking Services. During the period of 10 years of its operation, it has accommodated a large number of clients and has been able to provide excellent services to its clients.

With a network of 17 branches and a corporate office, the Bank commands the largest network amongst the joint venture commercial banks in Nepal. The bank has earned the glory of making available the services to almost all the top business houses of the country and it occupies one of the leading positions among the Joint Venture Banks Nepal. The bank has developed Agency and correspondent relationship with more than 200 prominent Foreign Banks in the world.

Share Subscription

The share subscription of the NBB is divided in 3 parts, IFIC Bank, Ltd., Local promoters and general public. They have taken 50%, 20% and 30% shares respectively.

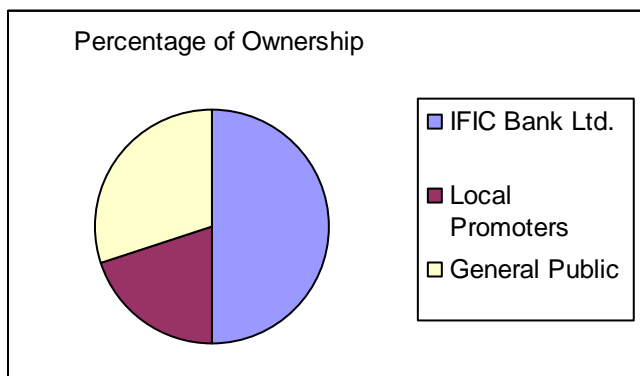
The table and graphical representation of the share subscription could be seen in figure and table.

Ownership of NBL

Figure 1.2.6

S.N.	Name of Subscriber	Percentage of Ownership
1	IFIC Bank Ltd.(50%)	50%
2	Local Promoters (20%)	20%
3	General Public (30%)	30%

Graphical presentation



Capital Structure

Table 1.2.6

Share structure	Amount (Nrs. In Million)
Authorized capital	1500.00
Issued capital	1000.00
Issued and Paid up capital	719.86

1.3 Statement of the Problem

The number of public limited companies is increasing tremendously in response to the economic liberalization and globalization policies adopted by the Nepalese government. Such institutions provide banking services, insurance services, etc, participating in developmental works, manufacturing and processing, and others. Although opportunities are limited such institutions are mushrooming and competing with themselves intensely. After the emergence of NEPSE in 1997, the concept of capital market has been developed and growing rapidly within a short span of time. It is mandatory to enlist the public limited companies in NEPSE. The number of companies listed in NEPSE increased to 111 at the end of the review from 98 at the end of the same period in the preceding year. Stock market activities increased

significantly in terms of number of transactions, total amount of listed shares and total market capitalization. Marginal increase in NEPSE index reflected a lack of confidence in secondary share markets due mainly to increased security problem resulting from the Maoists insurgency.' (Monthly Report, Nepal Rastra Bank, August 2003 – January 2004:10). NEPSE creates liquidity on shares of such companies issued in the primary market, and provides floor for trading of shares.

Most of the investors are not aware of the financial position of the companies in terms of their financial indicators, in which they are investing their funds through secondary market - NEPSE. The market price of common stock (share) does not seem to be in accordance with the financial indicators – NWPS, EPS, DPS, ROE, etc. Instead, in determination of the market price of share, there has been major influence of rumours rather than strengths of the companies. The MPS of commercial banks, especially foreign joint venture Banks has been much higher than MPS of other sectors. Moreover, the overall NEPSE is depended upon MPS of such companies.

Generally, the trend is that the MPS of public quoted companies is above their book value. The market value is determined by the supply and demand functions. However, in an efficient market MPS fully reflects all the historical information publicly available.

Here arises the question of efficiency of the Nepalese share market. The high movement of share prices may be the outcome of the efficient market behaviour. An article in Spot Light states that “our stock market is not efficient enough since all the listed companies do not make past information available to shareholders. Many listed companies do not produce timely financial statement or annual reports to the investors. The dubious and hazardous movement of share prices has no sound fundamental backing of analysis and relationship to past results revealed in limited financial statements. It is because that the share price has crossed the boundary of the calculated dividend yield, net worth and price multiples. The investors conclude that there has been a foul play using inside information. The reaction is based on the assumption of strong form of the market efficiency. The Securities Exchange Act strictly prohibits the misuse of inside information but the regulating authorities can make no advance notice of how there is the use of inside information.” (*Shrestha, 2001*)

That's why the major issues might be whether the MPS of listed companies, especially for selected companies, are really representing the financial indicators, i.e. NWPS, EPS, DPS, ROE, etc. And, to what extent, the risk is involved in the investment of common stocks of the selected companies.

More specifically, the research problems are:

-) Is there any specific relationship of MPS with fundamental financial indicators (EPS, NWPS, DPS, ROE, etc.), or is the trend of MPS running in accordance with these financial indicators?
-) Are the investors well aware of the trend of financial indicators which have major influence on determining MPS?
-) Is the investment in common stocks of the sampled companies equally risky from a viewpoint of an investor?
-) Are the common stocks of the sampled companies are equilibrium-priced?

1.4. Objectives of the Study

The main objectives of the study are as under:

1. To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
2. To analyse the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
3. To analyse the investor's behaviour and attitude towards the sample banks.
4. To suggest and recommend on the basis of major findings.

1.5 Statement of Hypotheses

The following hypotheses have been set in the study:

-) **Null Hypothesis:** (H₀) : There is not significant relation between MPS and various financial indicators.
-) **Alternative Hypothesis:** (H₁): There is significant relation between MPS and various financial indicators.
-) **Null Hypothesis:** (H₀) : The regression line of MPS on different financial indicators is

not significant.

) *Alternative Hypothesis*: (H₁): The regression line of MPS on different financial indicators is significant.

1.6 Importance of the Study

Public companies obtain funds from the public investors through financial market. The long run objective of every company is to maximize shareholders' wealth position whereas the investors seek to get good returns in the future.

In the Nepalese context, there is the lack of wider investment opportunities that provide good rate of return. So there has still been a huge amount of unutilized saving funds with the general public. The investors are attracted by the increasing trend of MPS of public companies mainly that of the joint venture commercial banks. Therefore, they are investing their saving funds in the common stocks of public companies with the good expectation of higher capital gain in the future.

But, most of the public investors, i.e. existing and potential are not well knowledgeable about the real financial strengths and weaknesses of the public companies in which they are investing or going to invest their funds. Further, they cannot well analyse and interpret the real financial position of a company on the basis of available data and information to reach the right conclusion. As we know, it is quite essential to understand the financial strengths of the company in terms of financial indicators, i.e. EPS, NWPS, DPS, ROE, etc. These financial indicators play important role to determine MPS in the market. Here, one question arises, is the MPS of the Nepalese public company sufficiently guided by financial performance.

This study is focused on the analysis of the relationship of MPS with different financial variables. Hence, the study has to disseminate the findings on the real financial status of the financial institutions to the public investors as well as policy makers.

This study may help investors to think about restructuring their investment portfolio. Similarly, the potential investors may take better timely investment decision on the basis of the findings of the study.

On the other hand, the policy-makers may acquire some ideas or feedback for the amendment of existing policies and the formulation of new policies.

1.7 Limitation of the Study

As every research or study has its' own limitations, this study has some limitations as below:

-) Only six joint venture commercial bank have been taken into consideration for the study .
-) The study covers all the relevant data and information only for 5 years, i.e. from Fiscal Years 2002/03 to 2006/07 (2059/60 to 2063/64).
-) The study is focused only on the analysis of relationship of MPS with financial indicators and the level of risk associated with the common stock investment of the sampled companies.
-) The major portions of analysis and interpretation have been done on the basis of the available secondary data and information. So, the consistency of findings and conclusion are strictly dependent upon the reliability of secondary data and information.

1.8 Organisation of the Study

This study has been divided into five chapters, which are as follows:

Chapter I: Introduction

It includes general introduction, statement of the problem, objectives of the study, importance of the study, hypothesis of the study, limitations of the study and organisation of the study.

Chapter II: Review of Literature

This chapter consists of the review of books, articles, journals, reports and other relevant materials.

Chapter III: Research Methodology

It covers on research design, population and sample, sources of data, data gathering procedure, analytical tools, etc.

Chapter IV: Data Presentation and Analysis

This chapter attempts to analyze and evaluate data with the help of analytical tools and interpret the results obtained.

Chapter V: Summary, Conclusion and Recommendations

It sums up the results obtained through analysis and recommends some suggestions.

CHAPTER II

LITERATURE REVIEW

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 stocks, risk and return as well as findings of the related previous studies. The review of literature has been divided into two broad categories which are as follows:

2.1 Conceptual Framework.

2.1.1 Introduction to Common Stocks:

The common stocks represent ownership in a company. The holders of common stocks, called shareholders or stockholders, are the legal owners of a company. 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 shareholders by purchasing common stocks, they are entitled to dividends. The amount or rate of dividend is fixed by the company's Board of Directors. The common stock is, therefore, known as the variable income security. Being the owners of the company, the stockholders bear the risk of ownership; they are entitled to dividends after the claims of others have been satisfied. Similarly, when the company is wound up, they can exercise their claim on assets after the claims of other suppliers of capital have been met. (*Pandey, 1995:905*)

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 obligations of interest on debts and dividends on preferred stocks. Thus, they enjoy all net benefits of the business by assuming the risk of losing their capital. (*Pradhan, 1996:132-133 &333*)

2.1.2 Features of Common Stocks:

Claim on Income: The common stockholders have a claim to residual income, which is earnings available for ordinary shareholders, after paying expenses, interest charges, taxes and preference dividend, if any. The income may be split into two parts, dividends and retained earnings. Dividends are immediate cash flow to shareholders, whereas retained earnings are reinvested in the business. A company is not under a legal obligation to distribute dividends out of the available earnings.

Claim to Assets: The common stockholders have a residual claim on the company's assets in case of liquidation. Out of the realized value of assets, first the claims of debt-holders and then preference shareholders are satisfied, and the remaining balance, if any, is paid to the common stockholders.

Right to control: The ordinary shareholders have the legal power to elect directors to the board. If the board fails to protect their interests, they can replace the directors. They are able to participate in the management of the company through their voting right and right to maintain proportionate ownership.

Voting Rights: The ordinary stockholders are required to vote in order to elect the directors and change the memorandum of association. For instance, if they want to change its authorized capital or the objectives of business, they need ordinary shareholders' approval.

Pre-emptive Right: The law grants the shareholders the right to purchase new shares in proportion to their current ownership. Thus the pre-emptive right entitles a stockholder to maintain his proportionate share ownership in the company. The stockholder's option to purchase, a stated number of new shares at a specified price during a given period, is called rights which can be exercised at a subscription price which is generally much below the current market price of shares.

Limited Liability: The common stockholders are the true owners of the company, but their liability is limited to the amount of their investment in shares. If a stockholder has already fully paid the issue price of shares purchased, he has nothing more to contribute in the event of financial distress or liquidation. The limited liability feature of share encourages unwilling investors to invest their funds in the company which helps company to raise funds. (*Pandey,*

1995:905-908)

Most of the investors are wise to invest their saving funds in stocks, with the expectation of future cash inflow as dividends and maximization of value of their holdings in the market. The dividends and value of the firm are linked with the earning power of the firms, which ultimately affects the market price of shares. So, brief discussions have been presented in the following paragraphs, on earning per share, dividend per share, book value per share and market price per share.

2.1.3. Advantages of Common Stock Financing From Corporation's Viewpoint

There are several advantages of the corporation associated with the common stock financing, which can be mentioned as follows:

-) Common stock does not obligate the firm to make fixed payments to stockholders. If the company generates earnings and has no pressing internal needs, it can pay common dividends. Had it used debt, it would have incurred a legal obligation to pay interest on it, regardless of its operating conditions, its cash flows, and so on.
-) Common stock provides a cushion against losses from the creditors' viewpoint, the sale of common stock increases the creditworthiness of the firm. This, in turn, raises its bond rating, lowers its cost of debt, and increases its future ability to use debt.
-) Common stock carries no fixed maturity date – it never has to be 'repaid' as would a debt issue.
-) If a company's prospects look bright, then common stock can often be sold on better terms than debt. Stock appeals to certain groups of investors because (a) it typically carries a higher expected total return (dividends plus capital gains) than does preferred stock or debt and (b) since stock represents the ownership of the firm, it provides the investor with a better hedge against unanticipated inflation than does preferred stock or bonds. Ordinarily, common stock increases in value when real asset values rise during inflationary periods.
-) When a company is having operating problems, it often needs new funds to overcome its problem. However, investors are reluctant to supply capital to a troubled company, and if they do, they generally require some type of security. From a

practical standpoint, this means that a firm which is experiencing problems can often obtain new capital only by issuing debt, which is safer from the investor's standpoint. Corporate treasurers are well aware of this so they often have option to finance with common stock so as to maintain a reserve borrowing capacity – indeed surveys have indicated that maintenance of an adequate reserve of borrowing capacity is the primary consideration in most financing decisions. (*Weston and Brigham, 1987:678-679*)

2.1.4 Disadvantages of Common Stock Financing From Corporation's Viewpoint

The disadvantages of a company which issues common stock are as follows:

-) The sale of common stock extends voting rights, and perhaps even control, to the stockholders. For this reason, additional equity financing is often avoided by managers who are concerned about maintaining control. The use of founders' shares and shares such as those GM issued can, however, mitigate this problem.
-) Common stock gives new owners the right to share in the income of the firm – if profits soar, the new stockholders get to share in this bonanza, while if debt had been used, new investors would have received only a fixed return, no matter how profitable the company is.
-) As we shall see, the costs of underwriting and distributing common stock are usually higher than those for underwriting and distributing preferred stock or debt. Flotation costs associated with the sale of common stock are characteristically higher because (a) the cost of investigating and equity security investment are higher than those for a comparable debt security, and (b) stocks are riskier than debt, meaning investors must diversify their equity holders, which in turn means that a given amount of new stock must be sold to a larger number of purchasers than the same amount of debt.
-) If the firm has more equity than is called for in its optimum capital structure, the average cost of capital will be higher than necessary. Therefore, a firm would not want to sell stock to the point where its equity ratio exceeded the optimal level.
-) Under current tax laws, common stock dividends are not deductible as an expense for calculating the corporation's taxable income, but bond interest is

deductible. (*Weston and Brigham, 1987:679-680*)

2.1.5 Earning per Share (EPS)

Accounting earnings that represent the difference between revenues and expenses, including the expenses associated with non-equity source of funds (such as interest to debt, dividend to preference share) 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, Alexander and Biley, 2001:622*)

2.1.6 Retained Earnings

The balance sheet account which indicates the total amount of earnings the firm has not paid out as dividend throughout its history; these earnings have been reinvested in the firm.

2.1.7 Dividend per Share (DPS)

The percentage of earnings the firm pays in cash to its shareholders is known as dividend. The dividends, of course, reduce the amount of earnings retained in the firm and affect the total amount of internal financing. (*Horne, 2000:305*)

Nothing is more important than dividends to stockholders. They buy shares of firm with the hope of sharing profits earned by firms. The sole motive of stockholders is to receive return on their investment; nothing pleases them more than knowing the firm's earning and more profits mean more dividends coming in. (*Pradhan, 1996:375-376*)

Krishman opines that of two stocks with identical earnings record and prospect, but the one paying a large dividend than the other, the former will undoubtedly command a higher price merely because stockholders 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. (*Pandey, 1995:681*)

The following table shows a glimpse of various financial indicators.

