



## Does Financial Information Influence The Behavior of Stock Price? Evidences From Nepali Commercial Banks

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### Abstract

*Financial information is the document that presents the overall financial health of the organization. This study examines the influence of financial information on stock price behavior of Nepalese commercial banks. Twelve commercial banks are selected as a sample out of total twenty-six commercial banks of Nepal based on operation more than ten years with availability of necessary information. This study utilizes quantitative research approach with causal-comparative research design. Adopting descriptive statistics and multiple regression analysis for data analysis, study found that financial information like net interest margin, net profit margin, dividend payout ratio and capital adequacy ratio have significant positive influence on determining stock price behavior of Nepalese commercial banks. In addition, evidence indicates that financial information is the major influencing factor while determining stock price and investment decision so investors should properly analyze financial information for superior investment decision.*

**Keywords:** *Balance sheet, Commercial banks, Dividend, Financial information, investment decision, Market price of stock*

### Introduction

Banking sectors mobilize the saving funds of the economy to the productive sectors so it plays the crucial role for economy development of the country. Banking sector makes effective contribution to the economy growth of the country as well as success and failure of the banking sector directly influence the economic development of the economy so it is considering as heart of the economy (Shrestha, 2020). Financial

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information is the barometer of the financial health of any organization including banking sector. Apart from the financial health of the economy and success and failure of a profitable banking sector positively contributes to the financial stability and financial health of the country. Therefore, financial information of banking sector plays the key role for the investment decision in the stock price of the any banks (Sapkota, 2020; Shrestha, 2020).

In Nepal, capital market is playing a significant role in financial mobilization and to provide an effective direction for obtaining long-term funds. In a addition it provide an investment opportunity for individuals and institutions (Chalise, 2020). Stock market is all about dynamic components so the individual as well as corporate investors including fund managers frequently analyze the information but faces problems and fail to accurately predicting the stock price to get superior returns. Investment in stocks provides the opportunity about benefit of liquidity as well as the opportunity to strike or hit the market that might leads to excellent returns (Bhattarai, 2018). The journey related to prediction of stock price is not a simple and the movement of stock price is not depended upon a single factor but is the combination of several factors including intrinsic and extrinsic factors (Malhotra & Tandon, 2013).

Pesik and Prochazkova (2022) found that net profit and retained earnings play the key role for stock price. Darami et al. (2022) found that stock price variability is affected by intrinsic and extrinsic factors of the organization and market price of stock is not influence by dividend payout ratio of the firm. Sapkota (2020) found that net interest margin, leverage ratio and firm size affect the firm performance. Hence, different financial information plays the dominant role while determining financial performance and/or stock price and it presents the financial health of the organization. So, the basic objective of this study is to examine the influence of financial information mainly net interest margin, net profit margin, dividend payout ratio and capital adequacy ratio on market price of stock of Nepalese commercial banks.

## **Literature Review**

Market price of stock is affected by the demand and supply of shares and the internal and external factors also affect the share price (Mondal, & Imran,2010). Both intrinsic and extrinsic factors influence movement of market price of the stock and it is not dependent on any one component variables. Ogbonna, U. G., Ejem, C. A.,

& Emmanuel, C. (2022) states that Asymmetry effect requires the need for timely disclosure in the market & appropriate dissemination of information related to the public by market operators in order to avert escalation of bad news & inform the regulatory bodies to offer timely interventions whenever it is expected to have loss in investments. Most of the theory reveals that the behaviour of the stock price is uncertain. The challenges provided by random walk theory to the fundamental analysts is to show complicated procedures than the simple random selection policy and to the technical analyst is he cannot merely show the security selected will perform better but has to prove it (Fama,1995).

