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# Factors Affecting Share Price of Nepalese Development Banks

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## Abstract

The primary purpose of the research was to investigate the variables that have an impact on the stock price of NEPSE, with a specific intention of focusing on a selected development banks. There have been a number of different financial and statistical tools which considered accomplishing the goal that was desired. Despite the fact that DPS, BVPS, and EPS all had a favorable influence on the MPS, the market price of the stock was also affected by a wide range of internal and external variables. From a theoretical standpoint, the market price per share is said to grow when earnings, dividends, and book value per share all increase, and it is said to decline when these factors decrease. On the other hand, the Nepalese stock exchange, also known as the NEPSE, did not fully support this core premise. Furthermore, the price of the shares is being influenced by a number of external variables too. According to the findings of the survey, herding behavior had a substantial impact on the trading price of the shares. Regardless of whether or not the reported expansion in the banking sector is supported by basic realities, the stock price of this sector tends to climb whenever there are rumors that the industry is experiencing growth. A number of basic parameters, including DPS, BVPS, and EPS, do not have a substantial influence on the MPS of Nepalese development banks.

**Key words:** Market price per share, Earning per share, Dividend per share, Book value per share, Herding behavior

## Introduction

A stock market is a typeof financial platform that has the purpose of facilitating the buying and selling of long-term securities, which can include both debt and equity. Equities are the securities that are traded the most often and are by far the most prominent in the financial markets. When it comes to finance, it is regarded to be a sustainable source. The holders of stocks are granted the right to receive profits in the event that the corporation makes revenues, or the obligation to incur losses proportional to their ownership in the company (Arkan, 2016).

There is a lot of potential for profit when it comes to investing in business company's shares through the secondary market. Whenever there is a requirement for financial resources, it gives investors the opportunity to sell their shares. In addition, shares are purchased by investors for the purpose of capital appreciation, which is the outcome of a growth in the price of shares. There are a great number of internal and external factors that influence the fluctuations in share price. Listed Nepalese firms can only trade their shares on the Nepal Stock Exchange Limited (NEPSE), which is the exclusive market for such transactions. Each individual share of stock is valued on the market at the present time, and the idea of stockprice expresses this worth. At the time that a company makes its shares available for trading by the general public, those shares are given a specific price and valuation that, ideally, should be reflective of the real worth of the company. Variations in the price of a stock can be attributed to a number of factors, such as shifts in the economy, advancements in the industrial sector, political events, disagreements, and changes in the environment. When it comes to the growth of a nation's economy, the banking industry is absolutely essential. Development banks, in particular, perform the role of intermediaries by collecting deposits from a variety of sources and then distributing the accumulated funds to numerous industries and sectors, including agriculture, trade, commerce, manufacturing, and tourism. Because of this, development banks are an essential component of modern society and offer several benefits, particularly in terms of helping the economic development of developing nations like Nepal.

The variations in stock prices have attracted a substantial amount of attention from both academics and practitioners in recent years due to the fact that they may be an indication of potential risk in the financial markets. As a result of its ability to ease theformation of capital, the stock market is a crucial component of economic progress. Through the process of financial pooling, risk sharing, and wealth redistribution, the stock market trade of securities encourages both users and savers of money. There isthe potential for economic activity to be stimulated by a flow of cash to the most beneficial firm. When deciding whether or not

to invest in particular company offers, financial professionals take into consideration the pricing of the company's shares. There is a link between changes in share prices and changes in fundamental financial indicators, according to the hypotheses that have been proposed ( Nisa and Nishat, 2011).

In the years leading up to the global financial crisis, the trend of investment wascentered on the stock market. Investors paid close attention to the shifting share prices of the stock market since it was a significant source of earnings. In order to fulfill the requirements of the corporation, such as expansion and diversification, investments in stocks have been utilized as a source of financial resources. In addition, the market assumption is a reflection of the prevalent thinking of investors with regard to the anticipated price improvement in a market. Both internal and external influences have an impact on the factors that determine the price of a share of stock. On the other hand, there is no information that is suitable or approach that is perfect that can precisely anticipate the precise changes of share prices.

