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Assets Growth and Common Stock Returns

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ABSTRACT

The primary aim of the study is to assess how changes in the firm assets influence the variation in expected stock returns. Total assets growth only captures the aggregate growth of the firm. It does not deal whether expansion across different asset categories is likewise consistently linked to the common stock returns. Therefore, total assets growth has been decomposed in to liquid assets growth, current assets growth other than liquid assets, property plant and equipment growth, and other assets growth. The study is based on secondary dataset. All the data relating to stock prices to calculate capital gain yield were obtained form the NEPSE database for all samples firms. All the data for assets growth parameters were obtained from financial reports of concern firms. Hence, A balanced panel dataset was compiled from 48 firms over 12 years covering 2010/11 to 2021/22 resulting in 576 observations. Data analysis tools include descriptive statistics, correlation analysis, and regressions analysis. The results reveal that the higher the total assets growth, the greater the equity returns in Nepali capital market. In addition, assets decomposition analysis confirmed that only the other assets growth has the significant positive impact on common stock returns for all samples firms, BFIs, and insurance companies. Hence, policymakers and investors in Nepali capital market should carefully evaluate assets growth when making investment choices.

Keywords: Assets growth, common stock returns, Nepal Stock Exchange, stock return

INTRODUCTION

The survival of a firm depends on the capacity to earn. Once the firm survive in the competitive market, it seeks the opportunity to grow. Firm growth is a way to introduce innovation and is a leitmotiv of technological changes. In this light, firm growth is a challenge a firm must meet by introducing innovation (Pagano & Schivardi, 2003). The firm growth can be measured in the different ways. The differences in measurement in the growth are based on the relationship among the parameters or variables used. Delmar (1997) suggested that employment growth is one of the important measures of firm growth. In contrast, Ardishvili et al. (1998), Weinzimmer, et al. (1998) argued that physical assets growth of the firm is the best measure of the firm growth.

The quest to understand what drives expected stock returns has long captivated academics and practitioners in the field of finance. While the CAPM of Sharpe (1964) and Lintner (1965) laid

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the foundation by asserting that returns are a function of market risk, empirical anomalies have challenged the sufficiency of this framework. Among these anomalies, the asset growth effect has emerged as a significant and puzzling predictor of future stock performance.

Cooper et al. (2008) provided seminal evidence that higher assets growth firms tend to experience significantly lower subsequent stock returns. This negative association between asset expansion and future returns suggests that asset growth may serve as a powerful indicator of mispricing or risk not captured by traditional models. This finding is particularly striking because asset growth is a simple, observable accounting variable, yet it consistently holds predictive power across different time periods and markets (Chen et al., 2011; Fama & French, 2015). Cooper et al. (2024) provide evidence that the strong performance of the asset growth factor largely comes from its effectiveness in reflecting economy wide changes in the cost of equity financing. Irawan et al. (2025) found that firms with higher assets growth are generally exposed to greater systematic risk in their stock returns.

The core idea behind this anomaly is that aggressive asset accumulation often reflects managerial overinvestment, driven either by behavioral biases or agency problems, rather than value-enhancing decisions. Investors may initially overreact to growth signals, pushing up prices, only to be disappointed later when earnings fail to materialize at expected levels (Titman et al., 2004). Consequently, firms with high asset growth tend to be overvalued, leading to lower future returns when market expectations are corrected.

More recent studies have advocated moving beyond aggregate asset growth and instead decomposing asset growth into its underlying components—such as growth from fixed assets, inventory, receivables, cash holdings, and equity issuance—to better understand which elements are most relevant to stock return predictability (Fairfield et al., 2003; Watanabe et al., 2013). Each component may reflect different managerial decisions and risk exposures. For instance, growth in fixed assets may suggest long-term strategic investment, while growth in receivables or inventories could signal inefficient operations or sales management issues.

Decomposition allows researchers to disentangle the sources of asset growth and test whether the negative return predictability arises uniformly across all components or is concentrated in specific areas. It also opens a pathway to integrating the asset growth effect with other asset pricing factors, such as investment, profitability, and financial constraints (Fama & French, 2015; Hou et al., 2015). By doing so, researchers aim to identify more refined signals of mispricing or risk-based premiums.

Despite the growing literature, a comprehensive understanding of how various asset growth components contribute to the cross-section of expected stock returns remains limited, especially in small capital markets like Nepal. Most of the empirical evidences comes from developed markets, and their dynamics may not fully applicable in the small and emerging capital market like Nepal. For instance, the structural differences, market maturity, investors' sentiment, behaviours, and the regulatory environment in Nepal might influence how assets growth impacts stock returns. These are the factors that clearly illustrates the research issues that need to understand where the assets growth effect observed globally holds true in the Nepali capital market. Thus, this study aims to bridge this gap by examining the impact of asset growth components on expected stock returns from Nepali capital market. It also seeks to uncover whether the overall asset growth effect is

driven by a subset of balance sheet items and whether these components convey unique information about firm risk or mis-valuation.