Several studies are conducted to examine the financial information and stock price behaviour and has identified different relations. Study by Taimur, Harsh & Rekha (2015) identifies the positive & significant relationship exist between the market price of the share and the return on equity, Dividend per share and book value per share. Further study found significant negative relationship between market price per share and the dividend yield. In addition, Significant and negative relationship between stock price volatility and the DPR of company & significant and negative relationship between stock price volatility and Dividend yield (Rozaimah, Nurul & Chee 2018). Similarly, no significant relationship between operating and investing activities in the price of share of commercial banks which are listed in Amman Stock Exchange of Jordanian Sharif, Purohit, & Pillai. (2015).. Market price of stock is influenced in positively but insignificant by dividend yield & return on assets. The market price of stock has the favorable effect by the EPS, PE ratio and size of the bank (Bam, Thagurathi,, & Shrestha 2018). Silwal, & Napit, (2019) found positive relationship between book value, PE ratio, return on equity of the shares and dividend yield and negative relationship with market size of the company on stock price in Nepalese commercial banks.

Walter (1956) argued that dividend pay-out affects the stock price behaviour through rate of return and multiplier. Similarly, Litzenberger and Ramaswamy (1982) documented that dividend pay-out has positive relation towards stock price. Pettway (1976) documented that capital adequacy ratio significantly affects the return on stocks of commercial banks due to capital adequacy measures the sound position of capital of the banks. Iskandar (2021) and Hasibuan (2021) found that net interest margin has significant positive influence on price book value of stock of Indonesian Banks as well

as Silaban (2017) found that net interest margin (NIM) has significant positive impact on commercial banks performance in Indonesia. Likewise, Sapkota (2020) found that NIM has significant positive influence on firm performance of Nepalese commercial banks. Hadi et al. (2021) found that net profit margin has significant positive influence on stock price in Indonesian commercial banks. Likewise, Prijanto et al. (2021) and Sudirman et al. (2020) found that net profit margin has significant positive influence on stock price of beverage and food industry in Indonesia. Hunjra et al. (2014) found that dividend pay-out ratio has significant positive influence on stock price in non-financial sectors in Pakistan. Likewise, Iskandar (2021) found that capital adequacy ratio has significant positive influence on price book value of stock Indonesian Banks. Ogboi and Unuafe (2013) also documented that capital adequacy impacted positively on bank's financial performance.

### **Research Methodology**

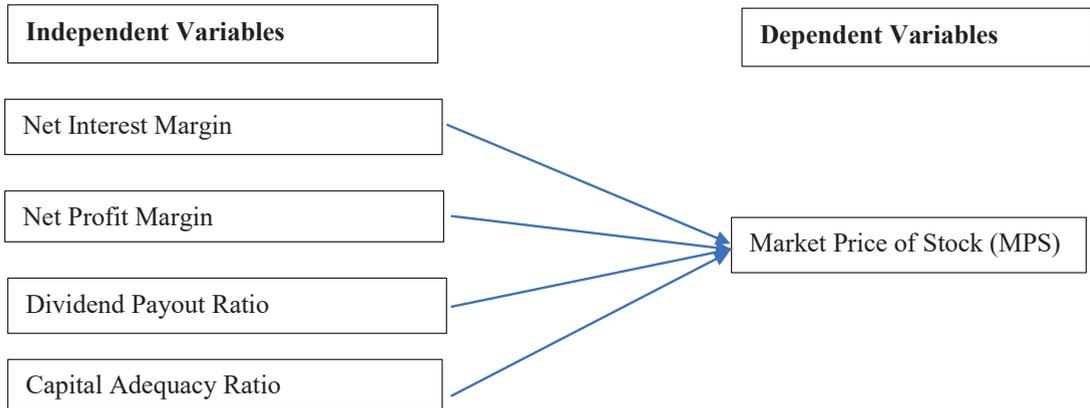
This chapter is designed to present the research methods used to meet the stated objectives of the study which explores the utilizing research process regarding about the stock price movement of commercial banks in Nepal. This study utilizes causal comparative research design to examine the influence of NIM, NPM, DPR and CAR on stock price behavior of the Nepalese commercial banks. The population of the study is the total number of commercial banks currently operating in Nepal. The sample of the study is the twelve commercial banks based on operation more than ten years, no inclusion of government banks, not involved in merger and availability of necessary information. This study utilizes descriptive statistics, multiple regression analysis with multicollinearity test using VIF test.

