

Determinants of Market Price of Share of Microfinance Institutions in Nepal

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Abstract

This study examines the determinants of market price of share of Microfinance Institutions (MFIs) in Nepal, focusing on the impact of firm-specific and macroeconomic variables such as Price Earnings Ratio (P/E), Book Value Per Share (BVPS), Return on Assets (ROA), Gross Domestic Product (GDP), and Inflation (INF). Using secondary data from annual reports of 10 listed MFIs over a period of 10 years (2014/15 to 2023/24), the research employs descriptive statistics, correlation analysis, and multiple regression techniques to analyze the relationship between these factors and Market Price of Share (MPS). The results indicate that all selected variables have a statistically significant positive effect on the market price of shares. Specifically, the regression model explains approximately 48.5 percent of the variation in share prices, highlighting the importance of profitability, asset efficiency, and macroeconomic stability in influencing investor behavior and market valuation.

Keywords: Microfinance Institutions (MFIs), Price Earnings Ratio (P/E), Book Value Per Share (BVPS), Return on Assets (ROA), Gross Domestic Product (GDP), Inflation, Market Price of Share (MPS)

Introduction

Microfinance institutions (MFIs) play a crucial role in promoting financial inclusion and economic development, particularly in developing economies like Nepal. These institutions provide essential financial services such as small loans, savings accounts, insurance, and other credit facilities to low-income individuals who lack access to traditional banking systems. According to Lwesya and Mwakalobo (2023), states and NGOs in developing countries recognize microfinance institutions (MFIs) as vital to their efforts to lower poverty, particularly when it comes to reducing social and financial exclusion. In Nepal, MFIs have become an integral part of the financial landscape, contributing significantly to poverty alleviation, women's empowerment, and rural development. The increasing importance of MFIs has also led to their growing presence in the capital market, with several MFIs being listed on the Nepal Stock Exchange (NEPSE). As these institutions expand their operations and attract investor interest, understanding the factors that influence their share prices becomes increasingly important for investors, policymakers, and financial analysts.

The growth of the economy depends upon stock markets as these markets ensure that financial resources are allocated toward the most viable avenues for investment (Kurihara, 2006). Stock prices serve as key indicators of a company's financial health and market perception (Shrestha, 2003). The market price of shares is determined by various internal and external factors, including financial performance, operational efficiency, macroeconomic conditions, regulatory policies, and investor sentiment. For MFIs, which operate under unique financial models and regulatory frameworks, identifying these determinants is particularly complex. Unlike conventional banks, MFIs primarily serve financially excluded populations, often operating in remote and rural areas with higher transaction costs and credit risks. Additionally, they are subject to specific regulatory guidelines aimed at ensuring financial sustainability while maintaining social objectives. These distinctive characteristics necessitate a tailored approach to analyzing the determinants of their share prices.

Stock price is one of the major indicators of financial health of microfinance institutions in Nepal. The stock price of the MFIs is affected by so many factors. There might be internal as well as external factors. The main objective of this study is to identify the determinants of market price of share of MFIs in Nepal. Despite the extensive research on stock price determinants in financial institutions, there remains a gap in understanding how these factors apply specifically to microfinance companies. Previous research demonstrates that empirical evidence on the factors influencing the market price of share varies significantly amongst studies. Although the empirical evidence revealed above exists in the context of other countries, some few studies exist in the context of Nepal. Thus, this study aims to explore the key factors influencing the market price of shares of MFIs in Nepal. Specially, the impact of price earnings ratio, book value per share, return on assets, gross domestic product and inflation on market price of share of microfinance institutions in Nepal. By examining both firm-specific and macro-economic variables, this study seeks to provide empirical insights into how different indicators affect stock price in the context of Nepalese MFIs. Understanding these determinants can help investors make informed decisions, guide policymakers in formulating effective regulations, and assist MFIs in improving their financial strategies to enhance shareholder value. Given the increasing participation of MFIs in the stock market, this research contributes to the broader discourse on financial market dynamics in emerging economies.

Literature Review

One of the most widely recognized financial theories that explain how stock prices move is the Efficient Market Hypothesis (EMH). The EMH, which was developed by Eugene Fama in the 1960s, asserts that stock prices are "systematically efficient," which means they take into account all available information at any given time (Fama, 1970). According to this hypothesis, any new information that could impact a stock's value is instantly and completely integrated into its price, making it impossible to consistently surpass the general market with stock selection or trading timing.

