

Quest on Determinants of Stock Price in Nepal: Evidence of Microfinance Sector Share Listed in NEPSE

Khem Raj Subedi

Tikapur Multiple Campus, Far Western University, Nepal

Email: khem7434@gmail.com

Abstract

Stock markets are crucial for economic prosperity, capital formation, and sustainable economic growth. It facilitates resource flow, investment opportunities, pooling funds, sharing risk, and wealth transfer between savers and users. This paper investigates the determinants of stock price traded in Nepal's secondary market through NEPSE, focusing on the microfinance sector. The study uses descriptive, analytical, and inferential research to analyze the determinants of microfinance companies' market prices. The econometric model's coefficient of variation value is 0.90, indicating that 90 per cent change in the market price of the microfinance company is defined by the explanatory variables included in the model. Market price per share is positively correlated with earnings per share, return on equity, price-earnings ratio, and book value, while inversely correlated with floating share size. Independent variables like earnings per share, price-to-earnings ratio, and floating shares are statistically significant. However, other fundamental aspects of equity, such as book value per share and return on equity, are not statistically significant. This highlights the importance of considering company-specific factors in investment decisions in Nepalese capital markets. In conclusion, there is serious gap of financial literacy from the part of vast majority of market participant lacking investment optimization.

Keywords: Market price per share, earning per share, price earnings ratio, book value per share, return on equity, number of floating shares, investment optimization



Introduction

Financial market is a marketplace, where creation and trading of financial assets like shares, debentures, bonds, derivatives, currencies and so forth takes place. It plays very important role in allocating scarce resources in the economy of the country (Security Exchange board of Nepal, 2020). Capital market is one of the major components of financial market of any economy where long term investible funds are traded between savers and users. The history of Capital market is not too long in Nepal. Equity share investment is one of the key investment paths that provide significant returns for investors. But, unusual stock price instability makes confusion for them, as well as troubles for policymakers and the government authorities (Wagle, 2021). Stock markets operate as an intermediary between savers and users of capital by means of pooling funds, sharing risk, and transferring wealth (Almumani, 2014). Financial market plays key role to establish linkage between financial resource savers and users. In the modern financial world, stock market framework is popular intermediary to establish institutional relation between savers and users of financial resources (Subedi, 2022).

Determinants of share price are a topic of debate among scholars and academia. Economists and investors differ on the pricing of shares, with instability and volatility causing confusion for investors. This confusion affects market participants, policymakers, and government authorities. Research on key factors related to stock price is crucial. The Efficient Market Hypothesis (EMH) suggests that share prices reflect information about a company's share and trade at fair market value (Borges, 2008). Fundamental factors like dividend per share (DPS), earnings per share (EPS), dividend payout ratio, dividend yield, net worth, and firm size determine share prices. Fundamental analysts use stock valuation ratios to estimate future share prices. If fair value is not equal to current price, the stock is either over or under valued, leading to a market price drop (Sundaram, 2016).

This investigation is focused on the determinants of microfinance share price traded in the NEPSE, the Nepalese share trading intermediary in the secondary market. This study adopts microeconomic approach to identify the possible determinants of the microfinance stock price. Microfinance sector share price is observed to be more volatile than other sectors. This volatility is due to crucial factors like demand and supply. Theoretically, share price depends on the internal

and external factors such as earning per share, dividend policy, price to earnings ratio, and book value per share. The study uses the 365-day moving average price of the microfinances companies having at least 365 day moving average as a dependent variable whereas the independent variables were earnings per share, price earnings ratio, return on equity, book value per share, and number of floating shares as independent variables. The main objective is to identify the determinants of market share price of the microfinance sector companies that are listed in Nepal's secondary market intermediary institution NEPSE.