**Problem Statement**

In Nepalese context, financial literacy is crucial in making investment decisions. Investors with better financial literacy tend to make more informed and rational decisions, leading to diversified portfolios and better risk management. Conversely, those with insufficient financial literacy are prone to making irrational decision, often avoiding investments in securities and maintaining undiversified portfolio. The problem statement of the study highlighted the factors that the investors consider while making investment in shares of Nepalese development banks, which stated as:

- How did Earning per share (EPS) affect Nepalese development banks' market price per share (MPS)?
- How did Dividend per share (DPS) affect Nepalese development banks' marketprice per share (MPS)?
- How Book value per share (BVPS) affect Nepalese development banks' market price per share (MPS)?
- How did Herding behavior of stockholders affect Market price per share (MPS) of Nepalese development banks?
- Do Nepalese development banks' share price affected by fundamental condition of bank or not?

**Objective of the Study**

The current study aimed to conclude the relationship between market price per share (MPS) with earning per share (EPS), divided per share (DPS) and book value per share (BVPS). It also examined how market rumors affect or not to the stock price of Nepalese development Banks. The aims of the study can be specified as follow:

- To evaluate Earning per share (EPS) effect on Nepalese development banks' market

price per share (MPS).

- To evaluate Dividend per share (DPS) effect on Nepalese development banks' market price per share (MPS).
- To evaluate Book value per share (BVPS) effect on Nepalese development banks' market price per share (MPS).
- To evaluate herding behavior of stockholders effect on Market price per share (MPS) of Nepalese development banks.
- To evaluate either Market price per share (MPS) of Nepalese development bank affected by fundamental financial condition or not.

**Significance of the Study:**

The existentstudy is significant for those who are interested to involve in share market trading and investment. Moreover, this study is significant for the future researchers for their study. The significance of study can be highlighted as follows:

- The study results indicated that investors should consider EPS, DPS, and BVPS prior to investing in the development bank stocks. Investors and portfolio analysts can utilize the study's findings to identify the aspects to consider when forecasting stock market prices.
- The current study analyzed the internal and external factors influencing the share prices of development banks listed on the NEPSE, contributing to further research on the impact of macroeconomic variables on stock prices for these banks.
- Financial analysts and portfolio managers can leverage the data regarding the elements to consider for their investment decisions while forecasting stock market price.
- This study also analyzed the four development banks to comprehend the elements impacting their share prices.

**Limitations of the Study:**

As the present study based on data of four development banks listed to generalize results of all development bank of Nepal listed in NEPSE. So, there are several limitations of this study which can be pointed as follow:

- This study only analyzed limited factors affecting the MPS of development banks.
- This study only considered four development banks for generalizing condition of all development bank which may very as per other researchers.
- This study only considers financial tools and descriptive tools for analysis but ignored intensive statistical tools under study.
- This study is based on secondary data available due to which results may vary. However, general survey considered for effect of herding behavior.
- This study is conducted within limited time period of four months due to which

details investigation may be lacking.

## Materials and Methods

The methodology of the study takes into consideration the design, the population and the sample, the technique for collecting data, and the analytical tools, which are described as follows:

**Design of the research:**

Various research designs, including analytical, explanatory, descriptive, and qualitative research, have been utilized for interpretation in order to accomplish the objective of the current study. Financial tools have been modified to do factual analysis, and descriptive methods have been implemented in order to forecastthe factors that influence the stock price of Nepalese development banks that are listed on the Nepal Stock Exchange (NEPSE).

**Sample and population:**

For the purposes of this study, the population consisted of all of the development banks that are listed in NEPSE. The sample consisted of development banks that were representative for the purposes of data collection and analysis. For the purpose of this study, a sample of four development banks was chosen at random. It comprised the Muktinath Bikas Bank Limited (MNBBL), the Jyoti Bikas Bank Limited (JBBL), the Kamana Sewa Bikas Bank Limited (KSBBL), and the Garima Bikas Bank Limited (GBBL), all of which were considered to be among the listed development banks that are classified as belonging to category 'B'.

**Methods of the data collection and procedure of analysis:**

In general, the study relied on secondary data, which was gathered from both published and unpublished records belonging to relevant agencies. The data was gathered from the annual reports of SEBON as well as selected development banks, magazines, newspapers, and journals published. Data obtained from secondary sources, including the websites of SEBON, NEPSE, and Nepal Rastra Bank (NRB). Primary data regarding impact of herding behavior on investors to make investment in shares which influence share price collected using questionnaire which administered on 200 Nepalese investors of shares.