The EMH has significant effects on stock price. The price of shares ought to remain at their "fair" value, representing the company's genuine intrinsic value based on the facts at hand, if markets are actually efficient. This would suggest that any variation from this fair value results from chance, and variations of this kind are unpredictable. Consequently, investing in entire market indices would be the optimal course of action in an efficient market since stock selection and price timing would not produce higher profits (Malkiel, 2003).

Numerous studies have examined the determinants of stock prices across various financial institutions, including commercial banks, insurance companies, and non-banking financial institutions. However, research specifically focused on microfinance institutions (MFIs) remains relatively limited, particularly in emerging economies like Nepal. Several scholars have investigated the factors influencing stock prices in the broader financial sector, identifying key variables such as profitability, liquidity, leverage, earnings per share (EPS), dividend yield, and macroeconomic indicators. These determinants are expected to have varying degrees of influence on microfinance companies due to their distinct operational models and regulatory environments.

One of the primary determinants of stock prices is financial performance, particularly profitability. Studies conducted on commercial banks have consistently found that higher profitability, measured through return on assets (ROA) or return on equity (ROE), positively influences stock prices (Athanasoglou et al., 2008; Alhassan & Ohene-Asare, 2013). Similarly, in the case of microfinance institutions, profitability is considered a crucial factor affecting investor confidence. A study by Mersland and Strøm (2009) analyzed microfinance institutions in different regions and found that financial performance significantly impacts institutional sustainability and market valuation. However, unlike traditional banks, MFIs often balance financial returns with social objectives, which may alter the relationship between profitability and stock prices.

A prominent valuation tool that takes into account investor expectations of future profits growth is the price earnings ratio. The P/E Ratio is frequently used as a measurement of a stock's valuation since it indicates the value that buyers are ready to pay for every rupee of earnings. The P/E Ratio can be a crucial indicator of market expectations, and investor mood can have a big impact on stock price movements in markets like Nepal (Lamsal, 2024). Silwal and Napit (2019) established a positive association between the price-earnings ratio, return on equity, and book value per share of Nepalese commercial bank stocks.

Book value per share is frequently used as an indicator for the real worth of an organization. Financial analysis has focused on the relationship between book value per share and market price of share, especially in order to

comprehend how a company's underlying worth is reflected in its market valuation (Adhikari & Shrestha, 2006). Theoretically, the higher BVPS implies the company has a significant amount of assets in comparison to liabilities, which ought to bring in investors and increase the MPS. Firm-specific measures including book value per share (BVPS), earnings per share (EPS), and dividend per share (DPS) have a positive and substantial effect on the stock price (Menike & Prabath, 2014).

ROA is another important measure for determining a company's share price. Emekekwe (2008) identified return on assets as a ratio that aims to evaluate the amount of profit created by the firm's total assets. Shrestha and Lamichhane (2022) studied how firm-specific factors affect stock returns and concluded that size, book-to-market equity, dividend yield, and earnings per share have significant positive effect while earnings yield, return on assets and sales per share have significant positive effect on the stock price of Nepalese commercial banks.

In addition to internal financial factors, macroeconomic indicators also influence stock prices. Interest rates, inflation, GDP growth, and exchange rates are commonly studied determinants in financial literature. Dianita et al. (2020) evaluated the influence of GDP growth and inflation on variations in stock prices listed on the Indonesia Stock Exchange (IDX), concluded that GDP and inflation had a significant impact on the stock price of manufacturing companies listed on IDX. Eze (2024) investigated the impact of oil prices on the Nigerian stock market, and the study indicated that inflation, exchange rates, oil prices, and real GDP all have a positive relationship with stock prices.

Hypothesis of the study

H₁: Price earnings ratio has a significant impact on market price of share of MFIs in Nepal.

H₂: Book value per share has a significant impact on market price of share of MFIs in Nepal.

H₃: Return on assets has a significant impact on market price of share of MFIs in Nepal.

H₄: Gross domestic product has a significant effect on market price of share of MFIs in Nepal.

H₅: Inflation has a significant effect on market price of share of MFIs in Nepal.

Conceptual Framework

Figure 1 presents the research framework of this study.