Microfinance is the provision of broad range financial services to the poor who are traditionally not served by the conventional financial institutions (Ledgerwood, 1999; Hartarska, 2005). But in the Nepalese stock market context, most of microfinance companies are low capital base there less supply of floating shares. This created high degree of speculation and high volatility is seen. This is rationale of selecting this sector of the NEPSE listed share of stock market of Nepal. The main objective of this study is to identify determinants of market share price of microfinance sector market price traded in NEPSE an emerging capital market of Nepal. The specific objective is to examine the effect of EPS, PE ratio, return on equity (RoE), book value per share (BVPS) and number of floating shares (NFS) on stock price of Microfinance sector and to explore better understanding for safeguarding investment interest of market participants.

Literature Review

The capital market plays a significant role in financial mobilization, procuring long-term funds, and optimizing investible funds. This study aims to provide a comprehensive theoretical and empirical review pertaining to drivers of price in stock markets, focusing on fundamental and technical factors influencing market reactions and sentiments. It aims to fill a gap in literature. Several studies have carried around the world to explored the determinants stock price. They are summarized hereunder:

Theoretical Review

The classical theory of asset pricing is intrinsic value which is based on the labour theory of value developed by classical economists. This posits that the actual value of a company or an asset is based on an underlying perception of its true value. This value includes all aspects of the business, regarding both tangible and intangible

factors. This value may or may not be the same as the current market value. Value investors use a variety of analytical techniques to estimate the intrinsic value of securities in hopes of finding investments where the true value of the investment exceeds its current market value (Shaikh, 1998).

Charles Dow developed the Dow Theory in the late 1800s which is based on the idea that the price in the stock market moves in three trends: the primary trend, the secondary trend, and the minor trend. The primary trend is the overall direction of the market, which can last for several years. The secondary trend is a correction to the primary trend, which can last for several months. The minor trend is a short-term fluctuation in the market, which can last for several days. This theory also emphasizes the importance of volume in confirming price movements. If one of the prices are rising in high volume, it is considered to be a bullish sign. On the other hand, if prices are falling on high volume, it is considered to be a bearish sign. Dow's Theory also emphasizes the importance of trend confirmation (Brown et al., 1998).

Gordon and Shapiro developed the dividend discount model of stock price determination publishing their renowned book in 1938 titled "The Theory of Investment Value." The dividend discount model (DDM) is a method of valuing a company's stock based on the net present value of future dividend payments. Essentially, DDM is a valuation model that focuses on the present value of expected future dividends. According to this model, the intrinsic value of a stock is the present value of all future expected dividends (Penman, 1998).

The Capital Asset Pricing Model (CAPM) was developed by William F. Sharpe, John Lintner, and Jan Mossin independently in the early 1960s. William Sharpe introduced the model in his seminal paper "Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk," which was published in the Journal of Finance in 1964. Since then, the model has become a fundamental tool in finance for estimating the expected return on an investment based on its systematic risk. CAPM is a model that establishes a relationship between the expected return of an investment and its risk. It suggests that the expected return of a stock is equal to the risk-free rate plus a risk premium based on the stock's systematic risk (Elbannan, 2015).

Elliott Wave Theory is a technical analysis approach to financial market forecasting that was developed by Ralph Nelson Elliott in the 1930s. It is based on

the idea that market prices move in repeating patterns or cycles, and these patterns can be identified and used to predict future price movements. The theory is widely used by traders and analysts in the field of technical analysis (Subedi, 2022).

The efficient market hypothesis (EMH) is one of the milestones in the modern financial theory. It was developed independently by Samuelson (1965) and Fama (1965), and in a short time, it became a guiding light not only to practitioners, but also to academics. The EMH posits that share prices reflect all available information, making consistent alpha generation impossible. It suggests that it's impossible to outperform the market through expert stock selection or market timing, requiring riskier investments for higher returns.

Another theory on determinants of stock price is Random walk theory (RWT). RWT was popularized by Malkiel in his 1973 book titled "A Random Walk Down Wall Street." Random walk theory suggests that market prices are unpredictable and unpredictable, limiting investors' opportunities for substantial returns. Market efficiency allows rational decision-making, as taking advantage of market irregularities is the only way to achieve above-average profits. Although markets may never be entirely efficient, investors always have a chance to profit (Agwuegbo et al., 2010).