A review of the relevant research materials and publications that are thought to shed light onthe investigations is referred to as the "literature review." Count of research publications that were taken into consideration and whose extracts were included in the current articles.According to the findings of researchers, there are a number of internal and external factors that influence stock prices. Internal factors that have an impact on stock price include the performance of the company, the position of its assets, changes in the composition of the board of directors, dividends, and income. Restrictions imposed by the government, economic cycles, investor mood, market conditions, natural catastrophes, and emergencies such as strikes and closures are examples of external factors that might have an impact on

stock prices (Khan and Amanullah, 2012).An investigation was carried out by Bhattarai (2016) with the purpose of elucidating the variables that influenced the share prices of commercial banks that were listed on the Nepal Stock Exchange considering data between the years 2006 and 2014. For the purpose of this study, a regression model was utilized to analyze the data that was gathered from the annual reports of nine commercial banks. The outcomes of the study suggested that earnings per share and price-earnings ratios had a significant positive association with share price. On the other hand, dividend yield displayed a significant negative correlation with share price. According to the findings of the study, the most important factors that determine the price of shares in Nepalese commercial banksare the dividend yield, earnings per share, and price-earnings ratio. This is the major interpretation of the findings.In NEPSE, DPS, BVPS, and EPS do not exhibit a significant connection with the market price of shares among the listed businesses. The pricing strategies differ among companies. However, EPS, BVPS, and DPS all exert a substantial influence on the market price of the share. The analysis indicates that government policy is the primary factor influencing stock market volatility, followed by tax policy. The government policy and its involvement are crucial in stock market volatility. The firm's earning capacity, cash flows, and dividend policy are the second most significant elements contributing to such volatility. The historical and current price fluctuations can significantly aid in predicting future price changes. As the duration of log days increases, the mean value of the serial correlation coefficient diminishes, suggesting that historical price fluctuations may possess limited predictivecapacity for future prices over the long term (Shrestha and Subedi, 2014).

Srinivasan (2012) said that internal variables influence share prices across many markets, including dividends, retained profits, company size, earnings per share, dividend yield, leverage, payout ratio, and book value per share. Comprehending the influence of diverse basic elements on share price is quite beneficial for investors, as it aids in making lucrative investing judgments.

Prabath (2014) determined that internal factors, including firm-specific variables such as dividend per share (DPS), earnings per share (EPS), and book value per share (BVPS), exert a positive and substantial influence on stock prices.

Pradhan and Dahal (2016) conducted an investigation on the factors that have an impact on the share prices of Nepalese commercial credit institutions. In the context of commercial banks in Nepal, the principal factors that determine stock prices are firm-specific variables such as earnings per share, dividends per share, price-earnings ratio, book value per share, return on assets, and size. This was discovered through an analysis of data collected from 14 banks that were listed on the National Exchange for Securities and Exchanges (NEPSE) between the years 2002/03 and 2013/14. It has been shown that the most

important factor that affects share price is the size of the company. Share prices are significantly impacted by a number of macroeconomic variables, including gross domestic product, inflation, and money supply. Among these indicators, gross domestic product serves as a substantial determinant.

In the study conducted by Gyawali (2022), it was discovered that ROA and GDP have a positive influence on stock prices, but not a significant one. On the other hand, inflation has a negative and relatively insignificant influence on the market price per share. The outcomes of this study provided evidence in support of the hypothesis that the price-earnings ratio, earnings per share, and dividend per share all have a significant and beneficial impact on the price of a company's stock.

Chhetri, R (2023) recommended that investors consider BVPS, P/E ratio, ROA, and inflation prior to making investing selections in the stocks of commercial banks. This investigation revealed fresh information from the Nepalese perspective, deemed important to market players. Consequently, the results of this study appear to be especially beneficial for equities investors and fund managers, since they may monitor these critical elements while assessing company returns and forecasting share prices.

8. Theoretical Framework:

This research was carried out inside a certain limit, which is highlighted by the theoretical framework. Following the completion of the literature review, a number of variables that have an impact on the MPS were found. According to the current research, the independent variables that influence the dependent variable market price per share of Nepalese development bank include earnings per share, dividends per share, book value per share, and herding behavior. These variables are regarded to be independent variables.