Table 2.1

Earning before interest and taxes (EBIT)	***
Less: Interest	**
Earning before tax (EBT)	***
Less: Tax	**
Earning after tax (EAT)	***
Less: Preference dividend	**
Earning available to common stockholders (EACS)	***
No. of outstanding shares (n)	***
Earning per share (EPS) = EACS/N	***
Dividend per share (DPS) = EPS x DPR	***

(Pradhan, 1995:602)

Forms of dividend:

Cash dividends: Payments made in cash to stockholders are termed cash dividends. For which, a firm needs to have enough cash in its bank account. When cash dividend is declared, the cash account and reserves account of the firm will be reduced, thus both the total assets and the net worth of the firm are reduced in case of distribution of cash dividend.

Bonus Share (Stock Dividend): An issue of bonus share represents a distribution of shares 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 proportionately. Thus, a shareholder retains his/her proportionate ownership of the company. (Pandey, 1995:705-706)

2.1.8 Stock Splits

Stock splits have an effect on a firm's share price similar to that of stock dividends. A stock split is a method commonly used to lower the market price of a firm's stock by increasing the number of shares belonging to each shareholder. Quite often, a firm believe that its stock is priced too high and that lowering the market stock to enhance the marketability of the stock and stimulate market activity. A stock split has no effect on the firm's capital structure. It commonly increases the number of shares outstanding and reduces the stock's per share par value. In other words, when a stock is split, a specified number of new shares are exchanged for a given number of outstanding shares. In a 2-for-1 split, two new shares are exchanged for a given number of outstanding shares. Sometimes, a reverse split is made. A certain number of outstanding shares are exchanged for two old shares; in a 2-for-3 split, two new shares are exchanged for three old shares, and so on. (*Gitman, 1988:627-628*)

2.1.9 Stock Repurchase

In the recent past, firms have increased their repurchasing of shares of outstanding common stock in the marketplace. A stock repurchase is made for a number of reasons: to obtain shares to be used in acquisitions, to have shares available for employee stock option plans, to achieve a gain in the book value of equity when shares are selling below their book value, or merely to retire outstanding shares. The accounting entries that result when common stock is repurchased are a reduction in cash and the establishment of a contra capital account called 'treasury stock', which is shown as a deduction from stockholders' equity. The repurchase of stock can be viewed as a cash dividend, since it involves the distribution of cash to the firm's owners, who are the sellers of the shares. The advantages of stock repurchases are an increase in per share earnings and certain owner tax benefits. The tax advantage stems from the fact that if the cash dividend is paid the owners will have to pay ordinary income taxes on it. Of course, when the stock is sold, if the proceeds are in excess of the original purchase price, the capital gain will be taxed as ordinary income. (*Gitman, 1988:628-629*)

2.1.10 Net Worth per Share (NWPS) / Book Value per Share

A corporation will generate income, much of which is paid out to creditors (as interest) and to shareholders (as dividend). Any remainder is added to the amount shown as cumulative retained earnings on the corporation's books. The sum of cumulative retained earnings and others entries (such as common stock and capital contributed in excess of the par value) under shareholder's equity is the book value of the equity. The book value per share is obtained by dividing the book value of the equity by the number of shares outstanding. (*Sharpe, Alexander Biley, 2001:506*)

The book value of the equity reflects the historical costs of –brick and meter- the physical assets of the company. A well run company with strong management and an organization that functions efficiently should have a market value greater than the historical book value of its physical assets. (*Weston and Copelan, 1992:695*)

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

Book value is generally considered to be relatively unimportant in determination of the value of company, since it represents only the historical investments made in the company- investments that may have little relating to current values of price. (*Weston and Copelan, 1992:1113*)

2.1.11 Market Price per Share (MPS)

The market price of any asset, indeed, depends on the future earning power of the asset or the value of an asset depends on the future cash flows that the asset is expected to generate. (*Pradhan, 1996:20*)

Once the shares, issued in the primary market, are listed in the stock exchange, investors are able to buy and sell the shares among themselves with the help of brokerage firm. Generally the prices of shares are determined by demand and supply preferences.

Due to the market imperfection and uncertainty, shareholders may give a higher value to the near dividends and capital gains. Thus, payment of dividend may significantly affect the market price of shares. Higher dividends increase the value of shares and low

dividends reduce the value. (*Pandey, 1995:681*)

Given the two companies in the same general position and with the same earning power, the one paying the larger dividend will always sell at higher price. (*Pandey, 1995:687*)

The price of firm's stock reflects expectation about its future earnings and dividends. (*Westen & Copelan, 1992:1113*)

Book value is generally considered to be relatively unimportant in determination of the value of company, since it represents only the historical investments made in the company- investments that may have little relation to current values of prices. (*Weston Copelan, 1992:1113*)

2.2. REVIEW OF DIFFERENT STUDIES

There are some studies conducted in the field of share price determinants by various researchers. Some of them have been reviewed in this study in order to avoid possible duplication and bridge the gap-ness.

Professor James E. Walter argues that dividend policies almost always affect the value of the enterprise. The investment policy of a firm cannot be separated from its dividend policy, which is just the opposite of what MM said. The key argument in a support of the relevant proposition of the model is the relation between the return of firm's investment or its internal rate of return (r) and its cost of capital (K). As long as the internal rate is greater than the cost of capital (K), the stock price will be enhanced by retention and will vary inversely with dividend payout.

The basic assumptions of the model are:

-) The firm finances all investment through retained earnings that is the firm does not use debt or equity financing.
-) The firm's ' r ' and ' K ' are constant.
-) The firm distributes its entire earnings or retains it for investment immediately.
-) There is no change in values of earnings per share and dividend per share.
-) Perpetual life of the firm.

Based on the above assumptions, Walter's formula to determine the market price per share is as follows:

$$P = X \frac{DPS}{K} \Gamma \frac{r(EPS - DPS)/K}{K}$$

$P = X \frac{DPS \Gamma R/K (EPS - DPS)}{K}$, where: P = price of share; EPS = earning per share; r = internal rate of return; K = cost of capital.

Walter referred different dividend policies to different types of firms, which are as follows:

Growth Firm (r > K)

Growth firms are those firms which expand rapidly because of ample investment opportunities yielding returns higher than the opportunity cost of capital. In such firms, correlation between dividend and stock prices is negative. For such firm optimal payout ratio is zero.

Normal Firm (R = K)

The firms whose internal rate of return and cost of capital are same are called normal firms. In such firms, dividend payout ratio does not affect the share price.

Declining Firms (r < K)

In contrast of growth firm, if a firm does not have profitable investment opportunities, the shareholders will be better off if earnings are paid out to them so as to enable them to earn a higher rate by using the funds elsewhere. In other words, if the firm's rate of return r is less than K, then the relation between dividends and stock prices is positive, i.e. an increase in DPS yields an increase in market price per share.

(Gautam, 1999:14-16)

Myron Gordon in his study "The Investment, Financing and Valuation of Corporation" concludes that the dividend policy of a firm affects its value. Unlike Walter's model, he argues that the dividend policy affects the value of shares even in a situation in which the return on investment is equal to the capitalization rate that is (r = Ke). It is assumed that investors have a preference for present dividends to future capital gains under the condition of uncertainty. This argument insists that an increase in dividend payout ratio leads to an

increase in the stock prices for the reason that investors consider that the dividend yield (d_1/P_0) is less risky than expected capital gain. The basic assumptions of this model are as follows:

-) The firm is an all equity firm.
-) No external financing is available so retained earnings will be used to finance any expansion
-) The internal rate of return (r) and cost of capital (k) are constant.
-) The firm and its stream of earnings are perpetual.
-) The corporate taxes do not exist.
-) The retention ratio (b) once decided upon is constant. Thus, growth rate, $g = b \times r$ is constant.
-) 'Ke' must be greater than 'g' to get meaningful value.

The market value of a share is equal to the present value of the future streams of dividends. A simplified version of Gordon's model can be symbolically expressed as,

$$P \times \frac{EPS(1-b)}{Ke - b \times r}, \text{ where: } P = \text{price of share; } EPS = \text{earning per share; } b \text{ retention ratio;}$$

$1 - b =$ dividend payout ratio; $Ke =$ capitalization rate or cost of capital; $b \times r =$ growth rate.

First Case: Growth Firm

Share price tends to decline in correspondence with an increase in payout ratio or a decrease in retention ratio, i.e. high dividends corresponding to earnings leads to decrease in share price, which are negatively correlated in a growth firm.

Second Case: Normal Firm

Share value remains constant regardless of changes in dividend policies, which means dividends and stock prices are free from each other.

Third Case: Declining Firm

Share price tends to rise in correspondence with a rise in dividend payout ratio. It means dividend and stock prices are positively correlated with each other in the declining firm.

The study pleads that investors are not indifferent between dividends and retention

of earnings. The conclusion of the study is that investors value the present dividend more than the future capital gains. An increase in dividend payout ratio leads to an increase in stock prices for reason of investor's capital gain. (*Gautam, 1999:16-18*)

Another study (*Miller and Modigliani, 1961*) on "Dividend Policy, Growth and the Valuation of Shares" has concluded that dividend payout ratio (dividend policy) does not affect the wealth of shareholders or on the share price of the firm. It argues that the value of the firm is determined by the earning power of the firm's assets or its investment policy, and that the manner in which the earnings stream is split between dividends and retained earnings do not matter. But this study is based on the assumptions as mentioned below:

The perfect capital markets in which all investors are rational and information are available to all at free of cost, instantaneous transaction cost, infinitely divisible securities, and no investor large enough to affect the market price of a security.

An absence of flotation costs on securities by the firm

A world of no taxes.

The firm has a fixed investment policy and is not subjected to change.

Perfect certainty by every investor as to the future investments and profits of the firm.

But, later on, these assumptions are dropped due to wider criticism.

A study (*Michele, Thaler and Wamack, 1995*) on "Price Reactions to Dividend Initiations and Omissions: Overreaction or Drift?" finds out that the short run price impact of dividend omissions is negative and that of initiation is positive, that there are long term drifts in prices following announcements of initiations and especially omissions, and that there is no evidence of important changes in volume or clientele, which mitigates price pressure as a potential explanation for the anomalous drift.

Another study (*Sundaram, 1980*) on "Stationary of Market Risk: Random Coefficient Test for Individual Stocks" is undertaken by analysing 891 individual bonds, containing quarterly rates of return from the fourth quarter of 1968 through the third quarter of 1973 for every corporate bond listed in the NYSE, in order to test whether the market risk of a given stock over a given time series is stationary, or whether the market risk follows random walk and know the effect of portfolio diversification on non-stationary of the market risk of portfolios.

The cross-sectional correlation and regression estimate tools are used for the study. Finally, the study concludes that investors may be willing to pay a premium for positive skewness assets in their portfolios, that the inference that co-skewness in addition to co-variance is required to explain individual asset prices, which is significantly affected by the different market indexes used and other testing and estimation procedures, and that the estimated risk-free rate of return is significantly higher than the actual risk-free rate of return.

A study (*Pettit, 1972*) on “Dividend Announcements, Security Performance and Capital Efficiency” has the objective of providing further support or evidence about the validity of the efficient market hypothesis by estimating the speed and accuracy, with which market price reacts to announcements of changes in the level of dividend payment. He analyzes 625 announcement dates of all dividend changes collected from New York Stock Exchange for the period of January 1964 through January 1968, within which 1000 dividend changes were announced and daily price information was also studied for 135 announcements in 1967 – 1969. For analysis, the market model is used. The study draws the conclusion that the market makes use of announcements of changes in dividend payments in assessing the value of a security and most of the information implicit in the announcement is rejected in the securities’ price as of the end of the announcement period, and the study strongly supports the proposition that the market is reasonably efficient both on a monthly and daily basis.

Another study (*Aharenny and Swaey, 1980*) entitled “Quarterly Dividend and Earning Announcements and Stockholders’ Return: An Empirical Analysis” analyzes 149 industrial firms’ quarterly earnings per share and quarterly cash dividends per share, consisting of 2612 dividends announcements covering the period 1966-1976. The main objective of the study is to ascertain whether quarterly dividend changes provide information beyond that which has already provided quarterly earnings numbers. The study applies market model and naïve model for the analyses. The major findings of the study are: the study strongly supports the hypothesis that changes in quarterly dividends provide useful information beyond that already provided by corresponding quarterly earnings numbers, and it also supports the semi-strong form of efficient capital market hypothesis, that is, on average, the stock market adjusts in an efficient manner to new quarterly dividend information.

Pramila Subedi's study:

Ms. Pramila Subedi carried out the task of analyzing the "Stock price behaviour in Nepal" on 2005. The basic objective of the study was to identify the relationship between stock price and other variables. The main objective of her thesis was as follows:

- ❖ evaluate the effect of earning to stock price in stock market.
- ❖ evaluate the effect of book value to stock price in stock market
- ❖ evaluate the effect of dividend to stock price in the stock market.
- ❖ to access the effect and efficient qualitative factors in the opinion of the employee of A grade listed companies.

After analyzing the above mentioned points she concluded as follows:

-) most of Nepalese investors have not adequate knowledge to analyze the share price behaviour.
-) in NEPSE, DPS, BPS and EPS individually do not have consistent relationship with the market price of shares among the listed companies. The pricing behaviour varies from on company to another. But EPS, BPS and DPS jointly have significant effect in market price of shares. So there may be other factors affecting the share price significantly.
-) there is deficiencies of proper laws and policies regarding the capital market shareholder are feeling unsecured to invest in security market due to poor regulatory mechanism to protect shareholders interest.

A study (*Pradhan, 1992*) on "Stock Market Behaviour in Nepal" is conducted by collecting the data of 17 enterprises from 1956 to 1990. The major objectives of the study are:

-) To assess the stock market behaviour in Nepal.
-) To examine the relationship of market equity, market value to book value, price-earnings and dividend with liquidity profitability, leverage, assets turnover and interest coverage.

The major findings of the study are:

-) The higher the earning on stocks, the larger the ratio of dividend per share to market price per share.
-) Stocks with larger ratio of DPS to MPS have lower leverage ratios.
-) Positive relationship between dividend payout and profitability; Positive relationship between dividend payouts and turnover ratio; positive relationship between dividend payout and liquidity; positive relationship between dividend payout and interest coverage
-) DPS and MPS are positively correlated.

2.3 REVIEW OF DIFFERENT MASTER'S THESES

We can find numerous studies conducted for the partial fulfilment of Master's Degree. Some of them, which are relevant to this study, are reviewed in the following paragraphs.

A study (*Aryal, 1995*) conducted on "The General Behaviour of Stock Market" is conducted with the following objectives:

-) To discuss theoretically the movements of the stock market price changes of an individual common stock market as a whole.
-) To develop the empirical probability distribution of successive price changes of an individual common stock market as a whole.
-) To examine whether the successive price changes of stock market are independent of each other or not.