Stephen Ross developed the Arbitrage pricing theory (APT) in 1976 as an alternative to the capital asset pricing model (CAPM). APT is a multi-factor asset pricing model that predicts an asset's returns using the linear relationship between expected return and macroeconomic variables, aiming to capitalize on market mispricing deviations from fair market value (Roll & Ross, 1984).

Market microstructure is a finance branch that studies market exchange processes, focusing on real or financial assets. It examines how market processes affect transaction costs, prices, quotes, volume, and trading behavior. In the 21st century, it explores market abuse, insider trading, manipulation, and broker-client conflict (Madhaban, 2000).

Behavioral finance suggests that people often make financial decisions based on emotions and cognitive biases, rather than rationality. This can lead to investors holding losing positions and buying in bull markets, but has not yet produced future strategy insights. In other words, behavioral finance incorporates insights from psychology to explain stock price movements. It suggests that investor behavior,

emotions, and cognitive biases can influence market outcomes. Behavioral finance challenges the assumption of rationality in traditional finance theories (Brooks & Byrne, 2008).

The theories summarized above are not mutually exclusive, and investors often use a combination of approaches to make investment decisions. Additionally, the efficiency of markets and the factors influencing stock prices can vary over time and across different market conditions.

Empirical Review

Singhania (2006) study based on stock market of India book value, dividend, dividend cover, dividend yield, earnings and price earnings ratio. Pradhan (2006) concluded that large stocks have large PE ratios and large ratios of the market value to book of equity and smaller dividends. PE ratios and dividend ratio are more variable for smaller stocks whereas market value to book value of equity is more variable for the large stocks. He further concluded that large stocks also have lower liquidity, higher leverage, lower profitability, and lower assets turnover interest coverage stocks.

Al-Omar and Al-Mutairi (2008) asserted that stock prices in an efficient market measure a firm's performance and value. Understanding the main variables influencing stock market prices helps corporate owners and investors make informed decisions. The capital market plays a significant role in financial mobilization, procuring long-term funds, and optimizing investible funds. Stock price movements are influenced by macroeconomic factors, social events, market sentiments, and policy announcements.

Singh (2010) stated that stock price movements are influenced by macroeconomic factors, social or political events, market sentiments / expectations about future economic growth trajectory, monetary and fiscal policy announcements, among others.

Al- Shubiri (2010) investigated the relationship of microeconomic factors with the stock price using simple and multiple regression analysis. In this study, 14 commercial banks of Amman Stock Exchange, for the period of 2005 -2008, were selected as sample. The study found highly positive significant relationship between market price of stocks and net asset value per share; market price of stock dividend percentage respective shares.

Sharma (2011) studied the impact of equity share prices on various variables from 1993-94 to 2008-09. Results showed earnings per share, dividend per share, and book value significantly affect share market prices. The strongest determinants were dividend per share and earnings per share, supporting liberal dividend policies.

Joshi (2012) studied dividends' impact on stock price in Nepal found that dividends had a stronger effect than retained earnings. The study used secondary data and a multivariate linear regression analysis to examine the implications for the banking and non-banking sectors. The findings suggest dividends have a more significant effect on market stock prices.

Lundholm and Sloan (2012) argue stocks are equities that investors invest in companies for higher returns. Malhotra and Tandon (2013) highlight the dynamic nature of the stock market, requiring accurate forecasting for optimal returns. Shares offer liquidity and the potential to beat the market. Investment in shares offers the benefit of liquidity as well as the opportunity to beat the market and earn high returns. Financial transactions are of tremendous important to a country's economy performance. Investing in equity shares is regarded as popular way to achieve a decent return of money, which are the most prevalent and actively traded securities (Arkan, 2016).