### **Research Framework**

The research framework depicts the influence of net interest margin, net profit margin, dividend payout ratio and capital adequacy ratio on market price of stock of Nepalese commercial banks. The detailed of the research framework is presented into Figure 1 and the measurement of the variables are documented into Table 1.

**Figure 1**

*Research Framework of the Study*



**Table 1**

*List of Variables, Sources and Their Measurements*

Notations	Variables	Description	Sources
MPS	Market Price of Stock	Closing price of stock at the end of the year	
NIM	Net Interest Margin	Net Interest Income divided by total assets of the balance sheet	Sapkota (2020); Hasibuan (2021) and Silaban (2017).
NPM	Net Profit Margin	Net income after tax divided by total operating revenue at the end of the year	Prijanto et al. (2021); Sudirman et al. (2020) and Hadi et al. (2021)
DPR	Dividend Payout Ratio	Total dividend divided by net income at the year end	Walter (1956); Hunjra et al. (2014)
CAR	Capital Adequacy Ratio	Total capital divided by total risk weighted assets at the end of the year	Iskandar (2021); Ogboi and Unuafe (2013)

Source: Researcher's Collection

$$MPS = f(\text{Net Interest Margin, Net Profit Margin, Dividend Payout Ratio, Capital Adequacy Ratio})$$

$$MPS = \beta_0 + \beta_1 NIM + \beta_2 NPM + \beta_3 DPR + \beta_4 CAR + e_i \dots \dots \dots (i)$$

This study only utilizes the four independent variables for the study to examine the stock price of Nepalese commercial banks, utilizes only secondary sources of data during ten-year periods, utilizes only twelve commercial banks for the study and unable to incorporate the government banks of the country.

## Results and Discussion

In this section, various tools, techniques and methods of analysis including descriptive statistics and multiple regression analysis are employed and the result of study is presented.

### Descriptive Statistics

Descriptive statistics including mean, maximum, minimum and standard deviation are incorporated. The Table 2 demonstrates the descriptive statistics of the variables under study.

**Table 2**

*Descriptive Statistics of the Variables*

<b>Variables</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
MPS	107	5,120	769.641	1121.087
NIM	0.004	0.05	0.0321	0.009
NPM	0.001	0.0317	0.0139	0.051
DPR	0.000	0.500	0.113	0.671
CAR	0.0517	17.539	0.125	0.986

*Sources: Data Calculated from Annual Reports of the Sampled Banks*

Table 2 depicts the results of descriptive statistics of the all-study variables. The minimum stock price is Rs. 107 and maximum stock price is Rs. 5,120 and the average stock price is 769.641. Likewise, minimum NIM is 0.40 percent and maximum is 5 percent. The average net profit margin of the Nepalese commercial banks is 1.39 percent with minimum 0.10 percent and the maximum is 3.17 percent. Similarly, the average dividend payout ratio of the Nepalese commercial banks is 11.30 percent and average capital adequacy ratio is 12.50 percent. This adequacy ratio indicates that Nepalese commercial banks have some what sound capital position due to minimum capital adequacy ratio set by Nepal Rastra Bank (NRB) is 10 percent ([www.nrb.org.np](http://www.nrb.org.np)).

### Correlation Coefficient Analysis

The degree and magnitude of relationship among variables is measured by correlation coefficient. The detailed of the results of correlation coefficient is presented into Table 3.

