Stock Price Determinants Of Listed Banks And Financial Institutions In Nepal

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Abstract

Nepal Stock Exchange has strived to deliver an effective regulatory system and information transparency to acquire the confidence of the investors and convey the sufficient basis to analyze the data without anomalies. However, the investors in the stock market are still very few who are about negligible percent of total population in the nation. Government, banks, and financial institutions are not being able to play the prompt and desired role to create a stable share market with the expected outcome of the investors. Despite this, the investors have lack of knowledge both fundamental and technical regarding the capital market that causes them not to cut a good figure from the share market. The fundamental determinants and their types that affect the stock price are still matters of general thoughts in the existing stock market in Nepal. The several answers to the general thoughts become reliable references to the potential investors to make rational investment decisions. These all empower Nepal Stock Exchange authority and the administration of listed banks and financial institutions to skip any unexpected catastrophe, empower and control market strategies, strengthen the stock market industry. This research collected primary data using structured questionnaire from 111 respondents belonging to the market including investors, bankers, and experts of listed banks and financial institutions. It has used the analytical and descriptive research methodology to meet its prime objectives that were to identify determinants with their rank, of stock prices of listed banks and financial institutions listed in the Nepal Stock Exchange and deliver the ideas to the investors to consider the determinants for investment decision. It has observed the determinants of stock price of the banks and financial institutions as qualitative determinants and quantitative determinants. It has taken altogether 10 qualitative and 13 quantitative determinants including both specific and macroeconomic. In the research stock price and the determinants remained as dependent independent variables respectively. The result concluded that the goodwill, optimistic report of analysts, and positive views respectively are the major qualitative determinants with their ranks. Likewise, Dividend rate, earnings per share, and cash flow from operation respectively are the fundamental specific determinants with their rank. And the gross domestic product, interest rate, and inflation respectively with their rank are the major macroeconomic determinants. The recognition of the determinants and lack of analyzing experiences for investment decision on share have the great meaning for ensuring investors' investment to generate desirable profit and keep their existence in the stock market in Nepal.

Keywords: stock, stock market, determinants, Nepal

Background

A stock price represents a major concern of almost all investors all over the world. To specify exactly, what are the determinants stock price? It is a controversial and unpredictable issue at present.

The stock price volatility is a normal phenomenon even the time and situations are the same. Whatare the determinants responsible for this volatility in the stock price? All the persons particularly, related to the capital market at present try to get an answer to

this question. The stock price volatility that creates market crashes exhibits particular challenges to economic and statistical models. During the past few decades, many efforts exercised to build models that explicitly allow the large market movements (Eraker, 2004). The stock market has been an essential market having a vital role in economic prosperity which is fostering capital formation and sustaining economic growth. The stock markets are more than a place to trade securities; that act as facilitators between savers and users of capital by means of pooling of funds, sharing risk and transferring wealth. Stock markets are essential for economic growth and development as the markets ensure the flow of resources towards the most productive investment portfolios. Basically, a large number of economic variables such as gross domestic product, interest rates, monthly demand and supply, employment, related information, etc. affect the daily stock prices (Kurihara, 2006).

The history of the securities market in Nepal began with the floatation of shares by Biratnagar Jute Mills Limited and Nepal Bank Limited in 1937. The introduction of the Company Act in 1964, the first issuance of a Government bond in 1964, and the establishment of Securities Exchange Center Limited in 1976 were other significant development relating to capital markets. Securities Exchange Center was established with the objective of facilitating and promoting the growth of capital markets. Before conversion into the stock exchange, it was the only capital market undertaking the job of brokering, underwriting, managing public issues, market making for government bonds, and other financial services. Nepal Government, under a program, initiated to reform capital markets converting Securities Exchange Center into Nepal Stock Exchange in 1993. Members of the Nepal Stock Exchange are permitted to act as intermediaries in buying and selling government bonds and listed corporate securities. At present, there are 50 member brokers with 43 branches, who operate on the trading floor as per the Securities Act, 2007, rules, and bye-laws. The broker house and its branches are expanded over 21 different cities of Nepal (https://nepalstock.com).