Pradhan and Dahal (2016) investigated factors influencing Nepali commercial banks' share price, finding earnings per share, price-earnings proportion, dividends, book value, return on assets, and size as the most important determinants. Size was found to be the most influential variable.

Velankar et al. (2017) studied the impact of EPS and DPS on stock price of Indian public sector banks over nine years (2006/07 – 2014/15). Their results showed a significant effect of EPS and DPS on stock price, suggesting other factors may influence it.

Ghimire and Mishra (2018) underscore that stock market provides market place for all range of investors small and big to optimize their investment. Nowadays, vast majority of people are interested in investment in the stock market, though they are aware of its price volatility.

Bhattarai (2018) studied the impact of microeconomic and macroeconomic variables on stock price of banks and insurance companies in Nepal. Results showed

a positive correlation between earnings per share, dividend per share, price-earnings ratio, firm size, GDP, and exchange. However, return on equity, return on assets, and money supply had a negative correlation. All individual variables had a significant effect on stock price. Neupane (2019) concluded that there is correlation among the variables ROE, DPS, PE ratio and BPS have average correlation with market price but EPS is higher positive correlation.

Silwal and Napit (2019) found that stock price in Nepali commercial banks is positively correlated with price-earnings ratio, book value per share, and return on equity. Dividend yield influences stock price, while size has a negative link. Financial market plays a crucial role in allocating resources. Maskey (2022) investigated the factors affecting market share prices of life insurance companies listed on the Nepal Stock Exchange (NEPSE). The finding that earnings per share, dividend per share, price-earnings ratio, company age, and dividend yield are major determinants of share price. The study concludes that dividends significantly influence Nepalese investors' investment decisions and that company dividend policies significantly influence these decisions.

Dhodary (2023) analyzed the determinants of stock price in Nepalese commercial banks using a quantitative method and descriptive research. The price-earning (P/E) ratio is nil in some years due to no earnings per share. Share price is positively correlated to BVPS, PE, ROE, and dividend payout ratio, while negative with firm size.

The summary of literature presented above clearly indicates the stock price is influenced by multiple factors, including earnings, dividends, price-earnings ratio, book value, and return on equity. However, Nepalese stock market research lacks proper analysis, leading to a gap between theory and practice. The special consideration is on number of floating shares of microfinance sector. That has given rise to high speculation to rise in the price without any financial performance and fundamental root as the researcher's insight. Stating alternatively, companies with lower floating share volumes are more volatile, especially in microfinance share prices. In this context, the researcher proceeds to examine whether number of floating shares impacts the market price per share in microfinance sector.

Methods

This study has adopted descriptive and analytical. The panel regression model was applied to fulfill objectives. In NEPSE more than 234 scripts are listed for secondary market trading purpose (Security Board of Nepal, 2022). These scripts belong to 13 sector as categorized by NEPSE and Security Board of Nepal as per the nature of Nepalese economy. The researcher has selected share price of microfinance cluster as a sample for carrying out this study. The rationale of selecting microfinance is due its most volatility in the stock price of this sector. The microfinance having at least 365-days moving average price is selected for the year 2022. Based on the time and cross sectional character of data, it is a panel data. The secondary data were obtained from the NEPSE, Nepal Rastra Bank, Security Exchange Board of Nepal and Financial report of sample microfinance companies.

Variables, Model Fit and Hypothesis

Several studies have been conducted to explore the determinants of stock market price (SMP). These studies have identified earning per share (EPS), dividend per share (DPS), Return on Equity (RoE), price earnings ratio (P/E Ratio), book value per share (BVPS), size of floating share (NFS). Some of them have been reviewed in this study in order to avoid possible duplication and bridge the gap. Stock price is determined by various internal and external factors. There are so many factors which determine the price of share which are as follows:

Stock Market Price

The most significant factor for investors to identify optimal price of individual company to optimize investment. Generally, the share price is an indicator of a company's overall strength; if it goes up and up, it means the companies are doing well. Therefore, investors try identify point of entry and exit to buy and sell share of particular company (Gill et al., 2012).