The main findings of the study are:

-) On the basis of run tests and serial correlation, it seems that the independent assumption of random walk model in stock market prices is rejected by the collected sample data of 21 companies at least as a description of price behaviour in Nepal Stock Exchange. The stock price changes are dependent on each other.
-) The random walk model of security speculative price behaviour has been refuted at least in the Nepalese context, which clarifies that the knowledge of the past becomes

useful in predicting the future movements of stock market prices.

-) The securities, in the past, were incorrectly priced either over or under valued as actual market prices of securities do not reflect their intrinsic value. In other words, in the case of sample securities, they are incorrectly adjusted those past information to the present market prices.
-) There exists frequent persistence than reaction in the general stock market climate because of the investors' irrational behaviour that causes the irrational movement of prices of stock.
-) The general stock market of Nepal for the initial period appeared to be inefficient in incorporating the possible appearance of information into the successive price changes. Therefore, the investing publics are not aware of the information available publicly, appropriately in adjusting with the actual market price.

A study (*Shrestha, 1999*) on "A Study on Stock Prices Behaviour in Nepal" was conducted with the following main objectives:

-) To examine the efficiency of the stock market of Nepal
-) To examine the serial correlation of successive daily price changes of the individual stocks.
-) To determine whether the sequence of price changes are consistent with the changes of the series of random number expected under the independent Bernoulli process.
-) To determine the efficiency of the stock market through the theoretical model of 'Efficient Market Hypothesis' in the stock market.

The major findings of the study on the basis of serial correlation and run test are:

-) The price changes of the past and present can be very helpful to forecast future price changes. Therefore, there exists the sufficient amount of opportunities for the sophisticated investors.
-) When log days increases, the mean value of serial correlation of coefficient is lower, that indicates that the past price changes may have low power to predict the future price changes in the long run.

-) The price changes in the present and future stock market may not be independent of the price changes in the past and present respectively.
-) There exist no profitable trading rules to make greater profit than they would make under the naïve-buy-and-hold strategy in their speculation through the information on past price changes
-) Nepal stock market is not efficient in pricing shares.

Another study (*Paudel, 2001*) on “A Study on Share Price Movements of Joint Venture Commercial Banks in Nepal” is undertaken by using financial and statistical tools (standard deviation, correlation, beta, t-test, etc). The major objectives of the study are:

-) To examine Nepal Stock Exchange Market and to judge whether the market shares of different banking indicators (book value per share and major financial ratio) explain the share price movements.
-) To analyze the scenario why the shares of selected banks emerge as blue-chips to the potential investors and to make a conclusion on the basis of financial ratios analysis.
-) To examine how risky the investments in commercial banks’ shares are.

The main findings of the study are:

-) The market share and the growth rates of different banking indicators used are not captured by the market shares of these banks.
-) The ordinary least square equation of book value per share on market value per share reveals that the independent variable does not fully explain the dependent variable on the basis of the above mentioned two points; Nepal Stock Exchange operates in a weak form of efficient market hypothesis, indicating 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 commercial banks emerge as blue-chip in the Nepalese stock market.

-) The beta coefficient, which measures the riskiness 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 publicly quoted joint venture commercial banks are less risky as compared to other average stocks traded in the stock exchange.

A study (*Gurung, 1999*) on “Share Price Behaviour of Listed Companies in Nepal” applies statistical tools like percentage, correlation coefficient, bar graphs and line charts for analytical purpose. The main objectives of the study are:

-) To provide the conceptual glimpses of capital market.
-) To evaluate the trend of trading turnover.
-) To analyze the trends in paid value and market capitalization.
-) To analyze the behaviour of NEPSE index.
-) To analyze the share price behaviour of listed companies.
-) To identify the market behaviour in Nepal.

The major findings of the study are:

-) The correlation coefficient of 0.97 between the number of traded and listed companies is significant, where as it is negative in trading group and perfectly positive in the case of banking group.
-) The market capitalization value is in erratic trend in every group in each year. The proportion of market capitalization of banking group is the highest amongst six groups.
-) During the study, the number of transactions in banking group is the highest, whereas it is lower in other groups. Hence, the investment on banking group is highly attractive and liquid.
-) The prices of shares are fluctuating during the study period.
-) The capital market in Nepal was bullish in the initial periods but it turned bearish in the successive year. In the initial period, share prices, trading turnovers, market index

as well as earnings have positively moved except market capitalization, but they have negatively moved in the subsequent years. Thus, now the capital market is passing through the bearish trend in Nepal. There is a lack of investor's opportunities and the economy is passing through the recession year by year.

A study (*Gautam, 1999*) on "Dividend Policy in Commercial Banks: A comparative Study on NGLBL, NIBL and NABIL" focuses on the following objectives:

-) To identify the type of dividend policy that is being adopted and to find out whether the policy is appropriate
-) To examine the impact of dividend on share price.
-) To identify the relationship between DPS and other financial indicators.
-) To know if there is any uniformity among DPS, EPS and DPR of the three sampled commercial banks.

The major findings of the study are as follows:

-) There is the largest fluctuation in EPS and DPS
-) The relationship between DPS and EPS is positive; however it is not significant.
-) There may be various other factors beside EPS to affect MPS
-) The growth rate of dividend is inconsistent
-) No sampled commercial banks have followed distinctly defined dividend policy.

Another study (*Bhattarai, 1996*) on "Dividend Decision and Its' Impact on Stock Valuation" has found out that:

-) Though the shareholders have not got enough return, market price of shares are increasing due to the high expectation 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 shares is two or three times higher than the net worth. This clearly indicates that investors do not have adequate knowledge on how to evaluate the value of shares before investing in them..

A study (*Bhatta, 1995*) done on “A Study on Performance of Listed Companies in Nepal” concludes that:

-) Most of the companies’ yield and variation in price shows opposite behaviour.
-) Relatively high priced companies’ market/book value ratio seems less than one which indicates the companies’ deteriorating market performance due to mainly inefficient management.
-) A high significant positive correlation has been addressed between risk and return character of the company. Investors expect higher returns from those stocks which are associated with higher risk.
-) The Nepalese capital market is not efficient one, so the stock prices do not contain all the information relating to market and company itself. Neither investors analyze the overall relevant information of stocks nor do the members of stock exchange try to disseminate the information, so both the market return and risk may represent the reality.

Very few studies have been conducted in the field of determinants of share price. Those studies need updating since share price is the crucial phenomenon in the stock market and there is an increasing trend in the common stock investment. One new aspect of this study may be that it has attempted to analyze the determinants of share price of the selected companies, both commercial banks and financial institutions, by relating year end MPS with various financial indicators. Hence this study may be the first of its kind.

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 a problem with certain objectives. In this chapter the purpose, hypothesis or research question and format are covered so, the following aspects of research will be discussed:

3.2 Research Design

A plan of study or blue print for study that presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal is called a research design or strategy. (*Joshi, 2001:12*)

The main objective of this study is to examine the interrelation of MPS with NWPS, EPS, DPS and other financial indicators. To achieve this objective, both the analytical and descriptive research designs have been adopted.

3.3 Population and Sample

There are total commercial banks are listed in Nepal Stock Exchange Ltd. (NEPSE). [SEBO As of 30 November 2007] taken as population, which are for the purpose of this study, 6 JVCBs are considered as sample.

The names of the sampled companies are as follows:

1. Standard Chartered Bank Nepal Limited (SCB)
2. Nabil Bank Ltd. (NABIL)
3. Everest Bank Ltd. (EBL)
4. Nepal SBI Bank Ltd. (SBI)
5. Himalayan Bank Ltd. (HBL)
6. Nepal Bangladesh Bank Ltd (NBL)

As far as sampling procedure is concerned, the stratified sampling method has been

adopted. According to which, separate tickets for each company, taken as population, were prepared and placed in the separate container, one for commercial banks. Then five tickets from each container were drawn out one by one. The companies marked in these drawn out tickets are used in this study.

3.4 Sources of Data

This study has been conducted on the basis of the following secondary data and primary data. Questionnaire has been developed to collect primary data.

-) The year-ended equity share data sheet showing MPS, NWPS, EPS, DPS, balance sheet, profit and loss account etc.
-) Information that are relevant to the study available in various web-sites (especially web sites of NEPSE, Security Board of Nepal, Nepal Rastra Bank and other related companies)
-) Relevant books, journals, magazines, reports, bulletins, etc.
-) Previous theses and studies

3.5 Data Collection Techniques

The problem of the study lies in the fact that to what extent the MPS of selected companies is correlated with various financial indicators like NWPS, EPS, DPS, etc. In order to achieve concrete answers to these questions, it needs various information.

First of all, the official web site www.nepalstock.com has been browsed in order to download the financial reports of the concerned companies and other relevant information. But some companies' financial statements are not completely available, so, some of such information are taken from NEPSE and some from the concerned companies' share departments.

On the other hand, in order to review different books and previous studies, frequent visits have been made Tribhuvan University Library, Shanker Dev Library and Nepal Commerce Campus Library. Similarly, in order to collect relevant documents, frequent website visits are made to NEPSE, SEBO office, Nepal Rastra Bank etc.

3.6 Data Processing

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Further, they need to be verified and simplified for the purpose of analysis. Moreover, data and information so gathered are to be checked, edited and tabulated in such ways that provide convenience for computation and interpretation.

The relevant data have been inserted in meaningful tables. Only the data that are relevant to the study have been presented in the tabular form in the understandable way and unnecessary data have been excluded. It is attempted to find out the conclusion from the available data, with the help of various financial as well as statistical tools. An advanced computerized statistical program, SPSS, has been widely used to provide efficiency in calculation of statistical information.

3.7 Data Analysis Tools

3.7.1 Dividend Payout Ratio

This ratio depicts the percentage of profit distributed to the shareholders as dividend. In other words, it is the ratio between DPS and EPS.

$$\text{Dividend Payout Ratio (DPR)} \times \frac{\text{Dividend per share (DPS)}}{\text{Earning per share (EPS)}}$$

3.7.2 Return on Equity (ROE)

This ratio tells us the earning power of shareholders' book investment, which is calculated as follows:

$$\text{Return on Equity (ROE)} \times \frac{\text{Net profit available to common stockholders}}{\text{Shareholders' equity}}$$

3.7.3 Karl Pearson's Coefficient of Correlation

It is a statistical tool for measuring the intensity or magnitude of linear relationship between the two variables series. Karl Pearson's measure, known as Personian correlation coefficient between two variables (series) X and Y, usually denoted by 'r(X,Y)' or 'r_{xy}' or simply 'r' can be obtained as

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\sum X^2 \sum Y^2}}$$

,where: n = number of observations in series X and Y; $\sum X$ = sum of observations in series X, $\sum Y$ = sum of observation in series Y; $\sum X^2$ = sum of squared observations in series X; $\sum Y^2$ = sum of squared observations in series Y; $\sum XY$ = sum of the product of observations in series X and Y

The value of correlation coefficient 'r' lies between -1 to 1, i.e. -1 ≤ r ≤ 1.

If r = 1, there is perfect positive relationship. If r = -1, there is perfect negative relationship. If r = 0, there is no correlation at all. (Gupta, 1999:519-521)

The closer the value of 'r' is 1 or -1, the closer the relationship between the variables and the closer 'r' is to 0, the less close relationship. [Shrestha and Manandhar, 1999 (2056):234]

3.7.4 Coefficient of Determination

The coefficient of determination between the two variable series is a measure of linear relationship between them and indicates the amount of one variable which is associated with or accounted for another variable. It gives the percentage variation in the dependent variable that is accounted for by the independent variable. Moreover, it gives the ratio of the explained variance to the total variance and it is given by square of the correlation coefficient, i.e. 'r²'.

Thus,

$$r^2 = \frac{\text{Explained variance}}{\text{Total variance}} \quad (\text{Gupta, 1999:585})$$

3.7.5 Regression Analysis

Regression analysis means the estimation or prediction of the unknown value of one variable from the known value of the other variable. It is a mathematical measure of the average relationship between two or more variables in terms of the original units of the data. In regression analysis, there are two types of variables. The variable whose value is influenced or is to be predicted is called *dependent variable* and the variable which influences the values or is used for prediction, is called independent variable. (Gupata, 1999:589-298)

Line of Regression of X on Y

The line of regression of X on Y is the line which gives the best estimates of X for any given amount of Y. The regression equation is expressed as:

$$Y = Xa + bX$$

We shall get the normal equations for estimating 'a' and 'b' as:

$$\sum Y = \sum Xa + b \sum x \dots\dots\dots (i)$$

$$\sum XY = a \sum X + b \sum x^2 \dots\dots\dots (ii)$$

,where: Y = the value of dependent variable; a = Y-intercept; b = slope of the trend line/coefficient of regression; X = value of independent variable

Coefficient of Regression

The coefficient 'b', which is the slope of line of regression of Y on X is called the coefficient of regression of Y on X. It represents the increment in the value of the independent variable Y for a unit change in the value of the independent variable X. In other words, it represents the rate of change. The convenient way to calculate the value of 'b' is as

$$b = \frac{\sum XY - \frac{\sum X \sum Y}{n}}{\sum X^2 - \frac{(\sum X)^2}{n}}$$

Similarly, the value of Y-intercept can be computed as:

$$a = \frac{(\sum X^2)(\sum Y) - (\sum X)(\sum XY)}{n \sum X^2 - (\sum X)^2}$$

Standard Error of Estimate

A measure of precision of the estimates so obtained from the regression equations is provided by standard error (S.E.E.) of the estimate. Standard error is a word analogous to standard deviation (which is measure of dispersion of observations about the mean of the distribution) and gives us a measure of the scatterness of the observations about the line of regression.

(Gutpa, 1999:633-635)

Thus,

$$S_{yx} = \text{S.E. of Estimate of Y for given X}$$

$$S_{yx} \times \sqrt{\frac{(Y - Y_c)^2}{n}} \times \Omega_y (1 - Zr^2)^{1/2}$$

$$S_{yx} \times \sqrt{\frac{Y^2 - a Y - b XY}{n Z^2}} \quad [\text{Shrestha and Manandhar, 1999 (2056):246}]$$

Analysis of Variance of Regression Line (Test of Regression Coefficient)

The significance of simple regression coefficient can be tested by testing the overall significance of the regression process by ‘analysis of variance’ or F-ratio (ANOVA). Steps that are to be followed for ANOVA have been presented as below.

Step 1:

Null hypothesis H0: b=0, i.e. the regression line of Y on X is not significant.

Alternative hypothesis: H1: b ≠ 0, i.e. the regression line of Y on X is significant.

Step 2:

Computation of the test statistic by:

1. Finding the total variation, SST = $\sum (Y - \bar{Y})^2$
2. Calculating unexplained variation, SSE = $S_{yy} - (n - 2)$
3. Calculating the explained variation due to regression, SSR = SST – SSE
4. One way ANOVA table

Source of variation	Sum of squares	Degree of freedom	Mean sum of squares	F - ratio
Regression	SSR	K-1	$MSC \times \frac{SSR}{K - 1}$	$F \text{ ZRatio} \times \frac{MSC}{MSE}$
Residual	SSE	N-K	$MSE \times \frac{SSE}{N - K}$	
Total	SST	N		

Step 3:

Write down the critical value of F for (K-1, N-K) the degree of freedom at 5% level of significance.