It can be presented as follow:

**Independent variables** **Dependent variable**

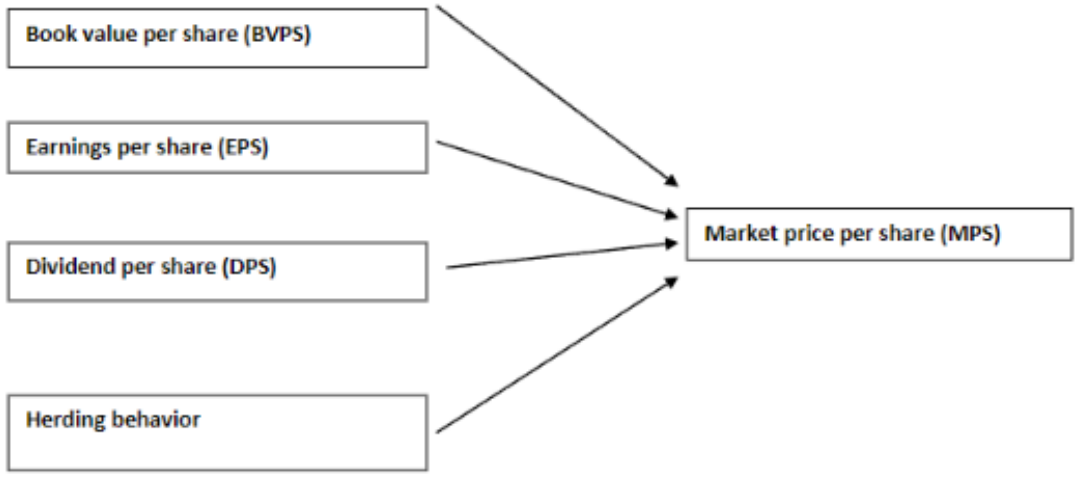


Figure1: Theoretical framework of the Study

## Results and Discussion

A. Fundamental analysis:

Data related to BVPS, EPS, DPS and MPS considered from the annual reports of related development banks for the purpose of fundamental analysis. Analysis presented below based on the five selected fiscal year from 2018/019 to 2022/23 of four selected development banks.

**Table1: Jyoti Bikas bank limited (JBBL)**

| Fiscal year | BVPS | EPS | DPS | MPS |
|---|---|---|---|---|
| 2018/019 | 129.25 | 17.14 | 12.75 | 163.00 |
| 2019/020 | 128.86 | 13.97 | 10.00 | 166.00 |
| 2020/021 | 136.44 | 17.27 | 15.50 | 478.00 |
| 2021/022 | 132.09 | 15.70 | 6.80 | 302.20 |
| 2022/023 | 131.54 | 6.87 | - | 298.00 |
| Mean | 131.64 | 14.19 | 9.01 | 281.44 |

**Source of data**:Annual reports of related development bank

Above table-1 showed relationship between book value per share (BVPS), Earning per share (EPS), Stock and cash dividend per share (DPS) with Market price per share. Table showed data of five fiscal years from 2018/019 to 2022/023 regarding BVPS, EPS, DPS and MPS of Jyoti Bikas bank limited (JBBL). BVPS of bank is almost stable for five selected years which showed average of rupees 131.64. However, MPS of bank during five years were not in the line of BVPS i.e. MPS was fluctuating during five years from lowest rupees 163 to highest rupees 478 in 2020/021 and down to rupees 298 in 2022/023. This showed the effect of BVPS is least on market prices per share of the bank.

Similarly, EPS of JBBL is not stable during five selected years under study. It fluctuated from rupees 17.14 in the year 2018/019, again down to rupees13.97 in the year 2019/020, and finally lowest down to rupees 6.87 in the year 2022/023. MPS was almost in the line of flotation with EPS in different year, but impact is not same as EPS on the MPS.

Stock and cash dividend per share of JBBL was continuously declining from rupees 12.75 in the year 2018/019 to lowest zero in the year 2022/023. However, company

maintained average DPS rupees 15.50 in the year 2020/021. The effect of DPS was also not consistent to the MPS. These results showed least effect of BVPS, EPS and DPS on the MPS of JBBL.

**Table2: Kamana Sewa Bikas bank limited (KSBBL)**

| Fiscal year | BVPS | EPS | DPS | MPS |
|---|---|---|---|---|
| 2018/019 | 128 | 11.20 | 6.80 | 160.00 |
| 2019/020 | 126 | 4.71 | 4.63 | 145.00 |
| 2020/021 | 145 | 22.56 | 19.47 | 580.00 |
| 2021/022 | 139 | 18.78 | 4.64 | 349.00 |
| 2022/023 | 144 | 11.01 | - | 327.00 |
| Mean | 136.40 | 13.65 | 7.11 | 312.20 |

**Source of data:**Annual reports of related development bank

Above table-2 showed relationship between book value per share (BVPS), Earning per share (EPS), Stock and cash dividend per share (DPS) with Market price per share of Kamana Sewa Bikas bank limited (KSBBL). Table showed data of five fiscal years from 2018/019 to 2022/023 regarding BVPS, EPS, DPS and MPS of KSBBL. BVPS of bank was almost in the condition of up to down and again down to up during five selected years which showed average BVPS of rupees 136.40. MPS of bank during five years were almost in the line of BVPS i.e. MPS is fluctuating during five years from lowest rupees 145 in the year 2019/020 to highest rupees 580 in the year 2020/021 and down to rupees 327 in the year 2022/023. This showed the effect of BVPS consistent on market prices per share of the bank.