Earnings Per Share

EPS is the share of a stock on a company's earnings, measuring the return of equity shareholders and indicating the profitability of shareholders' investments. It reflects the profitability of banks on a per share basis, with higher earnings indicating better performance. It can be presented symbolically as:

$$\text{EPS} = \frac{\text{Total Earnings available to common shareholders}}{\text{Number Outstanding of Shares}}$$

The previous studies around revealed a positive linear relationship between earning per share and market stock price (Uddin, 2009; Al- Shubiri, 2010; Sharma,2011; Khan & Amanullah, 2012; Srinivasan, 2012). The higher the earning per share, higher will be the market price. In this research, researcher has used trailing twelve month EPS of 42 microfinances. The literatures from previous studies depicted a positive signification relationship between dividend per share and market stock price (Irfan & Nishat, 2000; Sharma, 2011). Srinivasan (2012) discovered a negative significant relationship between dividend per share and market stock price of Manufacturing, Pharmaceutical, Energy, and Infrastructure Company.

Price Earnings Ratio

The Price Earnings Ratio is a stock's market price divided by its earnings per share (EPS), comparing market value to earnings per share. It is widely used to assess potential investments and positively impacts a company's stock price. A high PE encourages investors to buy shares, leading to a higher market price (Molodovsky, 1995; Tandon & Malhotra, 2013). It can be presented symbolically as:

$$\text{Price Earning Ratio} = \frac{\text{Market price per Share}}{\text{Earnings Per Share}}$$

The higher the PE ratio, overvalued company and lower the PE ratio, cheaper stock price. In this research, researcher has used PE of 42 microfinances.

Book Value Per Share

Book value per share (BVPS) is the ratio of equity available to common shareholders divided by outstanding shares, providing insight into a company's stock valuation. It has a positive relationship with market price (AL-Omar & AL-Mutairi, 2008; Uddin, 2009; Al- Shubiri, 2010; Srinivasan, 2012; Malhotra & Tandon, 2013; Almunani, 2014). Book value per share (BVPS) indicates a company's stock's value and future market price; higher BVPS indicates better company value, while lower

BVPS weakens it. The formula for calculating the book value per share is given as follows:

$$\text{BVPS} = \frac{\text{Total Shareholder's Equity} - \text{Preferred Equity}}{\text{Total Outstanding Common Shares}}$$

Return on Equity

Return on Equity (RoE) is the measure of a company's net income divided by its shareholders' equity. It is a gauge of a corporation's profitability and how efficiently it generates those profits. The higher the RoE, the better a company is at converting its equity financing into profits. Neupane (2019) found a correlation between RoE and market price, with higher RoE indicating better financial position, and lower RoE weaker. The formula for calculating the book value per share is given as follows:

$$\text{RoE} = \frac{\text{Company's net income}}{\text{Shareholders equity}}$$

Number of Floating Share

Number of Floating Share (NFS) represents a company's available shares for trading in the open market, while free float represents outstanding shares minus restricted shares, primarily held by strategic investors (Çalışkan & Kerestecioğlu, 2013). In other words, to calculate a company's floating stock, subtract its restricted stock and closely held shares from its total number of outstanding shares. Faruk and Saim's (1997) study investigates the impact of free float ratios on Turkey's stock market performance. Results show that higher floating ratios result in higher average daily closing prices and trading activity. However, price volatility increases with higher free float ratios.