There are 13 sectors listed in NEPSE namely; commercial bank, development bank, finance, microfinance, manufacturing and processing, hydropower, non-life insurance, life insurance, hotels, mutual fund, trading, investment companies, and others. A total of 212 companies from the sectors are in the NEPSE. The Total Market Capitalization of all 13 sectors and 212 stocks is NRs. 270,003crore. The banks and financial institutions sectors have occupied the higher portion which is 68.9 percent and of market capitalization value (https://nepalstock.com). The banks and financial institutions are popular and attractive to the existing and potential investors in the share market as the institutions and their branches are many in numbers, mostly all over the nation among the companies listed on Nepal Stock Exchange. In addition to these, most of the existing and potential investors in the share market are already in link with the institutions through banking services in their daily life. These all scenarios clarify that the stock price movement of the listed financial institutions highly causes the ultimate movement of the Nepal Stock Exchange and attracts the interest of the majority of all kinds of investors.The prime objective of this study is to identify determinants with their rankof stock prices of listed banks and finance companies listed on the Nepal Stock Exchange and to deliver the ideas to the investors to consider the determinants for investment decision.

Statement of the Problem

Nepal Stock Exchange has tried to provide a prompt regulatory system and information transparency to obtain the confidence of the investors and deliver the sufficient basis to analyse the data without anomalies but still, there are very few investors in the stock market they are about negligible percentage out of a total population of the nation. In addition to this, the

government, banks, and financial institutions are not being able to play the effective and desired role to create a stable market with the expected outcome of the investors. Despite this, the investors have lack knowledge both fundamental and technical regarding the capital market. As a result, they are unable to cut a good figure from the share market. The fundamental determinants and their types of stock price, their affecting pattern on share price, and the interrelationship of the determinants with the stock price are still matters of general thoughts in the existing stock market of Nepal. The several answers to the general thoughts are reliable references to the potential investors to make their investment decisions while entering into the stock market and it has the great meaning for ensuring their investment to generate desirable profit and keep the investors' existence in the stock market safe. Equally, the Nepal Stock Exchange authority gets empowered to eliminate any unexpected catastrophe, develop and control market strategies, strengthen the stock market industry, and assess the degree to which the stock market need to reform the journal of economics, finance, and sustainable development of the nation. For these, all this study is meaningful. Questions that are seeking their corresponding answer from the entire research and direct it to accomplish planned goals are the research questions (Creswell, 2011). The research questions sketch the roadmap to the research and ensure the research to be concentric around its objectives avoiding possible deviations. Therefore, the research will have the following research questions.

• What are the determinants and their ranks of stock price of listed banks and finance companies?

• What are the problem being faced by investors in share market?

• How can the share investors be attracted in share market?

Literature Review

Under the literature review for the accumulation of the fundamental concepts and the road map for this research the core research articles conducted in different periods have been taken into the account. Bhattarai (2014) conducted research on the topics, determinants of share price of Nepalese commercial banks in Nepal. The study used regression model for the data analysis. The analysis concluded that the earning per share, and price earnings ratio have the significant positive association with share price while dividend yield the significant inverse association with share price. Finally, the study concluded the dividend yield, earning per share, and price earning ration are the most influencing factors in determining share price in Nepalese commercial banks. Sindhu et al. (2014) conducted research on the topic, macroeconomic factors do influence stock price, case study on Karachi Stock Exchange taking three companies listed in the stock market namely; Wyeth Pakistan Limited, Muslim Commercial Bank Limited, and EFU Insurance. The study got completion using the economic model and concluded the results as PER, stock price rumours, demand for the share, and change in government policies, economic conditions were the most influential internal, external, economic, political, and environmental factors respectively on the stock price. Also, the study concluded that 65 percentage of the variation in stock price is explained by cash flow, leverage, profitability, growth, market capitalization, and dividend. Gharaibeh (2015) conducted research on the topic, the determinants of market share prices of companies listed in the Kuwait Stock Exchange over the period 2008 - by taking the data of 48 listed companies. The results provided empirical evidence that one - year lagged price of the stock, inflation rate, the tangibility of assets, economic progress peroxided by per capita gross domestic product, money supply, changes in growth opportunities, profitability, and liquidity of the firms have a statistically significant relationship

with share prices of the listed companies. Arshad et al. (2015) conducted research on the topic, the determinants of share prices for the listed commercial banks in the Karachi stock exchange over the period 2007 to 2013. The results revealed that earning per share had more influence on share prices and it had a positive and significant relationship with share prices. Book to market value ratio and interest rate also had a significant but negative relationship with share prices while other variables such as GDP, P/E ratio, DPS, and leverage had no relationship with share prices.