Step 4:

Take decision. If the calculated value of F is less than its critical value, H₀ is accepted, otherwise H₁ is accepted.

3.7.6 T – Test

The branch of statistics that helps in arriving at the criterion for avoiding the risk of taking wrong decisions is known as testing of hypothesis. (*Gupta, 1999:1116-1117*)

The t-distribution, commonly called the student's t-distribution, is used when sample size is equal to or less than 30 (termed small sample), the parent population from which the sample is drawn is normal, the population standard deviation is unknown, and the given sample is drawn by normal sampling method. In order to test the significance of an observed sample correlation coefficient, the following procedure is applied.

Null hypothesis: H₀: $r = 0$, i.e. the variables are uncorrelated in the population the static.

Alternate hypothesis: H₁: $r \neq 0$, i. e. the variables are correlated in the population the static. (*Joshi, 2001:178-185*)

3.7.7 Application of SPSS Program

For statistical analysis (correlation, regression, F-test, t-test, etc) the computerized program SPSS (statistical program for social science), has been used. The results of the analysis from such program have been presented in annexes and the relevant information are extracted and filled up the appropriate tables wherever needed.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with data presentation, analysis and interpretation following the research methodology dealt with in the third chapter. In this course of analysis, data gathered from various sources have been inserted in the tabular form in annex 1. By using financial as well as statistical tools, the data have been analysed. The results of the computation have also been summarized in appropriate tables. The samples of computation of each model have been included in annexes. Basically the following analyses have been carried out:

-) Correlation coefficient analysis
-) Simple regression analysis
-) Multiple regression analysis

The Correlation Coefficient Analysis between MPS and Various Financial Indicators.

Table 4.1

S.N	Name of Banks	Cal. Values	EPS	NWPS	DPS	DPR	ROE
1	Standard Chartered Bank Nepal Ltd. (SCB)	r	0.746	0.993	(0.580)	(0.858)	(0.547)
		r ²	0.557	0.986	0.336	0.736	0.299
		t	2.052	14.497	1.241	2.895	1.133
2	Nabil Bank Ltd (NABIL)	r	0.877	0.902	0.922	0.685	0.545
		r ²	0.769	0.814	0.850	0.469	0.297
		t	3.157	3.610	4.128	1.626	1.122
3	Everest Bank Ltd (EBL)	r	0.943	0.990	(0.183)	(0.527)	0.495
		r ²	0.889	0.980	0.033	0.278	0.245
		t	4.917	11.882	0.323	1.075	0.981
4	Nepal SBI Bank Ltd. (SBI)	r	0.985	0.865	0.738	0.053	0.984
		r ²	0.970	0.748	0.545	0.003	0.968
		t	9.91	2.982	1.892	0.092	9.533

Contd.

5	Himalayan Bank Ltd. (HBL)	r	0.833	0.619	0.428	0.388	0.499
		r ²	0.694	0.383	0.183	0.151	0.249
		t	2.613	1.365	0.820	0.728	0.996
6	Nepal Bangladesh Bank Ltd. (NBL)	r	0.258	-0.277			
		r ²	0.067	0.077			
		t	0.463	0.499			

Table 4.1 is presented in order to analyze the relationship between MPS and various financial indicators, their significance test and coefficient of determination. As we know the correlation coefficient helps to determine whether there exists any relationship among different variables, statistical test to test the significance of correlation coefficient and the coefficient of determination to explain the variation in dependent variable due to the variation in independent variable.

Standard Chartered Bank Nepal Ltd. (SCB)

While considering Standard Chartered Bank Nepal Ltd. (SCB), the correlation coefficients of MPS with EPS, NWPS, DPS, DPR, and ROE are 0.764, 0.993, -0.58, -0.858 and -0.547 respectively. There exists a high degree of positive correlation of MPS with EPS and NWPS, which are 0.764 and 0.993; but a high degree of negative correlation with DPS which is -0.858 and a moderate degree of negative correlation with DPR and ROE; which are -0.58 and -0.547 respectively. This indicates that the relationship of MPS with DPS, DPR and ROE is reverse in nature. Similarly, in order to test the significance of correlation coefficient, t-test is applied. The calculated t-values in respect of EPS, NWPS, DPS, DPR and ROE are 2.052, 14.497, 1.241, 2.895 and 1.133 respectively, where tabulated t-value for 3 (n-2) degree of freedom at 5% level of significance for two-tailed test is 3.182, which indicates that correlation coefficient of MPS with NWPS only is significant because calculated t-value in respect to NWPS i.e.14.497 only is greater than tabulated t-value and correlation coefficient of MPS with rest of the financial indicators is not significant. The coefficient of determination of 0.557, 0.986, 0.336, 0.736 and 0.299 say that 55.70%, 98.60%, 33.60%, 73.60% and 29.90% of the variation in MPS may be due to the variation in EPS, NWPS,

DPS, DPR and ROE respectively. This kind of relationship is statistically significant. This relationship is justifiable theoretically since in long run MPS, EPS, NWPS and ROE move in the same direction.

Nabil Bank Ltd. (NABIL)

The correlation coefficients of MPS with EPS, NWPS, DPS, DPR and ROE are 0.877, 0.902, 0.922, 0.685 and 0.545 respectively. This shows that there is a high degree on positive of MPS with EPS, NWPS and DPS and a moderate degree of positive relationship with DPR and ROE. This implies that when EPS, NWPS, DPS, DPR and DPR increase (decrease), MPS decreases (increases) in the same direction. As indicated by coefficient of determination 76.90%, 81.40%, 85%, 46.90% and 29.70% variation in MPS is due to the variation in EPS, NWPS, DPS, DPR and ROE respectively and rest of the percentage change in MPS is due to the other factors. On the other hand calculated t-values in respect of EPS, NWPS, DPE, DPR and ROE are 3.157, 3.610, 4.128, 1.626 and 1.122 respectively, where tabulated value of t for 3 (n-2) degree of freedom at 5% level of significance for two-tailed test is 3.182, which indicates that correlation coefficient of MPS with NWPS and DPS are statistically significant, as the calculated value in respect of NWPS and DPS greater than tabulated value. T-test further shows that correlation coefficient of MPS with EPS is also closely significant, whereas the same with DPR and ROE is statistically not significant.

Everest Bank Ltd. (EBL)

The correlation coefficient of MPS and EPS, NWPS, DPS, DPR and ROE are 0.943, 0.990, -0.183, -0.527 and 0.495 respectively. There is low negative correlation between MPS and DPS and a moderate degree of negative correlation with DPR which are -0.183 and -0.527, whereas a high degree of positive correlation of MPS with EPS and NWPS that are 0.943 and 0.990 and a moderate degree of positive correlation with ROE. As shown by coefficient of determination, 88.90%, 98%, 3.30%, 27.80% and 24.50% variation in MPS is due to the variation of EPS, NWPS, DPS, DPR and ROE. T-test for significance of correlation coefficient shows the calculated value of t with respect to EPS, NWPS, DPS, DPR and ROE are 4.917, 11.882, 0.321, 1.075 and 0.981, whereas tabulated value of t for 3 (n-2) degree of

freedom at 5% level of significance for two-tailed test is 3.182, which indicates that correlation coefficient of MPS with EPS and NWPS are statistically significant and with the rest of the financial indicator the correlation coefficients are statistically not significant.

Nepal SBI Bank Ltd. (SBI)

The correlation coefficients of MPS with EPS, NWPS, DPS, DPR and ROE are 0.985, 0.865, 0.738, 0.053 and 0.984 respectively. These figures show that MPS is positively correlated with the major financial indicators. Moreover, there is higher positive correlation MPS with EPS, NWPS and ROE, i.e. 0.985, 0.865 and 0.984 respectively whereas the correlations is moderately positive in the case of DPS and low and positive in case of DPR i.e. 0.738 and 0.053 respectively. When observing the coefficients of determination for EPS, NWPS, DPS, DPR and ROE, the figures are 0.970, 0.748, 0.545, 0.003 and 0.968. These results imply that the major portion of variation in MPS is cause by financial indicators except DPR. The coefficient of determination MPS with respect to EPS, NWPS and ROE are 0.970, 0.748 and 0.968, which means that 97%, 74.80% and 96.80% of the variation in MPS is due to the variation in independent variables EPS, NWPS and ROE. Thus, moderate variation in DPS and very least amount of variation in MPS is explained by the DPS and DPR. The negative relationship between MPS and financial indicators may not be reasonable. Similarly, t-test shows the calculated value of t in respect of EPS, NWPS, DPS, DPR and ROE are 9.910 , 2.982, 1.892, 0.092 and 9.533 respectively whereas tabulated value of t for 3 (n-2) degree of freedom at 5% level of significance for two-tailed test is 3.182, which indicates that correlation coefficient of MPS with EPS and ROE only are significance and the same with other financial indicators are not significant. Theoretically, the significant values of relationship are not entirely satisfactory, since in long-run, MPS and EPS, NWPS and ROE are to be moved in same direction.

Himalayan Bank Ltd. (HBL)

While considering Himalayan Bank Ltd. (HBL), the correlation coefficients of MPS with EPS, NWPS, DPS, DPR, and ROE are 0.833, 0.619, 0.428, 0.388 and 0.499 respectively. There exists a high degree of positive correlation of MPS with EPS and moderately positively correlation with NWPS, which are 0.833 and 0.619 respectively; but low positive relationship

with rest of the financial indicators. The coefficient of determination of MPS with respect to EPS, NWPS, DPS, DPR and ROE are 0.694, 0.383, 0.183, 0.151 and 0.249 respectively, which disclose that 69.40%, 38.30%, 18.30%, 15.10% and 24.90% variation in MPS is due to the variation in EPS, NWPS, DPS, DPR and ROE respectively. On the other hand with respect to hand, the calculated values of t-test with respect to EPS, NWPS, DPS, DPR and ROE are 2.613, 1.365, 0.820, 0.728 and 0.996 respectively, whereas tabulated value of t for 3 (n-2) degree of freedom at 5% level of significance for two-tailed test is 3.182, which indicates that correlation coefficient of MPS with most of the financial indicators is statistically not significant, since the calculated values of t-test with respect to all the financial indicators taken in consideration are less than tabulated t-value. This relationship is not theoretically justifiable since in long run MPS, EPS, NWPS and ROE move in the same direction.

Nepal Bangladesh Bank Ltd. (NBL)

While considering Nepal Bangladesh Bank Ltd. (NBL), the correlation coefficients of MPS with EPS and NWPS are 0.275 and -0.370 respectively. The analysis of the rest of the financial indicators is not considerable while analysing their relation with MPS. This implies that the correlation of MPS with EPS is low and positive while that with NWPS is low and negative which indicates the relationship of MPS with NWPS is reversed, that is MPS increases with decreasing NWPS and vice-versa. The coefficient of determination shows that 7.60% and 13.70% variation in the value of MPS is due to the variation in EPS and NWPS respectively. Similarly, the value of t-test with respect to EPS and NWPS are 0.404 and 0.564 whereas tabulated value of t for 3 (n-2) degree of freedom at 5% level of significance for two-tailed test is 3.182, which indicates that correlation coefficient of MPS with EPS as well as NWPS is statistically not significant, as calculated value of t-test is less than tabulated value.

4.2 Regression Analysis

Regression analysis is known as a useful device to determine the strength of relationship between independent and dependent variables. It is considered to be an important statistical device that helps to predict or forecast the value of dependent variable when the value of independent variable is already known. As this study focuses on the determinants of share price (MPS), MPS may be dependent upon various financial indicators. That is why, it is attempted here to analyze and evaluate the influence of various financial indicators on MPS separately.

4.2.1 Regression Equation of MPS on EPS: ($MPS = a + b \text{ EPS}$)

Table 4. 2.1

S. N.	Name of Banks	Regression Coefficient		SE of		r^2	SEE	F-Ratio	Tabulated F Value
		Constant (a)	Slope (b)	a	b				
1.	Standard Chartered Bank Nepal Ltd. (SCB)	-11234.10	91.858	7001.382	44.763	0.584	1333.950	4.211	10.1
2.	Nabil Bank Ltd. (NABIL)	-5269.680	67.177	2376.231	21.378	0.769	967.388	9.967	10.1
3.	Everest Bank Ltd. (EBL)	1053.788	40.875	470.232	8.312	0.890	302.461	24.181	10.1
4.	Nepal SBI Bank Ltd. (SBI)	-90.975	32.697	72.194	3.299	0.970	75.665	98.204	10.1
5.	Himalayan Bank Ltd. (HBL)	-1656.968	51.522	1055.971	19.721	0.695	242.643	6.825	10.1
6.	Nepal Bangladesh Bank Ltd (NBL)	375.236	0.308	91.973	0.666	0.067	147.623	0.214	10.1

Table 2 depicts the major output of simple regression analysis between MPS and EPS of the sampled joint venture banks. The regression coefficients (b) of SCB, NABIL, EBL, SBI, HBL and NBL are 91.858, 67.177, 40.875, 32.697, 51.522 and 0.308 respectively and are almost positive.. They indicate that one rupee increase/decrease in EPS increases/decreases the MPS by rupees 91.86, 67.18, 40.87, 32.70, 51.52 and 0.31 in respect of SCB, NABIL, EBL, SBI, HBL and NBL respectively, however, this estimate may vary by rupees 44.76, 21.28, 8.31, 3.30, 19.72 and 0.67 respectively, as shown by standard error of slope (b). This prediction of MPS is strong only for NABIL, EBL and SBI only, moderate for SCB and HBL and is very

weak for NBL because the respective coefficients of determination (r^2) are 0.769, 0.970, 0.584, 0.685 and 0.076. This implies that the variations in MPS is due to influence of the EPS are 58.40, 76.90, 89, 97, 69.50 and 7.60 percent in respect of SCB, NABIL, EBL, SBI, HBL and NBL respectively, and the remaining variation is explained by other variables or factors. But, the prediction may vary by rupees 1333.95, 967.388, 302.461, 75.665, 242.643 and 179.596 respectively, as revealed by the figures of standard error of estimates (SEE). The value of F-Ratio is greater than tabulated R-value for 1(K-1), 3 (n-K) degree of freedom at 5% level of significance, i.e. 10.1 in case of EBL and SBI only; which indicates that the relation is statistically significant and the independent variable EPS do good job in explaining the variation in MPS for EBL and SBI only. But, in case the rest of the sampled joint-venture banks, which indicates that the results so obtained with the help of this model are not significant and the variation in MPS of these companies dose not depend upon the variation in EPS.