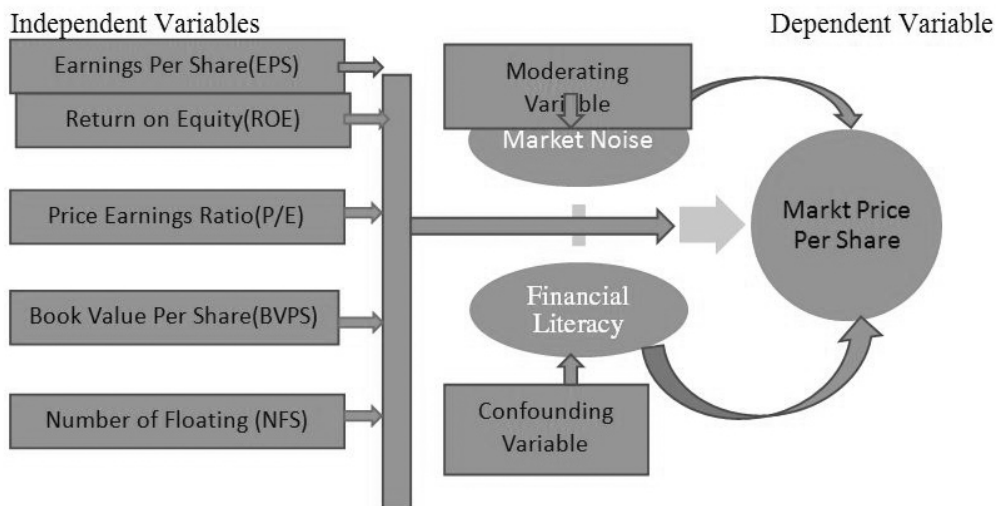
Conceptual Framework

Based on the literature review, the researcher has developed the following conceptual framework for the current investigation. In other words, the researcher proposes market price of the micro finance per share is the function of earning per share, return on equity, price earnings ratio, book value per share, number of floating share. Essentially, the market noise as the moderating variable and financial literacy as the confounding variable are also expected to influence the market price of the

share. But, this does take date relating these. Therefore, acknowledge their influence but does not account them as determinants. This can be presented as follows:

Figure 1

Schematic Diagram showing Conceptual Framework



Note: This figure displays relation between dependent variable market price share with its determinants developed by author based on the insight from literature review.

Hypothesis of the Study

Research hypothesis is essentially, gives direction to the current investigation. Based on the proposed conceptual framework, following research hypothesis is set:

H₀: ($\beta=0$) Market price of share (MPS) microfinance sector is not significantly influenced by the independent variables such as BVPS (book value per share), EPS (earning price per share), return on equity (RoE), price earnings ratio (PE ratio) and number of floating shares (NFS).

H₁: ($\beta\neq 0$) Market price of share (MPS) microfinance sector is significantly influenced by independent variables such as BVPS (book value per share), EPS (earning price per share), return on equity (RoE), price earnings ratio (PE ratio) and number of floating shares (NFS).

Specification of the Model

Based the literature review researcher has proposed following econometric model for testing hypothesis of the research:

$$MPS_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 P/E_{it} + \beta_3 RoE_{it} + \beta_4 BVPS_{it} + \beta_5 NFS_{it} + \varepsilon_{it} \quad \dots \quad (1)$$

Where,

MPS_{it} = Market price of the share 'i' th company for time 't'.

EPS_{it} = Earnings per share 'i' th company for time 't'.

P/E_{it} = Price earnings ratio per share 'i' th company for time t.

ROE_{it} = Return on equity of 'i' th company for time 't'.

$BVPS_{it}$ = Book value per share of 'i' th company for time 't'.

NFS_{it} = Number of floating shares of 'i' th company for time 't'.

ε_{it} = Error terms.