Similarly, EPS of KSBBL was not stable during five selected years under study. It fluctuated from rupees 11.20 in the year 2018/019, again down to rupees 4.71 in the year 2019/020, and finally to rupees 11.01 in the year 2022/023. MPS was almost in the line of fluctuation with EPS in different year, but impact was not same as EPS on the MPS.

Stock and cash dividend per share of KSBBL was continuously declining from rupees 6.08 in the year 2018/019 to lowest zero in the year 2022/023. However, company maintained highest DPS rupees 19.47 which resulted highest MPS rupees 580 in the year 2020/021. The effect of DPS was almost consistent to the MPS. These result showed effect of BVPS, EPS and DPS on the MPS of KSBBL. However, such effect was not significant.

**Table 3: Muktinath Bikas bank limited (MNBBL)**

| Fiscal year | BVPS | EPS | DPS | MPS |
|---|---|---|---|---|
| 2018/019 | 145.18 | 27.94 | 18.53 | 370.00 |
| 2019/020 | 134.53 | 16.56 | 15.51 | 312.00 |
| 2020/021 | 141.98 | 24.03 | 18.51 | 657.00 |
| 2021/022 | 142.77 | 23.72 | 14.21 | 440.00 |
| 2022/023 | 145.82 | 19.44 | 10.26 | 407.00 |
| Mean | 142.06 | 22.34 | 15.40 | 437.20 |

**Source of data:**Annual reports of related development bank

Above table-4 showed relationship between book value per share (BVPS), Earning per share (EPS), Stock and cash dividend per share (DPS) with Market price per share of GBBL. Table showed data of five fiscal years from 2018/019 to 2022/023 regarding BVPS, EPS, DPS and MPSof GBBL. BVPS of bank was almost stable and slightly increasing for five selected years which showed average of rupees 142.18. However, MPS of bank during five years were not in the line of BVPS i.e. MPS was fluctuating duringfive years from lowest rupees 124 to highest rupees 544 in the year 2020/021 and down to rupees 405 in the year 2022/023. This showed the effect of BVPS least on market prices per share of the bank.

Similarly, EPS of GBBL was not stable during five selected years under study. It fluctuated from rupees 21.32 in the year 2018/019, again down to rupees 17.82 in the year 2019/020, and finally highest to rupees 24.38 in the year 2022/023. MPS was not in the line of fluctuation with EPS in different year.

Stock and cash dividend per share of GBBL was continuously declining from rupees 16.84 in the year 2018/019 to lowest rupees 10 in the year 2022/023. However, company maintained average DPS rupees 16 in the year 2020/021. The effectof DPS was also not consistent to the MPS. These results showed least effect of BVPS, EPS and DPS on the MPS of GBBLB. Empirical evidence of herding behavior of investor affecting share price:1. Demographic profile of respondents:Data collected from questionnaire administration dated 2024-06-01 to 2024-09-10, which included questions regarding attitude of investors towards investment in shares and share price. Twenty questions asked from respondents which focused the behavior of investor toward share price. Demographic profile of 200 respondents responded are as follows:

| **Elements** | **Descriptions** |
|---|---|

| | |
|---|---|
| Gender of the respondents | Total male respondents:150<br>Total female Age of the respondents |
| Age of the respondents | Below 20: 50 respondents<br>21-30 : 50 respondents<br>31-40 : 50 respondents<br>41-50 : 50 respondents |
| Profession of the respondents | Student: 70 respondents<br>Businessmen: 60 respondents<br>Government employee: 20 respondents<br>Private employee: 50 respondents |
| Literacy of the respondents | Literate: 160 respondents<br>Non literate: 40 respondents |

**Table 5:**Demographic profile of Respondents

**2. View of investor toward investment in shares and share prices rise:**

Views collected from non-professional investors who were interested to invest in Nepalese companies shares listed in NEPSE. On the basis of gender, male investors are more sensitive to make investment in comparison to female investors. Maximum female investors responded that they make investment when NEPSE index is favorable. However, some male investors reacted that they also consider fundamental analysis. On the basis of age, younger investors were aggressive to make investment in share when there were rumors of price rise. While aged investors were sensitive for making rational investment. On the basis of profession, employees were sensitive to make investment considering some fundamental analysis, but businessmen invested as per up warding NEPSE index. On the basis of literacy, literate have some knowledge regarding investment in shares. However, non-literate showed irrelevancy regarding investment in share and price rise.