4.2.2 The Regression Equation of MPS on NWPS: ($MPS = a + b NWPS$)

Table 4.2.2

S. N.	Name of Banks	Regression Coefficient		SE of		r^2	SEE	F-Ratio	Tabulated F Value
		Constant (a)	Slope (b)	a	b				
1.	Standard Chartered Bank Nepal Ltd. (SCB)	-13167.50	36.84	1126.146	2.541	.0986	254.35	210.175	10.1
2.	Nabil Bank Ltd. (NABIL)	-6745.32	25.975	2482.763	7.195	0.813	870.005	13.03	10.1
3.	Everest Bank Ltd. (EBL)	-1777.483	14.237	254.162	1.198	0.979	131.322	141.187	10.1
4.	Nepal SBI Bank Ltd. (SBI)	-2567.713	20.182	1047.175	6.768	0.748	220.732	8.892	10.1
5.	Himalayan Bank Ltd. (HBL)	-3299.863	17.866	3218.887	13.093	0.383	344.940	1.862	10.1
6.	Nepal Bangladesh Bank Ltd. (NBL)	338.351	-0.150	67.254	0.300	0.077	146.832	0.249	10.1

In table 4.2.2 the results of simple regression equation of dependent variable MPS and independent variable NWPS have been presented. So far as 'b' is concerned, it is positive in the case of SCB, NABIL, EBL, SBI, HBL and NBL, i.e. 36.84, 25.975, 14.237, 20.182,

17.866 and -0.150 respectively. This implies that one rupee rise in NWPS causes rupees 36.84, 25.97, 14.24, 20.18 and 17.87 rises in MPS for respective companies, while in case of NBL, one rupee rise in NWPS reduces the MPS by rupees 0.150. But, as per SE of b, these predictions may vary by rupees, 2.54, 7.19, 1.20, 6.77, 13.09 and 146.832 respectively, however; the overall estimate of MPS may vary by rupees 245.34, 870.01, 131.32, 220.73 and 344.94, as indicated by standard error of estimate (SEE) . Similarly, coefficient of determination for SCB, NABIL, EBL, SBI and HBL are 0.986, 0.813, 0.979, 0.748 and 0.383, that means, 98.60, 81.30, 97.90, 74.80 38.30 percent variation in the value of MPS is due to the variation in NWPS and rest of the variation is due to the effect of other factors. However, the prediction made by this model is statistically significant in case of SCB, NABIL and EBL only, since, The value of F-Ratio is greater than tabulated R-value for 1(K-1), 3 (n-K) degree of freedom at 5% level of significance, i.e. 10.1. Conversely, value of slope, (b) is negative in case of NBL, which refers, one rupees increase in NWPS reduces the value of MPS by rupees 0.249. For NBL, the coefficient of determination(r^2) is 0.137, which means, 13.70 percent variation in MPS is defined by the NWPS, and rest of the changes in MPS is due to the other factors. Whereas, this result is not statistically, since calculated value of F-Ratio is less than tabulated F-value. Thus, the regression model of MPS on NWPS is applicable for NABIL and EBL only and , it can be said that MPS of rest of the joint venture banks is not depended on NWPS

1. The Regression Equation of MPS on DPS: ($MPS = a + b DPS$)

Table 4.2.3

S. N.	Name of Banks	Regression Coefficient		SE of		r^2	SEE	F-Ratio	Tabulated F value
		Constant (a)	Slope (b)	a	b				
1.	Standard Chartered Bank Nepal Ltd. (SCB)	9213.500	-55.75	4999.635	44.934	0.339	1681.29	1.539	10.1
2.	Nabil Bank Ltd. (NABIL)	-4092.891	83.782	1541.801	20.297	0.850	778.213	17.038	10.1
3.	Everest Bank Ltd. (EBL)	1377.738	-14.462	781.499	44.749	0.034	894.970	0.104	10.1
4.	Nepal SBI Bank Ltd. (SBI)	274.792	52.014	193.382	27.486	0.544	296.716	3.581	10.1
5.	Himalayan Bank Ltd. (HBL)	932.078	13.396	259.386	16.334	0.183	396.879	0.673	10.1

Table 4.2.3 shows the results of simple regression analysis of MPS on DPS for the sampled joint venture banks. The regression slopes (b) positive in the case of NABIL, SBI and HBL, which are 83.78, 52.01 and 13.40 respectively. This depicts the fact that one rupee increase in DPS leads to an increase in MPS of the respective companies by rupees 83.78, 52.01 and 13.40 respectively. But, this prediction may vary by rupees 20.30, 27.49 and 16.33 respectively, as indicated by SE of b, whereas the overall estimate of MPS will be varied by rupees 778.21, 296.72 and 396.89 for respective banks. The data of r^2 denote that the changes in MPS, due to the changes in DPS in the case of these joint venture banks 85, 54.40 and 18.30 percent respectively. However, this prediction is statistically significant for NABIL only, since calculated value of F-Ratio is greater than tabulated F-value. Hence, regression model of MPS on DPS for SBI and HBL does not explain firmly the dependency of variation in MPS due to the variation in DPS.

In the case of SCB and EBL, the values of 'b' are negative, i.e. -55.75 and -14.46 respectively, which means that a rise in DPS leads to a fall in MPS. This kind of result is contradictory because in the long-run, MPS and DPS move in the same direction. Similarly, the coefficient of determination depicts that 33.90 and 34 percent variation in MPS is due the fluctuation in DPS. On the other hand, the calculated values of F-Ratio for these banks less than tabulated F-values, which is 10.1 for 1,3 degree of freedom at 5% level of significance. Thus, the result shown by this model in respect of SCB and EBL are not statistically significant and hence, it can be concluded that DPS does not explain the variation in MPS for SCB and EBL.

4.2.4 The Regression Equation of MPS on DPR: ($MPS = a + b DPR$)

Table 4.2.4

S. N.	Name of Banks	Regression Coefficient		SE of		r^2	SEE	F-Ratio	Tabulated F value
		Constant (a)	Slope (b)	a	b				
1.	Standard Chartered Bank Nepal Ltd. (SCB)	11067.57	-112.21	2800.12	38.77	0.736	1062.05	8.376	10.1
2.	Nabil Bank Ltd. (NABIL)	-13071.90	227	9351.29	139.50	0.469	1465.85	2.648	10.1
3.	Everest Bank Ltd. (EBL)	1673.118	-15.68	588.85	14.59	0.278	773.528	1.156	10.1

4.	Nepal SBI Bank Ltd. (SBI)	522.927	0.70	278.20	7.64	0.003	738.86	0.008	10.1
5.	Himalayan Bank Ltd. (HBL)	940..54	7.198	271.237	9.881	0.150	404.775	0.531	10.1

Table 4.2.4 is for summarizing the results of simple regression analysis of MPS on DPR. As far as the values of 'b' are concerned, they are positive for NABIL, SBI and HBL which are 226.999, 0.700 and 7.198 respectively. This implies that one percent change in DPR leads to rupees 226.999, 0.700 and 7.198 change in MPS of the respective joint venture banks. Similarly, the coefficient of determination of NABIL, SBI and HBL are 0.469, 0.003 and 0.150 respectively, that is, only 46.90%, 0.30% and 15% variation in MPS of respective banks is due to the fluctuation in DPR and rest of change in MPS is due to the other factors. This estimate is low for NABIL and very weak for SBI and HBL. On the other hand, calculated value of F-Ratio for respective banks are 2.648, 0.008 and 0.531 and are less than tabulated F-value, i.e. 10.1. This states that the regression model of MPS on DPR described by above, is statistically not significant. In other words, this regression equation cannot explain the interrelationship of MPS with DPR accurately. Thus, it clarifies that DPR doesn't have any role in determination of value of MPS for NABIL, SBI and HBL.

But, in the case of SCB and EBL the values of 'b' are negative of -112.212, and -15.685 respectively. This explains that one percent increase in DPR may lead to 112.212, and 15.685 rupees decrease in MPS of these companies respectively. Since the values of r^2 is moderate i.e. 0.736 in case SCB and low, i.e. 0.278 in case EBL, the predictions yields by this model normal for SCB and comparatively weak in respect of EBL. And, this regression model is not statistically significant due to the lower calculated value of F-Ratio than tabulated F-value. In conclusion, DPR may not be the important factor in bringing changes in share price.

4.2.5 The Regression Equation of MPS on ROE: ($MPS = a + b ROE$)

Table 4.2.5

S. N.	Name of Banks	Regression Coefficient		SE of		r^2	SEE	F-Ratio	Tabulated F value
		Constant (a)	Slope (b)	a	b				
1.	Standard Chartered Bank Nepal Ltd. (SCB)	19778.64	-471.38	14769.70	416.38	0.299	1731.15	1.282	10.1
2.	Nabil Bank Ltd. (NABIL)	-22087.00	753.77	21522.98	670.15	0.297	1686.789	1.265	10.1
3.	Everest Bank Ltd. (EBL)	-1776.146	113.612	2999.03	115.20	0.245	791.163	0.973	10.1
4.	Nepal SBI Bank Ltd. (SBI)	-249.311	65.055	90.346	6.847	0.968	78.821	90.261	10.1
5.	Himalayan Bank Ltd. (HBL)	-458.424	71.142	1560.075	71.379	0.249	380.603	0.993	10.1

Table 4.2.5 presents the output of simple regression analysis of MPS on ROE. As far as the values of 'b' are concerned, they are positive in the case of NABIL, EBL, SBI and HBL, i.e. 753.774, 113.612, 65.055 and 71.142 respectively. This provokes that one percent increase in ROE leads to rupees 753.774, 113.612, 65.055 and 71.142 in crease in MPS of respective banks. But, this forecast may be varied by rupees 670.146, 115.203, 6.847 and 71.379 respectively, which is depicted be standard error of b. The r^2 value are 0.297, 0.245, 0.968 and 0.249 for respective banks, which indicates that the 29.70 percent, 24.50 percent, 96.80 percent and 24.90 percent change in MPS of the respective companies is influenced by the variation in ROE. However, the calculated value of F-Ratio is significant enough in case of SBI only and that of NABIL, EBL and HBL are not significant. In other words, MPS of SBI only may be the outcome of the function of ROE.

Contrarily, the values of 'b' for SCB is negative, i.e. -471.380. This depicts the opposite relationship between MPS and ROE. Moreover, MPS of these companies decreases if their ROE increases, which is ridiculous. Similarly, this regression model is not statistically significant as the value of calculated F-Ratio is lower than the tabulated F-value and the relationship of dependent variable of MPS and independent variable of ROE is not justifiable.

4.2.6 The Multiple Regression Equation of MPS on EPS and NWPS: ($MPS = a + b_1EPS + b_2NWPS$)

Table 4.2.6

Company	Description	a	b ₁	b ₂	r ²	SEE	F – Ratio	Tab F-Value
Standard Chartered Bank Nepal Ltd. (SCB)	Values	-12341.40	-18.734	41.59	0.994	198.615	161.638	19.0
	S.E.	1046.85	11.669	3.602				
Nabil Bank Ltd. (NABIL)	Values	-7777.480	-60.563	48.518	0.825	1029.337	4.727	19.0
	S.E.	4008.965	160.079	60.190				
Everest Bank Ltd. (EBL)	Values	-1882.778	-8.740	17.041	0.982	150.146	54.150	19.0
	S.E.	349.338	16.093	5.343				
Nepal SBI Bank Ltd. (SBI)	Values	-293.042	30.801	1.550	0.972	90.861	34.091	19.0
	S.E.	717.823	7.772	5.465				
Himalayan Bank Ltd. (HBL)	Values	-4795.644	46.098	13.958	0.921	151.423	11.615	19.0
	S.E.	1470.230	12.515	5.845				
Nepal Bangladesh Bank Ltd. (NBL)	Values	502.645	2.120	-0.967	0.952	40.831	20.07	19.0
	S.E.	32.914	0.350	0.159				

Table 4.2.6 shows the regression analysis of MPS on EPS and NWPS of the sampled companies. The major results of the analysis have been interpreted briefly for each company separately.

SCB:

The regression coefficient of EPS (b₁) is -18.734, which implies that an increase of one rupee in EPS reduces MPS by 18.734 rupees on average if other factors hold constant, whereas the regression coefficient of NWPS (b₂) is 41.59 which implies that an increase of one rupee in NWPS also increases MPS by 41.59 rupees on average if other variables remain constant. But the estimates of b₁ and b₂ may vary by 11.669 and 3.602 respectively as indicated by standard error of respective regression coefficient. The regression constant is -12341.40,

which shows that when values of EPS and NWPS are zero, then MPS will be negative 12341.40, but this could not be practical, because MPS should not go down the level of zero. The regression model explains the variation of MPS by 99.40 percent due to the variation in EPS and NWPS, as indicated by the coefficient of determination. The figures of standard error of estimate (SEE) is 198.615, which states that the prediction of this model yields a clear variation of about 198.615 rupees. The multiple regression model of MPS on EPS and NWPS is statistically significant because the calculated significance value of F-Ratio, i.e. 161.615 is greater than tabulated F-value, for 2,2 degree of freedom at 5% significance level.

NABIL:

The slop of regression line of EPS is -60.079, which shows that when other variables are constant, a one rupee increase in EPS leads to a decrease in MPS by 60.079 rupees. In the mean time, the slop of regression line of NWPS is 48.518, which indicates that an increase of one rupee in NWPS also increases MPS by 0.867 rupees if other variables remain constant. Similarly, the regression constant indicates that if EPS and NWPS are zero, the minimum value of MPS will be -7777.48, which is practically not possible. The prediction of a, b1 and b2 may deviate by 4008.965, 160.079 and 60.190 respectively. Similarly, the coefficient of determination which shows 82.50 percent changes in MPS is influenced by EPS and NWPS, and the remaining portion may be due to other factors. The estimated value of MPS obtained by this model may give the deviation of 1029.337. The F-statistics for multiple regressions of MPS on EPS and NWPS is 4.727 which is statistically not significant at 5 percent level.

EBL:

The values of a, b1 and b2 are -1882.778, -8.740 and 17.041 respectively, which shows that MPS may fall to negative 1882.778 if EPS and NWPS are zero, which is practically feasible and that an one rupee increase in EPS leads to 8.740 rupees decrease in MPS, when other variables remain constant and an increase of one rupee in NWPS leads to a increase in MPS by 17.041 rupees, on average, if other variables remain constant. But the values of a, b1 and b2 may vary by 349.338, 16.093 and 5.343 respectively. This model yields weak results since the influence of EPS and NWPS on MPS is 98.20 percent and the result of the model may deviate by 150.146 rupees, as indicated by standard error of estimate (SEE). This model is

statistically significant as the significance value of F-Ratio is greater than tabulated F-value..

SBI:

The values of b_1 and b_2 are 30.801 and 1.550 which indicate that when EPS is increased by one rupee on average, the value of share in the market will increase by 30.801 rupees and an one-rupee increase in NWPS leads to an increasing in MPS by 1.550 rupees, if other variables are remained the same. But these values may vary by 7.772 and 5.465 rupees respectively. MPS in the market will go down to negative 293.042 even if the values of EPS and NWPS are zero, which is not practical. But, this may vary by 717.823. The coefficient of determination shows 97.20 percent of the variation in MPS is due to variation in EPS and NWPS. But this result may vary by 90.761 rupees. The result yield by regression model of MPS on EPS and NWPS is statistically significant due to the higher calculated value of F-Ratio than tabulated F-value.