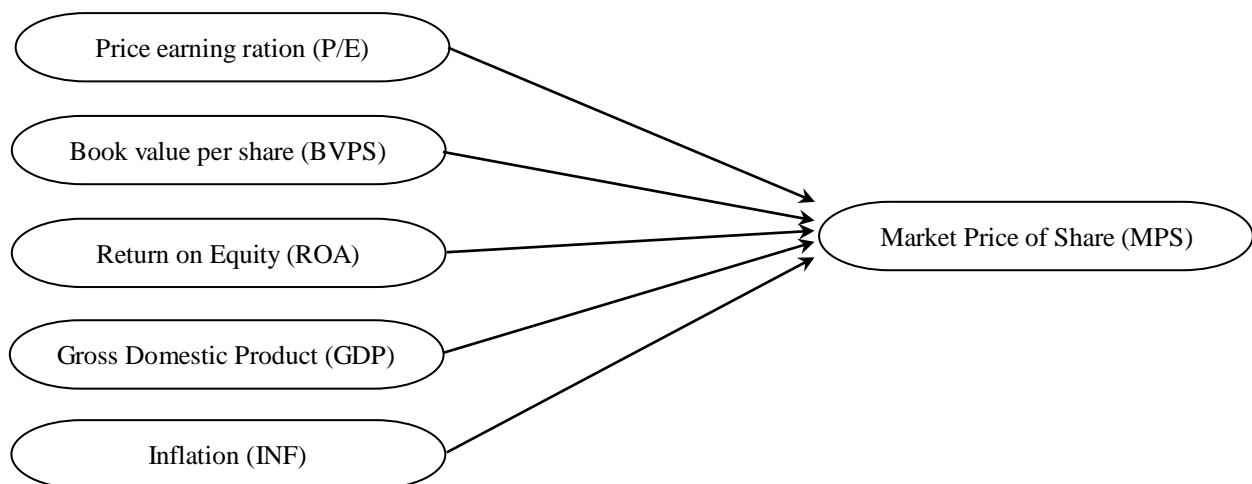


Figure 1: Research Framework of the Study

This study aims to analyze the effect of profitability, capital structure, firm size and asset growth on firm value of the sample microfinance companies in Nepal. Therefore, profitability, capital structure, firm size and asset growth are taken as independent variables and firm value as dependent variable. The expected sign of the independent variables (ROA, DER, SIZE and AG) is positive. It is expected that profitability, capital structure, firm size and asset growth of the microfinance companies positively affect the firm value.

Research Methods

The major objective of this study is to examine the impact of price earnings ratio (P/E), book value per share (BVPS), return on assets (ROA), gross domestic product (GDP) and inflation (INF) on market price of share (MPS) of the

sample microfinance companies in Nepal. Thus, this study uses descriptive and casual comparative research design which is a research study to describe a systematic, factual, and accurate picture according to the facts regarding the characteristics of the research population (Syahza, 2021). There are 52 listed microfinance institutions in Nepal (As of Mid-April, 2025). This study considers only 10 listed microfinance institutions based on judgmental sampling technique. The data are based on secondary data, which is collected from annual reports of the sample microfinance companies with total of 80 observations during fiscal year 2014/15 through 2023/24. Mean and standard deviation are used to assess the level and characteristics of sample microfinance institutions. Similarly, correlation analysis is used to analyze the association between dependent (MPS) and independent variables (P/E, BVPS, ROA, GDP and INF) of the sample microfinance institutions. Likewise, to examine the effect of price earnings ratio, book value per share, return on assets, gross domestic product and inflation on market price of share of the sample microfinance institutions, the regression analysis is used in this study.

Variables and the operational definitions

Table 1: Study Variables and Definitions

Variables	Measures
Market Price of Share (MPS)	Market capitalization/Number of shares outstanding
Price Earnings Ratio (P/E)	Market price per share/Earning per share
Book Value Per Share (BVPS)	Shareholder's equity/Number of common share outstanding
Return on Assets (ROA)	Net income after tax/Total assets
Gross Domestic Product (GDP)	Total market value of all goods and services at current prices
Inflation (INF)	The rate of increase in prices over a given period of time

Table 1 shows the study variables and their operational definitions. The dependent variable of the study is market price of share (MPS) and independent variables are price earnings ratio (P/E), book value per share (BVPS), return on assets (ROA), gross domestic product (GDP) and inflation (INF). The price earnings ratio, book value per share, return on assets are taken as the major firm specific determinants of market price of share of MFIs in Nepal. Similarly, gross domestic product and inflation, macro-economic variables are taken also as the major determinants of market price of share of MFIs in Nepal.