Poudel (2016) conducted research on the topic, determinants of the stock price of selected banks in Nepal by taking 8 private commercial banks of Nepal over the fiscal year from 2011- 2015. The results revealed that there is a gap between the theory and practice of investment in the Nepalese stock market. Nepalese investors are more conscious of the dividend and price appreciation of the shares they are investing but most of the investors are only using the buy and hold strategy as only a few of them are trading their shares in the secondary market. Also, there is a significant correlation between MPS and BPS, EPS and DPS which is about 87 percentages at 95 percentage level of confidence. Pradhan and Dahal (2016) conducted research on the topic, the factors that affected the share price of Nepalese commercial banks by taking the data of 14 banks listed in Nepal Stock Exchange for the period 2002/03 - 2013/14. The results revealed that a firm's specific variables such as EPS, DPS, P/E ratio, Book value per share, ROA, and size are the major determining factors of share price in the context of commercial banks in Nepal. Similarly, among the macroeconomic variables such as GDP, inflation, and money supply, the GDP was the prime and major variable that affected the share price.

Ghimire and Mishra (2018) conducted research on the topic, determination of stock in Nepalese market taking two commercial banks, two development banks, two hydro powers, one microfinance,

two insurance companies, and two hotels using descriptive and pooled cross-sectional research design. The study concluded variable market to book value, price earnings ratio is a significant determinant of the stock price that affects the price indirect manner. Also, the study noticed DPS, BV, had a significant positive influence; however, EPS had a minimum influence on the stock price. Thapa (2018) conducted research on the topic, influencing factors of the stock price in Nepal using a simple linear regression model on the collected data. The study concluded that EPS, DPS, effective rules, and regulation, market whim and rumours, company profile, and success had a positive significant association with the share price. However, interest rate and PER had a significant inverse association with the share price. Bajracharya and Sawagvudcharee (2019) conducted research on topics, internal and external factors influencing share price of Nepalese commercial banks. The research concluded that EPS, DPS, and PE ratio have positive significant relationship with market price per share. However, the external factor 'inflation rate' has negative significant relationship with the market price per share. Silwal and Napit (2019) conducted research on the topic, fundamentals of the stock price in Nepalese commercial banks listed in Nepal Stock Exchange using pooled cross-sectional data of ten banks taking the data of ten years. The study used a correlational and causal-comparative research design and revealed the results as the book value per share, price earnings ratio, and return on equity had a positive relationship with the stock price. Dividend yield had a positive but minimum influence on the price of the stock whereas size had a negative relationship and was statistically insignificant with the stock price. Also, the study revealed that the book value per share was the most influential factor that determined stock price in Nepal. Wagle (2021) conducted research on topics, determinant of stock prices in Nepal; a case of commercial banks. The study used descriptive

and casual-comparative research design for the data analysis. The research concluded that market to book proportion, price earning proportion, and earnings yield proportion have a significant positive association with the stock market price. However, dividend yield proportion has positive but insignificant impact on the stock market price.

The earlier researchers found that they have used common conceptual framework. Where conceptual framework provides and presents the foundation area and road map for the entire research. All the researches cover the area proceeding through the research road map. Therefore, this research based on the following conceptual framework.

Independent variables Dependent variables Qualitative

This research has used the theoretical framework with the qualitative determinants and quantitative determinants constituted with specific and macroeconomics in nature, that determine the share price of the listed commercial banks, development banks and finance companies in NEPSE.

Qualitative Factors

Old customer comes to old place as Goodwill and it is an intangible but saleable asset that may be worth many times the worth of its physical assets. Hearing rumors and looking at stock indexes or their future price movement is the market sentiment. The price of the stock of a company is affected most of the time by the general market direction during a session. In a bull market, the stock price of most companies will rise and will fall in a bear market. Stock prices fluctuate as investors and traders try to predict earnings, management changes, and industry trends, when a company makes an announcement the investors aren't happy with this can force the stock price to fall. It is to comply with presentation and approval of the audited accounts, the election of directors, the appointment of auditors, compensation of officers, confirmation of proposed dividend, and issues raised by the stockholders called annual meeting in Bangladesh. Investors are looking forward to the Annual general meeting to get a lucrative dividend declaration. Examples of unforeseen circumstances that can affect prices include natural disasters or worldwide crashes and Technical influence has an effect on aggregated and individual stock prices. Reports produced by independent analysts also influence share prices. If an analyst changes their recommendation from sell to buy, for example, the shares will often raise in value i.e. company will affect its share price very quickly. Analysts' reports are always worth reading whereas shares are not worth buying.