β_0 = Intercept term to be estimated

$\beta_1, \beta_2, \dots, \beta_5$ = Slope coefficient to be estimated

Results and Discussion

This section interprets the estimated output result of Analysis of Variance (ANOVA), descriptive statistics of key variables, correlation matrix and regression output result. They outlined here under:

Analysis of Variance

Analysis of Variance (ANOVA) provides information about levels of variability within a regression model and form a basis for tests of significance. In other words, it gives about model fit summary information for proposed regression model. Multiple linear regression attempts to fit a regression line for a response variable using more than one explanatory variable. In Table 1, the calculated F-value for ANOVA is less than 0.01, it implies that we can reject null hypothesis that slope coefficients are zero and accept research hypothesis that market price of share(MPS) microfinance sector is significantly influenced by the independent variables included in the model such as BVPS (book value per share), EPS (earning price per share), return on equity(RoE), price earnings ratio (PE ratio) and number of floating shares(NFS).

Table 1*Analysis of Variance*

Source of variation	df	SS	MS	F	Significance F
Regression	5	1983948.143	396789.60	6.084	0.000
Residual	36	2347736.429	65214.90		
Total	41	4331684.571			

Note: This table shows Analysis of Variance result based on researcher's calculation.

Correlation Matrix of the Variables

The included variables were tested for multi-collinearity. According to Ratner (2009) if an absolute value of correlation between the variables is more than 0.8 (except principal diagonal) signifies multi-collinearity. The correlation matrix displayed in Table 2 shows no correlation value higher than 0.75, which is quite lower than 0.8 indicate that multi-collinearity is not a problem in the proposed econometric model. All the variables could initially be included in the analysis.

Table 2*Correlation Matrix of the Variables*

Variables	LTP	Book Value	EPS	ROE	PE	NFS
LTP	1	0.259	0.410	0.277	0.107	-0.216
Book Value	0.259	1	0.750	0.328	-0.479	0.490
EPS	0.410	0.750	1	0.701	-0.560	0.409
ROE	0.277	0.328	0.701	1	-0.442	0.217
PE	0.107	-0.479	-0.560	-0.442	1	-0.381
NFS	-0.216	0.490	0.409	0.217	-0.381	1

Note: This table shows correlation matrix of variables used in regression model based on researcher's calculation.

Descriptive Statics of the Variables

This table describes the mean, median, standard deviation, minimum and maximum value for the dependent i.e. market price microfinance company and independent variables EPS, PE ratio, RoE, BVPS and NFS of microfinance companies. The mean stock price for the forty-two microfinance companies is 1327.71 and standard deviation is 325.04 based on 365 moving average price. The minimum stock price is 725 and maximum is 2352. The PE ratio has the mean of 36.22 and standard deviation of 16.20. The minimum PE ratio is 19.3 and maximum is 95.80. The mean EPS is 35.34 with standard deviation of 15.99. The minimum EPS is 10.78 and maximum is 100.11. The mean RoE is 19.31 and standard deviation of 8.73. The minimum ROE is -5 and maximum is 37. The mean BVPS is 186.31 and standard deviation of 49.37. The minimum BVPS is 122.79 and maximum is 318.83. Likewise, the mean NFS is 2182121 and standard deviation of 8.73. The minimum NFS is 257400 and maximum is 11388090.

Table 3

Descriptive Statistics of Key Variables

Variables	Mean	Median	Maximum	Minimum	Standard Deviation
MPS (Rs.)	1327.71	1271.00	2352.00	725.00	325.04
EPS (Rs.)	35.34	35.98	100.11	10.78	15.99
PE (times)	36.22	30.85	95.3	19.8	16.20
ROE (%)	19.31	20.00	37.00	-5.00	8.73
NFS (unit)	2182121	1152330	11388090	257400	2453697
BVPS (Rs)	186.31	167.75	318.83	122.79	49.37

Note: The table above shows descriptive statistics of the variable used in the model based on researcher's calculation.