Empirical Model

The model to be analyzed in the research is as follow:

$$MPS = \alpha + \beta_1 P/E + \beta_2 BVPS + \beta_3 ROA + \beta_4 GDP + \beta_5 INF + \epsilon$$

Where,

- MPS = Market price of share
- α = constant
- $\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 = Coefficient parameters
- P/E = Price earnings ratio
- BVPS = Book value per share
- ROA = Return on assets for microfinance companies during t period
- GDP = Gross domestic product during t period
- INF = Inflation rate during t period

Results and Discussion

The data used in this research are cross-section panel data.

Descriptive Analysis

The descriptive analysis was used to determine the characteristics of the study variables. Table 2 shows the descriptive statistics of the dependent and independent variables during 2014/15 to 2023/24. It consists of mean, standard deviation, minimum and maximum.

Table 2: Descriptive Statistics

Variables	Min	Max	Mean	SD
MPS	220	4100.00	1251.82	806.31
P/E	-47.47	189.38	37.83	30.16
BVPS	114.00	324.65	188.68	51.98
ROA	-1.00	5.41	2.27	1.32
GDP	22.73	36.92	29.78	5.06
INF	3.60	9.90	5.90	2.02

Note: N=80

Table 2 presents that market price of share (MPS) of the sample microfinance institutions (MFIs) ranges from minimum Rs. 220 to maximum Rs. 4100. The mean value and standard deviation are 1251.82 and 806.31 respectively. It implies that market price of share is highly deviated than price earnings ratio, book value per share, return on assets, gross domestic product and inflation. The mean value and standard deviation of P/E are 37.83 and 30.16, and it ranges from -47.47 to 189.38. It shows that P/E of the microfinance institutions is highly fluctuated than return on assets, gross domestic product and inflation whereas less fluctuated than market price of share and book value per share of MFIs during the study period. In terms of BVPS, mean and standard are 188.68 and 51.98, and it ranges from min 114 to 324.65. The BVPS is less fluctuated than market price of share of the microfinance companies during the study period. Similarly, return on assets (M=2.27, SD=1.32), gross domestic product (M=29.78, SD=5.06) and inflation (M=5.90, SD=2.02) are the less fluctuated study variables. The descriptive analysis showed the highly fluctuation in the market price (MPS) and least fluctuation in return on assets (ROA) of the microfinance institutions (MFIs) of Nepal.

Correlation Analysis

The association between study variables market price of share, price earnings ratio, book value per share, return on assets, gross domestic product and inflation is examined by using Spearman's correlation coefficient and the results are presented in Table 3.

Table 3: Correlation Analysis

	MPS	P/E	BVPS	ROA	GDP	INF
MPS	1					
P/E	0.378**	1				
BVPS	0.228*	-0.224*	1			
ROA	0.202	-0.053	-0.247*	1		
GDP	0.397**	0.149	0.101	0.332**	1	
INF	0.205	0.027	0.000	-0.146	0.059	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 3 reveals that price earnings ratio (P/E), book value per share (BVPS) and gross domestic product (GDP) had positive relationship with market price of share (MPS) of micro-finance institutions in Nepal. The relationship between P/E, BVPS, GDP and MPS is statistically significant and positive. It implies that an increase in P/E, BVPS and GDP increases the market price of share of MFIs in Nepal. The correlation relationship analysis also showed that there is no significant relationship between return on assets (ROA), Inflation (INF) and Market price of share (MPS). It implies that any changes in ROA and INF do not bring any changes in MPS of the MFIs in Nepal.

Regression Analysis

The major goal of the regression analysis is used to examine the effect of price earnings ratio (P/E), book value per share (BVPS), return on assets (ROA), gross domestic product (GDP) and inflation (INF) on market price of share (MPS) of sample microfinance institutions of Nepal. The results of the regression analysis are reported in Table 4.

Table 4: Regression Analysis

	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
Constant	54.224	643.241		0.084	0.933
P/E	11.616	2.342	0.434	4.959	0.000
BVPS	6.527	1.379	0.421	4.733	0.000
ROA	162.386	56.922	0.265	2.853	0.006
GDP	48.073	14.329	0.302	3.355	0.001
INF	100.039	33.781	0.250	2.961	0.004
R-squared					0.485
Adjusted R-squared					0.450
F-statistics					13.916
F-sig.					0.000

Table 4 indicates the results of the regression analysis of the study. The adjusted R-squared is 48.50 percent, it reveals that the variables of price earnings (P/E), book value per share (BVPS), return on assets (ROA), gross domestic product (GDP) and inflation (INF) in this study can explain the market price of share (MPS) of 48.50 percent and the remaining 51.50 percent is explained by other independent variables. The value of F-sig. is 0.000, which is less than 0.05, it indicates that the regression model is statistically fit. The regression results also revealed that price earnings (P/E), book value per share (BVPS), return on assets (ROA), gross domestic product (GDP) and inflation (INF) had significant positive effect on market price of share (MPS) of selected microfinance institutions (MFIs) in Nepal. It implies that an increase in price earnings (P/E), book value per share (BVPS), return on assets (ROA), gross domestic product (GDP) and inflation (INF) also increases the market price of share (MPS) of MFIs in Nepal.