HBL:

The regression coefficients b_1 and b_2 are 46.098 and 13.958, which shows that MPS has positive relationship with EPS and NWPS. The MPS may be -4795.644, when EPS and NWPS are zero, which is not reasonable since MPS should be at least zero in practice. The predicted values of a , b_1 and b_2 can be deviated by 1470.230, 12.515 and 5.845 respectively. The model yields very strong result as 92.10 percent changes in MPS is explained by EPS and NWPS. This result may fluctuate by 151.423 rupees, depicted by SSE. However, the result yield by the regression model is statistically insignificant as revealed by F-statistic.

NBL:

The values of a , b_1 and b_2 are 502.645, 2.120 and -0.967 respectively, which shows that MPS may be 502.645, if EPS and NWPS are zero and that one rupee increase in EPS leads to 2.120 rupees increase in MPS, when other variables remain constant and an increase of one rupee in NWPS leads to decrease in MPS by 0.967 rupees, on average, if other variables remain constant. But the values of a , b_1 and b_2 may vary by 32.914, 0.350 and 0.159 respectively. This model yields strong results since the influence of EPS and NWPS on MPS is 95.20 percent and the result of the model may deviate by 40.831 rupees, as indicated by

standard error of estimate (SEE). This model is statistically significant as the significance value of F-Ratio, i.e. 20, which is greater than tabulated F-value, i.e.19.0.

4.2.7 The Multiple Regression Equation of MPS on DPR and ROE: ($MPS = a + b_1DPR + b_2ROE$)

Table 4.2.7

Company	Description	a	b ₁	b ₂	r ²	SEE	F - Ratio	Tab F Value
Standard Chartered Bank Nepal Ltd. (SCB)	Values	15024.903	-102.103	-132.029	0.754	1256.81	3.062	19.0
	S.E.	11004.51	53.14	350.105				
Nabil Bank Ltd.NBL (NABIL)	Values	-35261.30	218.626	708.764	0.730	1278.922	2.710	19.0
	S.E.	17894.821	121.862	508.723				
Everest Bank Ltd. (EBL)	Values	-73.131	-10.614	61.144	0.320	919.497	0.471	19.0
	S.E.	5027.025	22.577	174.304				
Nepal SBI Bank Ltd. (SBI)	Values	-237.671	-0.586	65.342	0.970	93.580	32.081	19.0
	S.E.	112.077	1.636	8.169				
Himalayan Bank Ltd. (HBL)	Values	-1093.652	-4.963	105.050	0.264	461.484	0.358	19.0
	S.E.	3677.509	24.639	189.287				

The results of regression analysis of MPS on DPR and ROE have been exhibited in Table 4.2.7. The brief interpretation of the findings has been also presented.

SCB:

The regression coefficient of DPR is -102.103 and that of ROE is -132.029. This implies that, if other variables hold constant, one percent increase in DPR will reduce MPS by -102.103 rupees and one percent increase in ROE leads to an decrease in MPS by 132.029 rupees. This clearly shows the negative relationship of MPS with both the DPR as well as ROE. The regression constant 'a' implies that when ROE and DPR are zero, the MPS will be 15024.903. However, the value of a, b₁ and b₂ may be varied by 11004.51, 53.14 and 350.105

respectively. As suggested by the coefficient of determination, about 75.40 percent of the variation of MPS is headed by the variation in DPR and ROE, which may be fluctuate by rupees 1256.810, as stated by the standard error of estimate. Moreover, if F-statistic is noted, this regression model can not be good enough to explain MPS, since the relationship is not statistically significant, as the calculated value of F-Ratio is less than tabulated F-value.

NABIL:

The slops of regression line b_1 and b_2 are 218.626 and 708.764 which indicates that there exists an absolutely positive relationship of MPS with DPR and ROE if other variables are constant. The constant term 'a' is -35261.30 which shows that the minimum level of MPS will be negative 35261.30 rupees when DPR and ROE are zero, which is practically impossible because MPS never goes below zero. But the value of a, b_1 and b_2 can vary by 17894.821, 121.862 and 508.723 respectively. While considering the coefficient of determination, 73 percent of the changes in MPS is led the by changes in DPR and ROE. But the prediction made by this model may deviate by 1278.922, which is stated by standard error of estimate. As shown by F-statistic, there exists a very weak relationship of MPS with DPR and ROE since the model is not statistically significant due lower value of F-Ratio than significant tabulated F-value.

EBL:

The regression coefficient b_1 is -10.614, that is, there negative relationship between MPS and DPR, whereas b_2 i.e. 61.144, shows the positive relationship. The regression constant, a is 73.131 which implies, if DPR and ROE remain zero, MPS will be negative 73.131. The predictions of a, b_1 and b_2 may deviate by 5027.025, 22.577 and 174.304 respectively. The model explains the variation in MPS by 32 percent due to the variation in DPR and ROE. But there exists a standard error of 919.497. So, far as F-statistic is concerned, the model is unfit to explain the dependency of MPS on DPR and ROE as it is statistically insignificant.

SBI:

There is negative relationship of MPS with DPR, since the values of b_1 is -0.586, whereas that with ROE is positive as indicated by b_2 i.e. 65.342 If the values of DPR and ROE are zero, the minimum market price will be negative 237.671 rupees which is explained from the

analysis of the regression constant, but it is practically impossible. The values of regression coefficients, a , b_1 and b_2 as explained above may vary by 112.077, 1.636 and 8.169 respectively. The model of MPS on DPR and ROE explains 97 percent of variation headed by DPR and ROE. However, the forecasted value made by this model can be deviated by 93.850. This regression equation can strongly interpret the dependency of MPS on DPR and ROE since this model is statistically significant, as calculated value of F-Ratio is greater than significant tabulated F-value.

HBL:

The regression coefficients b_1 and b_2 are -4.963 and 105.050, which imply the opposite relation of MPS with DPR and positive with ROE. But this may vary by 24.639 and 189.287 respectively. The minimum market price of share will be -1093.652 rupees in case of zero values of DPR and ROE, but this is practically controversial, since MPS never be negative in reality. Coefficient of determination shows 26.40 percent variation on the value of MPS is dependent up on DPR and ROE, which may deviate by 461.484 rupees. However, this prediction is statistically insignificant at 5 percent level, since value of F-Ratio is less than significant F-value. Therefore, this model is not capable to define the value of MPS on the basis of value DPR and ROE.

Note: In case of NBL, the value of DPS, and DPR are zero during the study period, so the analysis based on these financial indicators is practically not feasible.

4.3. Analysis of Primary Data

Determination of Share price of Joint Venture Commercial Banks in stock exchange are important because information about; how the share price is fixed in the share market would help the student, researcher, teacher and security market related personal. There is therefore, need for collecting primary data and analysis of their role on determinants of share price of Joint Venture Commercial Banks.

This part of analysis is based on primary data analysis mainly deals with qualitative aspects of determinants of share price. The qualitative aspects are examined by distributing

questionnaires to different institution's executives and the senior staff of the institutes as well as the students, teachers and security brokers. Research has attempted to take the opinion from the persons who are well informed and involved with capital market and directly or indirectly associated with Nepal stock exchange. Questionnaire was designed in six point Likert scale, ordinal ranking scale and open-ended subjective questions.

4.3.1 Causes for abnormal price fluctuation of Joint Venture Commercial Banks.

In order to find out the causes and their significance for abnormal price fluctuation of Joint Venture Commercial Banks, few statements were designed and supplied to different persons to collect the primary data. The opinion of the respondents has been processed through one sample t-test. First of all descriptive statistics are presented so that the actual level of the variable could be analyzed. After assessing the mean and standard deviation of the variables used to assess the causes for abnormal price fluctuation for each variables t-statistics is computed to find the significance of the mean differences. Following table4.3.1 presents the descriptive statistics of the potential variables for abnormal price fluctuation of Joint Venture Commercial Banks.

Causes of abnormal price fluctuation

Table 4.3.1

Causes	Mean	S.D	S.E. of Mean
1. Investors are not rational in assessing risk & return	2.75	0.96	0.92
2. Stock price is not actual because organizations manipulate their financial statement	2.20	1.30	1.70
3. Lack of such institution that facilitate flowing information and pricing of stock	3.67	2.08	4.33
4. Price of share is not affected by the market interest rate	2.75	2.06	4.25
5. Demand and supply do not affect the price of the stock.	3.67	2.52	6.33
6. Few number of competitors in share market	2.75	1.50	2.25
7. Lack of developed share market	5.50	0.71	0.50

As stated on above table mean opinion of respondents in regard to the causes of abnormal price fluctuation of Joint Venture Commercial Banks. Highest mean score 5.50 and relative low standard deviation, 0.71 with low standard error 0.50 proves that lack of developed share market is one of the main causes in price fluctuation of JVCBs. Similarly Lack of institutions that facilitate flowing information and pricing of stock has been identified as the second major reason of abnormal price fluctuation .

4.3.2 Responsible agencies for Nepalese share market inefficiency.

Brokerage firm, listed companies, government (Stock Exchange Board), and market maker as four major agencies in today's Nepalese market. They are presented in the questionnaire. The questionnaire is distributed to the respondents to present their agreement or disagreement in six point Likert type scale. Respondents were asked to find out how far each agency is responsible for the market inefficiency. Questionnaire based on 6 point, Likert type of scale anchored by 1= totally disagree to 6= totally agree, have been designed and distributed to the

respondents. The opinions collected from the respondents have been processed and descriptive analyses have been conducted to find whether or not those bodies are responsible for market inefficiency. The Table 4.3.2.1 deals with descriptive analysis of the collected information.

Responsible agencies for Nepalese share market inefficiency

Table 4.3.2

Causes	MEAN	S.D	S.E. of Mean
1. Brokerage Firm	3.67	3.06	9.33
2. Listed companies	2.75	1.71	2.92
3. Government (Stock Exchange Board)	5.50	0.71	0.50
4. Market maker	4.40	1.82	3.30

Analysis of above statistical table shows that the Government (Stock Exchange) is more responsible agencies for Nepalese share market inefficiency because the mean score of Government (Stock Exchange Board) is 5.50, Standard deviation is 0.71 and standard error of mean is lowest amongst the studied variables. Similarly, mean score of market maker 4.40, which is second highest amongst the rest of agencies, which is positively supported by standard deviation, whereas, standard error of mean has shows slightly adverse relation. The mean score of listed companies is minimum amongst the studied agencies and same is supported by standard deviation as well as standard error of mean.

4.3.3 Analysis of the potential factors affecting market inefficiency

Potential factors that affect for the inefficiency of share price of JVCBs is analyzed in this paragraph. Researcher has attempted to find most of the important environmental factors and close factors that are responsible in effectiveness of capital market.

Potential factors affecting market inefficiency

Table 4.3.3

Rank	Variables	Mean
1	Adverse economic situation	3.33
2	Instable political situation	3.33
3	Non-convertibility of capital account for foreign investment	2
4	Tax policy of the government imposing tax in dividend & capital gain	2.5
5	Stock Exchange Board is not active and effective	2.5
6	Not having effective law & policy	2.5
7	Small size of capital market	1.67

Above table 4.3.3.1 shows the most relevant affecting factor for the inefficiency of share price of JVCBs are the Adverse economic situation and Instable political situation of the country. It means the poor economic condition and present environment is the one of the external influencing force in Nepalese capital market. Similarly Tax policy and tax related rules, regulatory body and not having effective law and policy are second important factors.

4.3.4 Corrective measure for improving share price of JVCBs inefficiency.

Researcher has designed the questionnaire to identify the potential corrective measures for removing inefficiency that exist in JCVBs share price. Ordinal scale is used following ranking method so that respondents could rank the important aspects for the corrective measures for improving share price of JCVBs. Five aspects were selected to ask the respondents for their ranking. The respondents assign 1 to the most preferred, 2 to the next and so on in accordance to their significance. The following table shows the mean rank of those corrective measures.

Measure for improving share price of JVCBs inefficiency

Table 4.3.4

Rank	Variables	Mean
1	By flowing of actual information to the investor about financial marker/ companies.	5
2	By establishing stock pricing bodies/institutions	3.33
3	Stock price should be based on market interest rate.	2
4	Stock price should be determined by demand & supply of stocks	3.33
5	By enhancing strong monitoring & controlling mechanism for determination of stock price	3.33

Analysis of above table by flowing of actual information to the investor about financial market/companies is one of the most important strategies for the corrective measure of improving share price of JVCBs. Respondents also specified by establishing stock pricing bodies/institution, by stock price should be determined by demand & supply of stock and by enhancing strong monitoring & controlling mechanism for determination of stock price. Rest one variable is not found very important in respondent's view point. Hence on the basis of above analysis it can be concluded that stock price of JVCBs can be removed by improving the factors and giving priority to them according to their significance

4.4 The Major Findings

On the basis of the above analyses and presentation, the major findings of the study are presented as follows:

Based on Secondary Data:

Findings based on the Correlation Coefficient Analysis

1. SCB's MPS is negatively correlated with DPS, DPR and ROE and it has positive relationship with EPS and NWPS, in which such relation is significant with NWPS only.
2. NABIL's MPS has positive relationship with all the financial indicators taken in consideration. However, this relation is significant 5% significant level, with NWPS and DPS only.
3. EBL's MPS is positively correlated with EPS, NWPS and ROE, that are statistically significant at 5 percent levels of significance, in case of EPS and NWPS. Further, MPS is negatively correlated with DPS and DPR, but not statistically significant.
4. SBI's MPS is positively correlated with major financial variables. However, MPS's relation is statistically significant with EPS only, at 5 percent level of significance.
5. HBL's MPS also have positive correlated with major financial indicators, but not statistically significant at all.
6. As far as NBL is concerned, its MPS is positively correlated with EPS and reverse relationship with NWPS, whereas both are statistically not significant.

Findings based on the Simple Regression Analysis

1. While considering the simple regression model, only in case of EBL and SBI, the variation in dependent variable MPS is significantly depended upon the independent variables EPS.
2. So far as regression analysis with NWPS is concerned, MPS of SCB, NABIL and EBL are significantly dependent with NWPS and dependency of rest the joint venture banks is not significant at 5% level of significant.
3. The simple regression model of MPS on DPS is only logical in the case of NABIL with adequate statistically significance indicator. So far as other five companies are concerned, there is no logical explanation of dependency of MPS on DPS.
4. No sampled joint venture banks' MPS is explained by the variation in DPR as depicted by the regression F-statistics.
5. The regression model of MPS on ROE is best explained only in case of SBI, amongst the above sampled companies. This indicates that MPS cannot be influenced by changes in ROE for the other joint venture banks.

Findings based on the Multiple Regression Analysis of MPS on EPS and NWPS

1. EPS and NWPS can have major influence in explaining MPS of the most of the joint venture banks taken in consideration, but the relationship is statistically significant only in case of SCB, EBL, SBI and NBL.
2. In the case of SCB, NABIL, EBL, SBI, HBL and NBL, EPS and NWPS may have major influence on MPS, i.e.99.40%, 82.50%, 98.20%, 97.20%, 92.10% and 95.20% respectively, but this relationship is statistically significant at 5 percent level, SCB, EBL,SBI and NBB only, as indicated by the F-statistics.