Result of Regression Analysis

Multiple regression analysis is considered extremely important in the research which helps to estimate the rate of change in dependent variable due to the corresponding change in independent variables. Gallo (2015) states that regression

analysis usage of statistical technique for organizing as to which variable can indeed have an impact. The estimated output result of proposed regression model shows R² value 0.905 meaning that more than 90 percent in the variation in market price is defined by independent variables included in the model. D-W statistic value 1.73 implies there is no autocorrelation problem. The result also depicts that MPS is positively correlated with EPS, RoE, PE ratio and BVPS and inversely correlated with NFS. The inverse correlation between MPS and NFS implies that lower the size of floating share or public issues lower the supply size and higher the price. As normally, this happens in commodity market too. According to behavioral finance, the lower supply creates speculative components in equity market. Likewise, coefficients of independent variables EPS, PE ratio and NFS are statistically significant at 5 percent and 1 percent. However, BVPS and RoE are not statistically significant. This implies that generally investors do not consider the BVPS and RoE in investment decision in Nepalese context.

Table 4

Estimated Output Result of Regression Model

Dependent Variable: Market Price Per Share of Micro finance sector (MPS)				
Variables	Coefficients	Standard Error	t-Stat	p-value
Constant	482.30	273.488	1.76	0.086*
BVPS	0.799	1.411	0.567	0.574
EPS	14.442	5.554	2.600	0.013**
ROE	0.333	7.123	0.046	0.963
PE Ratio	8.234	3.067	2.684	0.011**
NFS	-0.000	0.000	-2.864	0.007***
R ²	0.905			
Adjusted R-squared	0.895			
D-W Statistics	1.73			
Prob.(F-stat)	0.000			

*, **, ***Significance of coefficient at 10 percent, 5 percent and 1 percent level of significance.

Note: This table shows the estimated regression model output result based on researcher's calculation using

Based on the result of regression model estimated result above, estimated regression equation can be written as:

$$\text{MPS} = 482.30 + 0.799 \cdot \text{BVPS} + 8.234 \cdot \text{P/E} + 0.333 \cdot \text{RoE} + 0.799 \cdot \text{BVPS} - 0.000054 \cdot \text{NFS} \dots (2)$$

The output results are given in equation (2). These results are consistent with the several earlier research that is summarized in the literature review section above. The result shows a positive relationship between market price and BVPS which is consistent with the other studies such as AL-Omar and AL-Mutairi (2008), Uddin (2009), Al- Shubiri (2010), Srinivasan (2012) Malhotra and Tandon (2013) and Almumani (2014). Similarly, other coefficients sign relating to EPS, PE ratio, RoE and are consistent with previous studies such as Uddin (2009), Sharma (2011), Khan and Amanullah (2012), Srinivasan (2012), Molodovsky (1995), Tandon and Malhotra (2013). But statistical significance of two important variables viz., BVPS and RoE is not found. This is the critical matter to be taken into consideration as per the analysis result. However, the researcher wants to underscore the significance of the current investigation in two points. Firstly, the current research has detected the ignorance of Nepalese stock market participant towards intrinsic value concept of companies of microfinance sector listed in NEPSE. Secondly, public floating size of a listed company as a significant determinants of market price of share. This implies microfinance companies with fewer floated shares may experience price skyrockets in short trading days.

Conclusion

The statistical analysis reveals that the stock price of microfinance sector listed company shares in NEPSE is determined by EPS, PE ratio, RoE, BVPS, and NFS. However, only EPS, PE ratio, and number of floating share are statistically significant. But, the most important fundamental aspects of the price of share viz., book value per share and return on equity are not statistically significant. This evidence shows that the market participants have overlooked this important fundamental aspect. But, Why? Theoretically, book value per share and return on equity are the true representative of intrinsic value of company. This is the contradictory with the several theories relation to stock price determination. Intuitively, it is clear that often retail market participants lack organized information

and rely on market noise, and ignore the intrinsic value of company that cause severe risk in their investment. Therefore, further inquiry is desirable regarding the financial literacy among NEPSE stock market participants, assessing their level knowledge and awareness on BVPS and RoE of stock price. A rigorous qualitative inquiry using primary data is essential to fill this knowledge gap. In conclusion, there is serious gap of financial literacy from the part of vast majority of market participant lacking investment optimization in Nepalese context.

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