Test of Hypotheses

The results of the hypotheses are presented in Table 5.

Table 5: Test of Hypotheses

Hypothesis	Statement	P-value	Result
H ₁	Price earnings ratio has significant positive impact on market price of share.	0.000	Accepted
H ₂	Book value per share has significant positive impact on market price of share.	0.000	Accepted
H ₃	Return on assets has significant positive impact on market price of share.	0.006	Accepted
H ₄	Gross domestic product has significant positive impact on market price of share.	0.001	Accepted
H ₅	Inflation has significant positive impact on market price of share.	0.004	Accepted

Table 5 reveals that the hypotheses H₁ H₂, H₃, H₄ and H₅ had accepted. It indicates that price earnings (P/E), book value per share (BVPS), return on assets (ROA), gross domestic product (GDP) and inflation (INF) have significant effect on market price of share (MPS) of microfinance institutions (MFIs) in Nepal.

Discussion

This study aims to investigate the effect of price earnings, book value per share, return on assets, gross domestic product and inflation on market price of share of microfinance institutions in Nepal. The analysis of the results revealed that the price earnings ratio (P/E) and book value per share (BVPS) has significant positive effect on market price of share (MPS) of microfinance institutions (MFIs) in Nepal. The results are consistent with the finding of Menika and Prabath (2014), Shrestha and Napit (2019), and Poudel (2024). Similarly, return on assets (ROA) has significant positive effect on market price of share (MPS), this outcome is consistent with the findings of Emekekwe (2008) and inconsistent with the results of Shrestha and Lamicchane (2022). Likewise, gross domestic product (GDP) and Inflation (INF) has significant positive effect on market price of share of sample microfinance institutions in

Nepal. These findings are similar to the findings of Hermi (2020) and Dao et. al (2022) and inconsistent with the findings of Dianita et al. (2020) and Eze (2024).

MFIs play an important role in improving people's living conditions and the country's economic progress. This study examined the impact of price earnings ratio, book value per share, return on assets, gross domestic product, and inflation on the market price of microfinance institutions' shares in Nepal. These factors (price-earnings ratio, book value per share, return on assets, GDP, and inflation) have a substantial impact on the market price of shares of MFIs in Nepal. As a result, management and Nepalese investors would make better decisions if they took these aspects into account.

Conclusion

This study was conducted to examine the impact of price earnings (P/E), book value per share (BVPS), return on assets (ROA), gross domestic product (GDP) and inflation (INF) on market price of share (MPS) of listed 10 sample microfinance institutions in Nepal data from 2014/15 to 2023/24.

Based on the results, the Adjusted R-squared value in this study was 48.50 percent, which indicates that the variables, price earnings (P/E), book value per share (BVPS), return on assets (ROA), gross domestic product (GDP) and inflation (INF) in this study can explain the market price of share (MPS) of microfinance institutions (MFIs) by 58.50 percent and the remaining 51.50 percent is explained by other independent variables. The F-stat 0.000, which is less than 0.05 indicates P/E, BVPS, ROA, GDP and INF significantly affect the market price of share, so that the research model can be used to research hypothesis testing. The results of hypothesis testing and the results obtained from multiple linear regression analysis concluded that the P/E, BVPS, ROA, GDP and INF had statistically significant positive effect on market price of share of microfinance institutions in Nepal.

Scope for Future Research

This study focuses on the effect of price earnings (P/E), book value per share (BVPS), return on assets (ROA), gross domestic product (GDP) and inflation (INF) on market price of share (MPS) of the selected microfinance institutions in Nepal. Beside these independent variables, the future researcher can also use ROE, EPS, NPM, DPS, EPS as a proxy of major determinants of market price of share. Similarly, macro-economic variable such as money supply, interest rate, and exchange rate also can be used, which also effects the market price of share of the firm. This study is only based on secondary data. The future researcher can also use the primary data by using the different statistical tools. Likewise, this study only covers 10 years data with 80 number of observations. Future researcher can also cover and study more than 10 years data and may increase number of observations.

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