Print and electronic media say a lie repeated from thousand platforms becomes the truth. An investor has to take care whether they are planted stories or genuine positive developments happening with the company. The role of the press and the views expressed by it on the share market conditions, influence the decisions of the investors. Investors have an interest in promoting particular stocks and industries to increase profits and the value of their own shares. Stocks' price can be affected by the hype about a company or the release of new products. This can occur even when the hype has no foundation in truth. A matter of progress, the government may review its policies, rules & regulations like FDI and FII inflow restrictions, entry-exit barriers for foreign banks, EXIM regulations, and change in Basel Norms, etc. are important govt. policies. So, a change in these policies affects the market scenario and definitely affects the price of the share, and Political Confusion has a significant impact on the stock price. International situation based on improvement of diplomatic relations between the multinationals, share prices will rise. Investors should be improvements in diplomatic relations, seize the opportunity to purchase shares related to transnational corporations (Bhandari, 2021).

Quantitative Factors

Liquidity is measured by cash flows from operation (CFO) which is net profit before tax and extraordinary income adjusted to non-cash charges

and receipts. Tangibility is measured by assets turnover ratio which is the proportional relationship between sales and total fixed assets. Leverage is expressed in terms of debt-equity ratio (DER) which is the proportional relationship between total debt and equity. Profitability has been characterized as return on investment (ROI) which is the proportional relationship between the net profit after tax and total assets. It means how promptly a firm uses its capital to generate profit? Investors want to get that share of which management is more efficient to earn high returns. Growth is measured in terms of percentage change in EPS (G).EPS is the amount earned on the behalf of each outstanding common stock. This is perhaps the most important factor for deciding the health of any company and that influence the buying tendency in the market. It corresponds to the size of the firm (s) which is log of the total assets. Market capital means the value of the company. It may have the causes of increasing share price to fulfil Basel II or other things. Dividend refers to a cash payment or distribution of a firm's income among its stockholders, in the form of additional fully-paid shares. After the announcement of a dividend, the stock price may increase by an amount close to the dividend per share value. However, the stock price may drop on the ex-dividend date by the dividend rate (Bhandari, 2021).

The macroeconomic variables that this research will address are: Gross domestic product is the total production of goods and services valued at current prices in current dollars. Nisa and Nishant (2011) found macroeconomic indicators GDP growth has significant relationship with the stock prices. The price is directly affected by the trend of stock market trading such as supply and demand. When more consumers purchase a particular type of stock, its price will automatically increase, and then selling that, its price will then plunge. Inflation affects stock markets. Even the perception of investors and traders on what is likely to happen with inflation will also impact stock prices in various ways. Low

interest indicates low demand for capital with driving the share price down. Bull markets are usually associated with low-interest rates and high Capital Gains, and bear markets with high-interest rates and Exchange rates have a direct impact on the price and value of stocks in the home as well as will affect the price of stocks abroad. Long-term movements in exchange rates are affected by fundamental market forces of supply and demand.

Methods

This research has used structured questionnaire having 12 closed end questions including liker scale for the identification of the determinants and one open end questions for the primary data to respondents belonging to the share market including investors, bankers, and experts of commercial banks, development banks and the finance companies. This research has used the analytical and descriptive research methodology to meet its objectives. It has taken altogether 10 qualitative and 13 quantitative determinants including both specific and macroeconomic. This research has selected determinants from the literature review on core and peripheral articles.

Findings and Discussion

Out of the 150 structured questionnaires having 12 closed end questions including liker scale for the identification of the determinants and one open end questions distributed to respondents for the primary data belonging to the share market including investors, bankers, and experts of commercial banks, development banks and the finance companies only 111 questionnaires with corresponding responses collected back. The data thus collected observed and analyzed using descriptive and analytical research design.

Table 1. Qualitative Determinant and their Rank

S.N.	Statements	Rank
1.	Company's goodwill increases the share price.	1
2.	Market sentiments with lesser rumours and higher stock indexes, more will be the price.	6

S.N.	Statements	Ranks
3.	Company announcement to incorporate prompt management increases the share price.	7
4.	Annual general meeting to get a lucrative divi-dend declaration increases the share price.	5
5.	Unexpected circumstances like natural disasters or worldwide crashes, lower the share price.	9
6.	Optimistic reports about company from inde-pendent analyst increases the share price.	2
7.	Positive views of Print and electronic media about company increases share price.	3
8.	Hype influences the share price.	4
9.	Instability of government causes declination of share price.	8
10.	Global economy/international situation influ-ences share price.	7
11.	Effective policy of NEPSE and SEBON influ-ence the price	10

Table: 1 shows the result concluded that the goodwill of the company, optimistic report of analysts, positive views, hype, annual general meeting for lucrative dividend, market sentiments, prompt management and global economy, government instability, unexpected circumstances, and existing market policy respectively with their ranks and are the major qualitative determinants determining the share price of any listed company.