Findings based on the Analysis of MPS on DPR and ROE

1. The MPS of SCB and SBI is highly influenced by the variation in DPR and ROE as shown by the coefficient of determination, and such relationship is significant only in

case of SBI and that of SCB is statistically significant at 5 percent level.

2. About 73% percent of the variation in MPS found to be explained by DPR and ROE in case of NABIL. However, this dependency is statistically not significant.
3. In the case of the rest of the joint venture banks, very low percentage of variation in MPS is influenced by DPR and ROE, which is insignificant.

Findings Based on Primary Data:

1. Lack of institution that facilitate the flow of information and pricing of stock is found to be the significant factor for abnormal price fluctuation in Nepalese Stock Market.
2. The Government (Stock Exchange Board) has been indicated as responsible agency for making inefficient stock market due to the lack of proper monitoring and control.
3. Adverse economic situation and instable political climate are also become the potential factors for affecting the market price of shares.
4. Market inefficiency can be removed by establishing stock pricing bodies/institutions and flowing actual information to the investor about financial position of the listed companies.
5. Hence, determination of MRP is not in the full control of EPS, NWPS,ROE and other financial indicators of the respective companies.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The general public investors do invest their scarce saving funds in the common stocks of the public companies through primary or secondary market, with the expectation of good returns in the future. We know that determination of MPS of any public companies should be in accordance with their financial performance. In other words, the key financial indicators like EPS, NWPS, DPS, ROE, DPR, etc have major influence in the fixation of MPS.

Similarly, the investors should be aware of the level of risk associated with the common stocks investment. The awareness of investment risk helps them to take necessary steps to minimize or avoid the risky investment.

Therefore, this study is focused on the analysis of the relation of MPS with different financial indicators of sampled joint venture commercial banks.

This study is totally based on the secondary data and information obtained from various financial reports, annual reports, regular publications, news, journals, official web-sites, etc. For the analysis, 6 joint venture commercial banks have been taken as sample.

The study has attempted to identify the interrelationship of MPS with major financial indicators like EPS, NWPS, DPS, ROE and DPR, and the analysis is based on five years' observation. Some of the statistical computations are self-calculated and some are done with the help of SPSS program.

Besides, the correlation coefficient analysis, including the simple as well as multiple regression analysis, have also been carried out.

Simple regression analysis:

$$) \text{ MPS} = a + b \text{ EPS}$$

$$) \text{ MPS} = a + b \text{ NWPS}$$

$$) \text{ MPS} = a + b \text{ DPS}$$

$$) \text{ MPS} = a + b \text{ ROE}$$

$$) \text{ MPS} = a + b \text{ DPR}$$

Multiple regression analysis:

$$) \text{ MPS} = a + b_1 \text{ EPS} + b_2 \text{ NWPS}$$

$$) \text{ MPS} = a + b_1 \text{ DPR} + b_2 \text{ ROE}$$

In order to check the reliability of statistical analysis, mostly T-test and F-test have been applied wherever appropriate.

As far as the results of correlation analysis are concerned, MPS of SCB is positively correlated with EPS and NWPS, however this relationship is statistically significant only with NWPS, as indicated by t-test statistics at 5% level of significance. And MPS of the SCB is negatively correlated with rest of the financial indicator with statistically not significant values. Similarly, MPS of NABIL has positive relationship with most of the financial indicators, whereas this result is found to be reliable only with NWPS and DPS at 5% level of significance. The correlation coefficient of MPS with rest of the financial indicator is negative as well as statistically not significant. Likewise, EBL's MPS is positively correlated with EPS, NWPS and ROE, which are significant in respect of EPS and NWPS only. The relation with DPS and DPR is negative with statistically insignificant value. MPS of SBI and HBL has positive relation with all of the financial indicators. However, these results are statistically insignificant at 5% level. On the other hand, MPS of the NBL is positively correlated with EPS but reverse relation with NWPS, having insignificant values with both of them. Hence, majority of joint venture banks have positive relationship with EPS, NWPS and ROE and reverse relationship with DPR and DPR, amongst the sampled joint venture commercial banks.

While considering the simple regression model, only in case of EBL and SBI, the variation in dependent variable MPS is significantly dependent upon the independent variables EPS. So far as regression analysis with NWPS is concerned, MPS of SCB, NABIL and EBL are significantly dependent with NWPS and dependency of rest the joint venture banks is not significant at 5% level of significance. The simple regression model of MPS on DPS is only logical in the case of NABIL with adequate statistically significance indicator. So far as other five companies are concerned, there is no logical explanation of dependency of MPS on DPS.

No sampled joint venture banks' MPS is explained by the variation in DPR as depicted by the regression F-statistics. The regression model of MPS on ROE is best explained only in case of SBI, amongst the above sampled companies. This indicates that MPS cannot be influenced by changes in ROE for the other joint venture banks.

Multiple regression analysis of MPS on EPS and NWPS shows major influence EPS and NWPS in explaining MPS of the most of the joint venture banks taken in consideration, but the relationship is statistically significant only in case of SCB, EBL and SBI. In the case of NABIL, HBL and NBL, EPS and NWPS may have major influence on MPS, i.e. 82.50%, 92.10% and 95.20% respectively, but this relationship is statistically significant at 5 percent level. Accordingly, analysis of MPS on DPR and ROE depicts that MPS of SCB and SBI is highly influenced by the variation in DPR and ROE as shown by the coefficient of determination, and such relationship is significant only in case of SBI and that of SCB is statistically significant at 5 percent level. About 73% percent of the variation in MPS found to be explained by DPR and ROE in case of NABIL. However, this dependency is statistically not significant. In the case of the rest of the joint venture banks, very low percentage of variation in MPS is influenced by DPR and ROE, which is insignificant.

5.2 Conclusion

There is not a single financial indicator that has dominant role in determination of MPS. The same financial indicator that has significant role in the fixation of MPS for one sampled joint venture commercial bank is not significant for another company. The degree of interrelationship of MPS with different financial indicators varies from one bank to another. There is no uniformity in the relationship of MPS with various financial indicators of the sampled banks.

If considered on the basis of the data for the past 5 years, MPS of six joint venture commercial banks financial institutions has higher positive correlation with major financial indicators such as EPS and NWPS, with statistically significant values and only a moderate or lower relationship with DPS, DPR and ROE, showing statistically not significant relation.

Hence, we can conclude that the Nepalese stock market is not efficient enough to determine

MPS in accordance with the respective financial performance during the study period. The market price of share in Nepal is not indicative of a company's financial performance in Stock market. The share market is imperfect and is not efficient and is liable for manipulation. Basically, value of share price is to be determined by the future prospects of the company on the basis of past financial indicators. Unfortunately, on the basis of analysis of information during the study period, our stock market is unable to run on the basis of reliable proper financial information about the company.

5.3 Recommendations

The recommendations based on this study are as follows:

1. The Nepalese stock market (NEPSE, SEBO) should take some effective initiatives to control random fluctuation of MPS and establish the system of regular monitoring and evaluation of stock market.
2. Concrete steps should be undertaken to compel the public companies for the disclosure of factual information about themselves and their financial performance in proper time.
3. There is the necessity of separate body to analyze strengths and weaknesses of public companies which should disclose right information and suggestions to public investors about investment risk. This will help the investors to take proper investment decision at the right time to avoid or minimize the level of risk.
4. The public investors should not invest their savings in shares of public companies haphazardly. They should at least analyze or get suggestions from expert about the financial position and the level of investment risk prior to taking an investment decision.
5. People in Nepal have shown the tendency to run after those companies which have allocated higher bonus, probably at the cost of future growth and opportunities. People invest their hard money on the basis of rumours and hearsay that are spread in financial market rather than intuitive rational financial thinking. Therefore, there is need of credit rating agencies and investment banks to analyse the companies.
6. The public companies should provide updated reports to the investors periodically,

informing actual financial position of the company.

7. The ultimate objective of any firm is to maximize the wealth position of its' investors, which largely depends upon the proper trends of EPS, NWPS, DPS, and ROE. This reality should be well imparted to the investors in order to make them rational in the field of investment for which the public companies themselves should frequently launch their well-designed awareness campaigns.
8. The proper mechanism for providing actual financial position of the listed companies must be ensured by establishing the institution that facilitate the flow of information and pricing of shares.
9. The Government should play the appropriate role for making share pricing and securities transaction transparent and credible in order to protect the interest of the potential investors.
10. By improving the Economic condition and political situation of the state, establishing stock pricing bodies, and enhancing strong monitoring and controlling mechanism, stock pricing can be brought within the control of financial indicators of the listed companies.

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1. Correlation Analysis And T-test:**A. MPS & EPS:****1. Standard Chartered Bank Nepal Ltd. (SCB)**

Year	MPS	EPS	MPS EPS	MPS ²	EPS ²	r	t value (Cal)	t value (Tab)
2002-03	1640	149.30	244,852.00	2689600	22,290.49	0.76	2.0521	3.182
2003-04	1745	143.55	250,494.75	3045025	20,606.60			
2004-05	2345	143.14	335,663.30	5499025	20,489.06			
2005-06	3775	175.84	663,796.00	14250625	30,919.71			
2006-07	5900	167.37	987,483.00	34810000	28,012.72			
N=5	15405	779.20	2,482,289.05	60294275	122,318.57			

Where,

$$r = \frac{\sum n \text{ MPS EPS} - \text{MPS} \text{ EPS}}{\sqrt{\sum n \text{ MPS}^2 - (\text{MPS})^2} \sqrt{\sum n \text{ EPS}^2 - (\text{EPS})^2}}$$

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

2. Nabil Bank Ltd (NABIL):

Year	MPS	EPS	MPS EPS	MPS ²	EPS ²	r	t value (Cal)	t value (Tab)
2002-03	740	84.66	62,648.40	547600	7,167.32	0.88	3.1571	3.182
2003-04	1000	92.61	92,610.00	1000000	8,576.61			
2004-05	1505	105.49	158,762.45	2265025	11,128.14			
2005-06	2240	129.21	289,430.40	5017600	16,695.22			
2006-07	5050	137.08	692,254.00	25502500	18,790.93			
N=5	10535	549.05	1,295,705.25	34332725	62,358.22			

3. Everest Bank Ltd. (EBL):

Year	MPS	EPS	MPS EPS	MPS ²	EPS ²	r	t value (Cal)	t value (Tab)
2002-03	445	29.90	13,305.50	198025	894.01	0.94	4.9174	3.182
2003-04	680	45.60	31,008.00	462400	2,079.36			
2004-05	870	54.20	47,154.00	756900	2,937.64			
2005-06	1379	62.80	86,601.20	1901641	3,943.84			
2006-07	2430	78.40	190,512.00	5904900	6,146.56			
N=5	5804	270.90	368,580.70	9223866	16,001.41			

4. Nepal SBI Bank Ltd. (SBI):

Year	MPS	EPS	MPS EPS	MPS ²	EPS ²	r	t value (Cal)	t value (Tab)
2002-03	255	11.47	2,924.85	65025	131.56	0.99	9.9098	3.182
2003-04	307	14.26	4,377.82	94249	203.35			
2004-05	355	13.29	4,717.95	126025	176.62			
2005-06	612	18.27	11,181.24	374544	333.79			
2006-07	1176	39.35	46,275.60	1382976	1,548.42			
N=5	2705	96.64	69,477.46	2042819	2,393.75			

5. Himalayan Bank Ltd. (HBL):

Year	MPS	EPS	MPS EPS	MPS ²	EPS ²	r	t value (Cal)	t value (Tab)
2002-03	836	49.45	41,340.20	698896	2,445.30	0.83	2.6125	3.182
2003-04	840	49.05	41,202.00	705600	2,405.90			
2004-05	920	47.91	44,077.20	846400	2,295.37			
2005-06	1100	59.24	65,164.00	1210000	3,509.38			
2006-07	1740	60.66	105,548.40	3027600	3,679.64			
N=5	5436	266.31	297,331.80	6488496	14,335.59			

B. MPS & NWPS:

1. Standard Chartered Bank Nepal Ltd. (SCB)

Year	MPS	NWPS	MPS NWPS	MPS ²	NWPS ²	r	t value (Cal)	t value (Tab)
2002-03	1640	403.15	661,166.00	2689600	162,529.92	0.99	14.4974	3.182
2003-04	1745	399.25	696,691.25	3045025	159,400.56			
2004-05	2345	422.38	990,481.10	5499025	178,404.86			
2005-06	3775	468.22	1,767,530.50	14250625	219,229.97			
2006-07	5900	512.11	3,021,449.00	34810000	262,256.65			
N=5	15405	2,205.11	7,137,317.85	60294275	981,821.97			

2. Nabil Bank Ltd (NABIL):

Year	MPS	NWPS	MPS NWPS	MPS ²	EPS ²	r	t value (Cal)	t value (Tab)
2002-03	740	267.00	197,580.00	547600	71,289.00	0.90	3.6101	3.182
2003-04	1000	301.00	301,000.00	1000000	90,601.00			
2004-05	1505	337.00	507,185.00	2265025	113,569.00			
2005-06	2240	381.00	853,440.00	5017600	145,161.00			
2006-07	5050	418.00	2,110,900.00	25502500	174,724.00			
N=5	10535	1,704.00	3,970,105.00	34332725	595,344.00			

3. Everest Bank Ltd. (EBL):

Year	MPS	NWPS	MPS NWPS	MPS ²	EPS ²	r	t value (Cal)	t value (Tab)
2002-03	445	150.09	66,790.05	198025	22,527.01	0.99	11.8822	3.182
2003-04	680	171.53	116,640.40	462400	29,422.54			
2004-05	870	199.88	173,895.60	756900	39,952.01			
2005-06	1379	217.67	300,166.93	1901641	47,380.23			
2006-07	2430	292.75	711,382.50	5904900	85,702.56			
N=5	5804	1,031.92	1,368,875.48	9223866	224,984.35			

4. Nepal SBI Bank Ltd (SBI):

Year	MPS	NWPS	MPS NWPS	MPS ²	EPS ²	r	t value (Cal)	t value (Tab)
2002-03	255	134.03	34,177.65	65025	17,964.04	0.86	2.9820	3.182
2003-04	307	146.80	45,067.60	94249	21,550.24			
2004-05	355	159.54	56,636.70	126025	25,453.01			
2005-06	612	151.78	92,889.36	374544	23,037.17			
2006-07	1176	178.03	209,363.28	1382976	31,694.68			
N=5	2705	770.18	438,134.59	2042819	119,699.14			

5. Himalayan Bank Ltd. (HBL):

Year	MPS	NWPS	MPS NWPS	MPS ²	EPS ²	r	t value (Cal)	t value (Tab)
2002-03	836	247.81	207,169.16	698896	61,409.80	0.62	1.3645	3.182
2003-04	840	246.93	207,421.20	705600	60,974.42			
2004-05	920	239.59	220,422.80	846400	57,403.37			
2005-06	1100	228.72	251,592.00	1210000	52,312.84			
2006-07	1740	264.74	460,647.60	3027600	70,087.27			
N=5	5436	1,227.79	1,347,252.76	6488496	302,187.70			