The theme of views which expressed in the questionnaire by respondents generalized that investors of shares who are not professional investors, made invest on the basis of rumors of price rise. So, the Nepalese share price more affected by herding behavior rather than fundamental facts. It influenced by some professional investment players. They had been creating rumors and general investors had been making investment which resulting share price rise.

**Findings of the study:**

The major findings of the study 'factors affecting share price of Nepalese development banks' based on data of five selected fiscal years can be highlighted as:

- The average BVPS of selected five year periods for JBBL was rupees 131.64, MNBBL was rupees 142.06, KSBBL was rupees136.40 and GBBL was rupees142.18 which resulted average MPS of rupees 281.44 for JBBL, rupees 437.20 for MNBBL, rupees 312.20 for KSBBL and rupees 358.60 for GBBL respectively. It observed that MNBBL had higher influence of BVPS on the MPS.
- The average EPS of selected five year periods for JBBL was rupees 14.19, MNBBL was rupees 22.34, KSBBL was rupees 13.65 and GBBL was rupees 21.75 which resulted average MPS of rupees 281.44 for JBBL, rupees 437.20 for MNBBL, rupees 312.20 for KSBBL and rupees 358.60 for GBBL respectively. It observed that MNBBL had higher influence of EPS on the MPS in comparison to other development banks.
- The average DPS of selected five year periods for JBBL was rupees 9.01, MNBBL was rupees 15.40, KSBBL was rupees 7.11 and GBBL was rupees 14.31 which resulted average MPS of rupees 281.44 for JBBL, rupees 437.20 for MNBBL, rupees 312.20 for KSBBL and rupees 358.60 for GBBL respectively. It observed that MNBBL had most synchronized influence of DPS on the MPS in comparison to other development banks
- The pattern of changes in fundamental elements i.e. BVPS, EPS and DPS of selected five fiscal years not showed influence on MPS in synchronized pattern for the selected development banks.

Considering the survey conducted through questionnaire about non-professional investors that they make investment on the basis of rumors which resulted share price rise. Stock market generally, driven by expert group of investors. Other had been making investment as per rumors. So, herding behavior for making investment of the general investors influenced share price.

## Conclusion

In the research that was carried out, the fluctuation of the share prices of selected Nepalese development banks was explored, along with the relationship between the BVPS, EPS, and DPS of banks that are listed on the Nepal Stock Exchange Limited. According to the findings of the research, there was a favorable correlation between the market price per share of development banks and earnings per share going from 2018/019 to 2022/23. The findings of the study indicated that the dividend per share, earnings per share, and book value per share were

the most important variables that had an impact on the share prices of Nepalese development banks. On the other hand, a significant portion of share price was determined by the herding tendency of general investors. When it comes to developing countries like Nepal, the expansion of stock markets is contingent upon the formation of efficient administration and democratic accountability. One should not make an investment in the company's stock based on rumors of a priceincrease; rather than, investor should wait to make such an investment until have completed comprehensive fundamental, technical, and trend examinations. For the purpose of encouraging investors to take part in their common stocks, financial institutions ought to place an emphasis on a dividend pattern that is both consistent and expanding. The ultimate goal of the corporation should be to maximize the wealth of its shareholders through the distribution of dividend returns. Based on the findings of the investigation, it was determined that investors had limited possibilities for investing in different areas. The stock market in Nepal is dominated by banks and other financial organizations from all around the country. NEPSE and SEBON ought to collaborate on the formulation of a strategy that would actively promote various types of firms, such as manufacturing, trading, and real estate, to list on NEPSE. It would have the effect of expanding the size of the market and providing investors with new investment options. As a result of the development of the securities market, the impact of some groups of stock price influencers will reduce, which will encourage general investors to make investments based on fundamental research rather than on the basis of rumors.

**Conflict of interest:**

The current study is being carried out for the objective of generalizing information as well as for the purpose of achieving the author's personal goals. This activity is not carried out for a particular organization for the aim of serving that organization. Therefore, there is no potential for any parties to have a conflict of interest regarding the inquiry that is being studied.

**Data availability:**

The different information utilized in the investigation is my own efforts, which were obtained mostly through the involvement of own self. Data that has been made available for study is my original work.

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