**Table 3**

*Correlation Coefficient Among Variables*

Variables	MPS	NIM	NPM	DPR	CAR
MPS	1	0.562**	0.517**	0.612**	0.499**
NIM		1	0.613**	0.577**	0.431**
NPM			1	0.638**	0.501**
DPR				1	0.394**
CAR					1

*Sources: Annual Reports of Banks*

Table 3 depicts that the value of correlation coefficient of studied variables and are significant at 0.05. MPS has positive correlation among all the independent variables. Likewise, there is no indication of multicollinearity since the coefficient value of all independent variables under study are less than 0.70 (Sekaran & Bougie, 2016).

### Multiple Regression Analysis

The influence of net interest margin, met profit margin, dividend payout ratio and capital adequacy ratio on market price of stock is examined. The detailed of the results of multiple regression is documented into Table 4 and Table 5.

**Table 4**

*Model Summary and ANOVA*

R	R <sup>2</sup>	Adj. R <sup>2</sup>	S. E.	F Stat.	Sig.
0.713	0.509	0.487	0.072	39.719	0.000

*Sources: Annual Reports of Banks*

Table 4 depicts that the net interest margin, met profit margin, dividend payout ratio and capital adequacy ratio explain the variation in market price of stock is nearly

51 percent. The fitted model is significant at 0.05 due to p value is less than 0.01 level. Likewise, the detailed of influence on stock price by all independent variables are demonstrated into Table 5.

**Table 5**

*Regression Result*

<b>Construct</b>	<b>Coeff.</b>	<b>S. E.</b>	<b>t Stat.</b>	<b>Sig.</b>	<b>VIF</b>
Intercept	22.153	3.135	7.066	0.000	-
NIM	35.114	7.867	4.463	0.000	1.986
NPM	44.786	9.915	4.517	0.000	1.478
DPR	23.109	5.739	4.027	0.000	1.799
CAR	33.991	6.681	5.088	0.000	1.891

*Sources: Annual Reports of Banks*

Table 5 illustrates that the all-independent variables have significant influence the market price of the stock. VIF is less than 10 indicates no presents of multicollinearity among the variables (Sekaran & Bougie, 2016). The major contributing variable among all is net interest margin and lowest influence variable is capital adequacy ratio. Net interest margin is the profitability ratio which directly influence the overall profit of the organization that leads to positive influence on stock price of the banks and this finding is consistent with the study of Iskandar (2021) and Hasibuan (2021). Net profit is financial profit generated by the banks so net profit margin is the major indicator of the performance of the banks that directly influence the stock price of banks and this finding is consistent with the finding of Prijanto et al. (2021) and Sudirman et al. (2020). Based on equation (i), the fitted model is given as,

$$MPS = 22.153 + 35.114 NIM + 44.786 NPM + 23.109 DPR + 33.991 CAR + e_i$$

Dividend payout is the percentage of earning distributed to the shareholders. Due to signaling hypothesis, dividend payout ratio significantly positive influence on stock price of the banks and this finding is similar with the result documented by Hunjra et al. (2014). Likewise, capital adequacy is related to financial soundness of the banks. Higher capital adequacy ratio indicates the strong capital position of the banks and has strong competition position that leads to positive influence on stock price and which is consistent with the result of Ogboi & Unuafe (2013) and Iskandar (2021).

## Conclusion and Implications

This study found that price of common stock is significantly influenced by net interest margin, net profit margin, dividend payout ratio and capital adequacy ratio. The main determinant factor for stock price is to net interest margin that might due to higher the difference between interest income and interest expenses, higher will be the market price of the stock due to positive perception of the investors. Similarly, net profit, dividend payout and capital position has also positive influence on stock price. So, firm should properly handle the financial information due to investors frequently utilizes financial information which directly influence the share price of Nepali commercial banks.

The findings of present research are invaluable for managers of the banks, board of directors, regulators as well as policy makers to identify the overall of capacity to predict the stock price movement, they can develop appropriate policy for wealth maximization objectives as well as identify major factors that influence the stock price and returns of stock in Nepali commercial banks.

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