C. MPS & DPS:**1. Standard Chartered Bank Nepal Ltd. (SCB)**

Year	MPS	DPS	MPS DPS	MPS ²	DPS ²	r	t value (Cal)	t value (Tab)
2002-03	1640	110.00	180,400.00	2689600	12,100.00	(0.58)	(1.2407)	3.182
2003-04	1745	110.00	191,950.00	3045025	12,100.00			
2004-05	2345	120.00	281,400.00	5499025	14,400.00			
2005-06	3775	130.00	490,750.00	14250625	16,900.00			
2006-07	5900	80.00	472,000.00	34810000	6,400.00			
N=5	15405	550.00	1,616,500.00	60294275	61,900.00			

2. Nabil Bank Ltd. (NABIL)

Year	MPS	DPS	MPS DPS	MPS ²	DPS ²	r	t value (Cal)	t value (Tab)
2002-03	740	50.00	37,000.00	547600	2,500.00	0.92	4.1277	3.182
2003-04	1000	65.00	65,000.00	1000000	4,225.00			
2004-05	1505	70.00	105,350.00	2265025	4,900.00			
2005-06	2240	85.00	190,400.00	5017600	7,225.00			
2006-07	5050	100.00	505,000.00	25502500	10,000.00			
N=5	10535	370.00	902,750.00	34332725	28,850.00			

3. Everest Bank Ltd. (EBL):

Year	MPS	DPS	MPS DPS	MPS ²	DPS ²	r	t value (Cal)	t value (Tab)
2002-03	445	20.00	8,900.00	198025	400.00	(0.18)	(0.3232)	3.182
2003-04	680	20.00	13,600.00	462400	400.00			
2004-05	870	-	-	756900	-			
2005-06	1379	25.00	34,475.00	1901641	625.00			
2006-07	2430	10.00	24,300.00	5904900	100.00			
N=5	5804	75.00	81,275.00	9223866	1,525.00			

4. Nepal SBI Bank Ltd (SBI):

Year	MPS	DPS	MPS DPS	MPS ²	DPS ²	r	t value (Cal)	t value (Tab)
2002-03	255	8.00	2,040.00	65025	64.00	0.74	1.8924	3.182
2003-04	307	-	-	94249	-			
2004-05	355	-	-	126025	-			
2005-06	612	5.00	3,060.00	374544	25.00			
2006-07	1176	12.59	14,805.84	1382976	158.51			
N=5	2705	25.59	19,905.84	2042819	247.51			

5. Himalayan Bank Ltd (HBL):

Year	MPS	DPS	MPS DPS	MPS ²	DPS ²	r	t value (Cal)	t value (Tab)
2002-03	836	1.32	1,103.52	698896	1.74	0.43	0.8201	3.182
2003-04	840	-	-	705600	-			
2004-05	920	11.58	10,653.60	846400	134.10			
2005-06	1100	30.00	33,000.00	1210000	900.00			
2006-07	1740	15.00	26,100.00	3027600	225.00			
N=5	5436	57.90	70,857.12	6488496	1,260.84			

D. MPS & DPR:**1. Standard Chartered Bank Nepal Ltd. (SCB)**

Year	MPS	DPR	MPS DPR	MPS ²	DPR ⁻²	r	t value (Cal)	t value (Tab)
2002-03	1640	73.68	120,835.20	2689600	5,428.74	(0.86)	(2.8952)	3.182
2003-04	1745	76.63	133,719.35	3045025	5,872.16			
2004-05	2345	83.83	196,581.35	5499025	7,027.47			
2005-06	3775	73.93	279,085.75	14250625	5,465.64			
2006-07	5900	47.80	282,020.00	34810000	2,284.84			
N=5	15405	355.87	1,012,241.65	60294275	26,078.85			

2. Nabil Bank Ltd. (NABIL)

Year	MPS	DPR	MPS DPR	MPS ²	DPR ⁻²	r	t value (Cal)	t value (Tab)
2002-03	740	59.06	43,704.40	547600	3,488.08	0.68	1.6261	3.182
2003-04	1000	70.19	70,190.00	1000000	4,926.64			
2004-05	1505	66.36	99,871.80	2265025	4,403.65			
2005-06	2240	65.78	147,347.20	5017600	4,327.01			
2006-07	5050	72.95	368,397.50	25502500	5,321.70			
N=5	10535	334.34	729,510.90	34332725	22,467.08			

3. Everest Bank Ltd. (EBL):

Year	MPS	DPR	MPS DPR	MPS ²	DPR ⁻²	r	t value (Cal)	t value (Tab)
2002-03	445	66.89	29,766.05	198025	4,474.27	(0.53)	(1.0749)	3.182
2003-04	680	43.86	29,824.80	462400	1,923.70			
2004-05	870	-	-	756900	-			
2005-06	1379	39.81	54,897.99	1901641	1,584.84			
2006-07	2430	12.76	31,006.80	5904900	162.82			
N=5	5804	163.32	145,495.64	9223866	8,145.63			

4. Nepal SBI Bank Ltd. (SBI):

Year	MPS	DPR	MPS DPR	MPS ²	DPR ⁻²	r	t value (Cal)	t value (Tab)
2002-03	255	69.75	17,786.25	65025	4,865.06	0.05	0.0915	3.182
2003-04	307	-	-	94249	-			
2004-05	355	-	-	126025	-			
2005-06	612	27.37	16,750.44	374544	749.12			
2006-07	1176	31.99	37,620.24	1382976	1,023.36			
N=5	2705	129.11	72,156.93	2042819	6,637.54			

5. Himalayan Bank Ltd. (HBL)

Year	MPS	DPR	MPS DPR	MPS ²	DPR ⁻²	r	t value (Cal)	t value (Tab)
2002-03	836	2.67	2,232.12	698896	7.13	0.39	0.7286	3.182
2003-04	840	-	-	705600	-			
2004-05	920	24.17	22,236.40	846400	584.19			
2005-06	1100	50.64	55,704.00	1210000	2,564.41			
2006-07	1740	24.73	43,030.20	3027600	611.57			
N=9	5436	102.21	123,202.72	6488496	3,767.30			

E. MPS & ROE:

1. Standard Chartered Bank Nepal Ltd. (SCB)

Year	MPS	ROE	MPS ROE	MPS ²	ROE ²	r	t value (Cal)	t value (Tab)
2002-03	1640	37.03	60,729.20	2689600	1,371.22	(0.55)	(1.1333)	3.182
2003-04	1745	35.95	62,732.75	3045025	1,292.40			
2004-05	2345	33.89	79,472.05	5499025	1,148.53			
2005-06	3775	37.55	141,751.25	14250625	1,410.00			
2006-07	5900	32.68	192,812.00	34810000	1,067.98			
N=5	15405	177.10	537,497.25	60294275	6,290.14			

2. Nabil Bank Ltd. (NABIL):

Year	MPS	ROE	MPS ROE	MPS ²	ROE ²	r	t value (Cal)	t value (Tab)
2002-03	740	31.71	23,465.40	547600	1,005.52	0.54	1.1219	3.182
2003-04	1000	30.77	30,770.00	1000000	946.79			
2004-05	1505	31.30	47,106.50	2265025	979.69			
2005-06	2240	33.91	75,958.40	5017600	1,149.89			
2006-07	5050	32.79	165,589.50	25502500	1,075.18			
N=5	10535	160.48	342,889.80	34332725	5,157.08			

3. Everest Bank Ltd. (EBL):

Year	MPS	ROE	MPS ROE	MPS ²	ROE ²	r	t value (Cal)	t value (Tab)
2002-03	445	19.92	8,864.40	198025	396.81	0.49	0.9806	3.182
2003-04	680	26.58	18,074.40	462400	706.50			
2004-05	870	27.12	23,594.40	756900	735.49			
2005-06	1379	28.85	39,784.15	1901641	832.32			
2006-07	2430	26.76	65,026.80	5904900	716.10			
N=5	5804	129.23	155,344.15	9223866	3,387.22			

4. Nepal SBI Bank Ltd. (SBI):

Year	MPS	ROE	MPS ROE	MPS ²	ROE ²	r	t value (Cal)	t value (Tab)
2002-03	255	8.55	2,180.25	65025	73.10	0.98	9.5332	3.182
2003-04	307	9.71	2,980.97	94249	94.28			
2004-05	355	8.33	2,957.15	126025	69.39			
2005-06	612	12.04	7,368.48	374544	144.96			
2006-07	1176	22.10	25,989.60	1382976	488.41			
N=5	2705	60.73	41,476.45	2042819	870.15			

5. Himalayan Bank Ltd. (HBL):

Year	MPS	ROE	MPS ROE	MPS ²	ROE ²	r	t value (Cal)	t value (Tab)
2002-03	836	19.95	16,678.20	698896	398.00	0.50	0.9963	3.182
2003-04	840	19.86	16,682.40	705600	394.42			
2004-05	920	20.00	18,400.00	846400	400.00			
2005-06	1100	25.90	28,490.00	1210000	670.81			
2006-07	1740	22.91	39,863.40	3027600	524.87			
N=5	5436	108.62	120,114.00	6488496	2,388.10			

Simple Regression Analysis (Under SPSS)

Standard Chartered Bank Nepal Ltd

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	EPS(a)	.	Enter

a All requested variables entered.

b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.764(a)	.584	.445	1333.95278

a Predictors: (Constant), EPS

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7493179.979	1	7493179.979	4.211	.133(a)
	Residual	5338290.021	3	1779430.007		
	Total	12831470.000	4			

a Predictors: (Constant), EPS

b Dependent Variable: MPS

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11234.092	7001.382		-1.605	.207
	EPS	91.858	44.763	.764	2.052	.133

a Dependent Variable: MPS

Annex-3

Multiple Regression Analysis (Under SPSS)

Standard Chartered Bank Nepal Ltd Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	NWPS, EPS(a)	.	Enter

a All requested variables entered.

b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.997(a)	.994	.988	198.61518

a Predictors: (Constant), NWPS, EPS

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12752574.021	2	6376287.011	161.638	.006(a)
	Residual	78895.979	2	39447.989		
	Total	12831470.000	4			

a Predictors: (Constant), NWPS, EPS

b Dependent Variable: MPS

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-12341.429	1046.853		-11.789	.007
	EPS	-18.734	11.669	-.156	-1.605	.250
	NWPS	41.590	3.602	1.121	11.547	.007

a Dependent Variable: MPS

Major Financial Indicators of JVCBs taken for Study

Annex-4

Name of JVCBs	Description	2002/03	2003/04	2004/05	2005/06	2006/07
		59/60	060/061	061/062	062/063	063/064
Standard Chartered Bank Ltd	Market Price per share	1,640.00	1,745.00	2,345.00	3,775.00	5,900.00
	Earning Per Share	149.30	143.55	143.14	175.84	167.37
	Networth Per Share	403.15	399.25	422.38	468.22	512.11
	Dividend Per Share	110.00	110.00	120.00	130.00	80.00
	Dividend Payout Ratio	73.68	76.63	83.83	73.93	47.80
	Return on Equity %	37.03	35.95	33.89	37.55	32.68
Nabil Bank Ltd	Market Price per share	740.00	1,000.00	1,505.00	2,240.00	5,050.00
	Earning Per Share	84.66	92.61	105.49	129.21	137.08
	Networth Per Share	267.00	301.00	337.00	381.00	418.00
	Dividend Per Share	50.00	65.00	70.00	85.00	100.00
	Dividend Payout Ratio	59.06	70.19	66.36	65.78	72.95
	Return on Equity %	31.71	30.77	31.30	33.91	32.79
Everest Bank Ltd	Market Price per share	445.00	680.00	870.00	1,379.00	2,430.00
	Earning Per Share	29.90	45.60	54.20	62.80	78.40
	Networth Per Share	150.09	171.53	199.88	217.67	292.75
	Dividend Per Share	20.00	20.00	-	25.00	10.00
	Dividend Payout Ratio	66.89	43.86	-	39.81	12.76
	Return on Equity %	19.92	26.58	27.12	28.85	26.78
SBI Bank	Market Price per share	255.00	307.00	355.00	612.00	1,176.00
	Earning Per Share	11.47	14.26	13.29	18.27	39.35
	Networth Per Share	134.03	146.80	159.54	151.78	178.03
	Dividend Per Share	8.00	-	-	5.00	12.59
	Dividend Payout Ratio	69.75	-	-	27.37	31.99
	Return on Equity %	8.55	9.71	8.33	12.04	22.10
Himalayan Bank Ltd	Market Price per share	836.00	840.00	920.00	1,100.00	1,740.00
	Earning Per Share	49.45	49.05	47.91	59.24	60.66
	Networth Per Share	247.81	246.93	239.59	228.72	264.74
	Dividend Per Share	1.32	-	11.58	30.00	15.00
	Dividend Payout Ratio	2.67	-	24.17	50.64	24.73
	Return on Equity %	19.95	19.86	20.00	25.90	22.91
Nepal Bangladesh Bank Ltd.	Market Price per share	360.00	354.00	265.00	199.00	550.00
	Earning Per Share	19.87	0.74	(104.12)	(249.65)	(147.47)
	Networth Per Share	190.02	182.42	(32.59)	(217.07)	(364.54)
	Dividend Per Share	-	-	-	-	-
	Dividend Payout Ratio	-	-	-	-	-
	Return on Equity %	10.46	0.41	319.48	115.01	40.45

Source: www.nepalstock.com

Pro Forma of Structured Questionnaire

Date:

General Information

Name (Optional): _____

Position (Optional): _____

Experience (Optional): Years. _____

Institution: _____

Age (Optional) Years _____ **Address:** _____

1 Give your views in regard to the following causes that have significance contribution for abnormal price fluctuation in Nepalese Share Market.

Causes	Totally disagree	Disagree	Slightly agree	Agreed	Totally agreed
1. Investors are not rational in assessing risk & return					
2. Stock price is not actual because organizations manipulate their financial statement					
3. Lack of such institution that facilitate flowing information and pricing of stock					
4. Price of share is not affected by the market interest rate					
5. Demand and supply do not affect the price of the stock.					
6. Few number of competitors in share market					
7. Lack of developed share market					

2. How far do you believe that the following agencies are responsible for making inefficiency in Nepalese stock market ?

Causes	Totally disagree	Disagree	Slightly disagree	Slightly agree	Agreed	Totally agreed
1. Brokerage Firm						
2. Government (Stock Exchange Board)						
Market maker						
Listed companies						

3. The following are some potential affecting factors Nepalese stock market inefficiency. Rank them in accordance to their significance. Please allocate 1 to the most preferred, 2 to the next and so on.

Statement	Rank
) Adverse economic situation	
) Instable political situation	

J	Non-convertibility of capital account for foreign investment	
J	Tax policy of the government imposing tax in dividend & capital gain	
J	Stock Exchange Board is not active and effective	
J	Not having effective law & policy	
J	Small size of capital market	

4. Market inefficiency to some extent can be removed by improving following factors. Please give the priority by allocating 1 to the most preferred, 2 to the next and so on.

Statement	Preference
J By flowing of actual information to the investor about financial marker/ companies.	
J By establishing stock pricing bodies/institutions	
J Stock price should be based on market interest rate.	
J Stock price should be determined by demand & supply of stocks	
J By enhancing strong monitoring & controlling mechanism for determination of stock price	