Table 2. Quantitative Determinants [Specific determinants]

S.N.	Statements	Ranks
1.	Cash flow from operation influences the share price.	3
2.	Assets turnover influences the share price.	6
3.	Debt equity Ratio influences the share price.	7
4.	Return on investment influences the share price.	4
5.	Earnings per share influences the share price.	2
6.	Dividend Rate influences the share price.	1
7.	Market capitalization influences the share price.	5

Table: 2 shows that Dividend rate, earnings per share, cash flow from operation, return on investment, market capitalization, assets turnover ratio, and debt equity ratio respectively are the fundamental specific determinants with their rank among the determining the share price of the listed company.
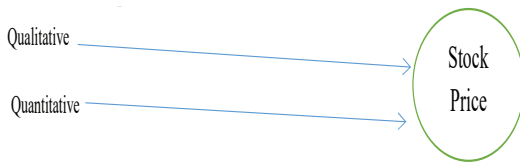
Table 3. Quantitative Determinants [Economic determinants]

S.N.	Statements	Ranks
1.	Gross domestic product influences the share price.	2
2.	Interest rate influences the share price.	1
3.	Demand influences the share price.	4
4.	Supply influences the share price.	6
5.	Exchange rate influences the share price.	5
6.	Inflation Rate influences the share price.	3

Table 3 shows that Gross domestic product, interest rate, inflation, demand, exchange rate, and supply respectively with their rank are the major macroeconomic determinants determining share price of the listed company in Nepal.

According to open end question and its reply it has been found that the investors are unknown about determinants of stock price and discussion among the investors Regarding the attraction of potential investors and holding the existing investors in the stock market as per the views of the respondents- the banks and financial institutions are to disclose their real and timely financial and
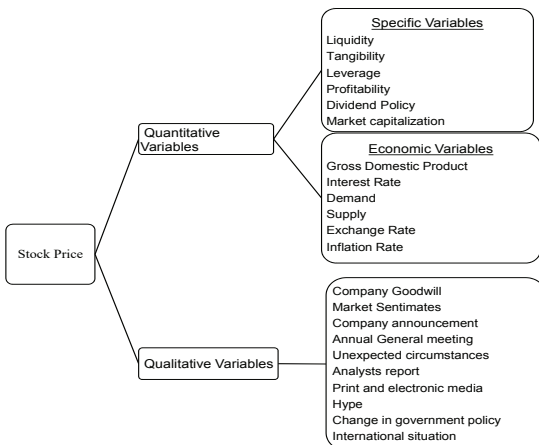
non-financial information and they are to disclose their organizational information through print and electronic media. Similarly, the Nepal Stock Exchange and Security Board of Nepal have to formulate the rules to make brokers professionalized. Finally, the government of Nepal has to monitor and supervise the listed companies regularly and incorporate the establishment of investor's protection fund through the listed companies.

Conclusion

The research on the topics Stock Price Determinants of Listed Banks and Financial Institutions in Nepal got pioneer road map from the core articles consulted to accomplish its objectives. It went through the three research questions that are of great thrust in the stock market in Nepal.The research concluded that the goodwill, optimistic report of analysts, and positive views respectively are the major qualitative determinants with their ranks. Likewise, Dividend rate, earnings per share, and cash flow from operation respectively are the fundamental specific determinants with their rank. And the gross domestic product, interest rate, and inflation respectively with their rank are the major macroeconomic determinants. The recognition of the determinants and lack of analyzing experiences for investment decision on share have the great meaning for ensuring investors' investment to generate desirable profit and keep their existence in the stock market in Nepal. Also, the result has noticed that the listed institutions are to disclose their real and timely information through print and electronic media. Similarly, the Nepal Stock Exchange and Security Board of Nepal have to make brokers professionalized. Finally, the government of Nepal has to monitor and supervise the listed companies regularly with incorporation of investor's protection fund the establishment through the listed companies to protect the investors in the market.

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