METHODS

Descriptive and casual comparative research design was used to address key issues related to asset growth and the cross-section of expected stock returns. The primary goal of the descriptive research approach is to explain how various components of asset growth interrelate in predicting common stock returns. Meanwhile, the causal-comparative design is utilized to examine the relationship between asset growth components and common stock returns.

Essentially, this combined design aims to determine and understand the direction, magnitude, and nature of the relationship between asset growth and the cross-sectional variation in expected stock returns within the Nepali market context. Only the secondary dataset has been utilized for the study. All the data relating to stock prices to calculate capital gain yield were collected from the database of NEPSE for all samples firms. All the data for assets growth were derived from the financial reports of 48 sample firms for 12 years from 2010/11 to 2021/22. Therefore, total 576 observations were used. The data analysis tools include descriptive analysis, correlation analysis, and regressions analysis.

The analysis consists of statistical and econometric techniques including descriptive statistics, correlation analysis, and Ordinary Least Square (OLS) method of multiple regression analysis. For sample selection, stratified and purposive sampling methods were used. The sample firms were further categorized into three industry groups based on their business functions: banking and financial institutions (BFIs), insurance companies, and other companies as detailed in Table 1. Careful attention was paid to ensure that the samples were reliable and representative of each stratified group. Firms with low trading frequency on the Nepal Stock Exchange (NEPSE) were excluded.

Table 1

Population and Sample Firms

SN	Industry/Sample Groups	Sample Firms	Study Periods	No. of Observations
1	Banking and Financial Institutions (BFIs)	28	2010/11-2021/22	336
2	Insurance Companies Sample	14	2010/11-2021/22	168
3	Other Companies Sample	6	2010/11-2021/22	72
	Total number of Companies	48	2010/11-2021/22	576

Table 1 shows the re-stratified industries groups, the population, samples, and the total number of observations from each industry group.

The impact of assets growth on stock returns has been analyzed using the framework of Cooper et al. (2008). Total assets growth only captures the aggregate growth of the firm. It does not deal whether the growth in subcomponents of the assets is also uniformly associated with the common stock returns. Therefore, to address the question, total assets growth variable has been decomposed into the major balance sheet components as follows:

$$\Delta TA = \Delta LA + \Delta CA + \Delta PPE + \Delta OA \quad \ldots (1)$$

During the data arrangement, it was found that the growth of balance sheet items for some companies significantly increased due to big merger and acquisition or further public offering of the shares. Therefore, to deal with such observations, a dummy variable is introduced. If the assets growth of the company is found more than or equal to 500% or 5 times, such observations were excluded from the analysis by using dummy variable. The impact of assets growth on common stock returns are examined by using the regression analysis. The models used for the study are presented in detail as follows:

$$CGY_{it} = \beta_1 + \beta_2 \Delta TA_{it} \text{ X } DU_{it} + \varepsilon_{it} \quad \ldots (3)$$

$$DY_{it} = \beta_1 + \beta_2 \Delta TA_{it} \text{ X } DU_{it} + \varepsilon_{it} \quad \ldots (4)$$

$$TY_{it} = \beta_1 + \beta_2 \Delta TA_{it} \text{ X } DU_{it} + \varepsilon_{it} \quad \ldots (5)$$

$$CGY_{it} = \beta_1 + \beta_2 \Delta LA_{it} \text{ X } DU_{it} + \beta_3 \Delta CA_{it} \text{ X } DU_{it} + \beta_4 \Delta PPE_{it} \text{ X } DU_{it} + \beta_5 \Delta OA_{it} \text{ X } DU_{it} + \varepsilon_{it} \quad \ldots (6)$$

$$DY_{it} = \beta_1 + \beta_2 \Delta LA_{it} \text{ X } DU_{it} + \beta_3 \Delta CA_{it} \text{ X } DU_{it} + \beta_4 \Delta PPE_{it} \text{ X } DU_{it} + \beta_5 \Delta OA_{it} \text{ X } DU_{it} + \varepsilon_{it} \quad \ldots (7)$$

$$TY_{it} = \beta_1 + \beta_2 \Delta LA_{it} \text{ X } DU_{it} + \beta_3 \Delta CA_{it} \text{ X } DU_{it} + \beta_4 \Delta PPE_{it} \text{ X } DU_{it} + \beta_5 \Delta OA_{it} \text{ X } DU_{it} + \varepsilon_{it} \quad \ldots (8)$$

Where:

CGY_{it} = Capital gain yield for firm 'i' and year 't'.

DY_{it} = Dividend yield for firm 'i' and year 't'.

TY_{it} = Total yield for firm 'i' and year 't'.

ΔTA = Total Assets growth

ΔLA = Liquid Asset (cash and cash equivalent) growth

ΔCA = Current Assets growth other than LA

ΔPPE = Property, Plant, and Equipment Growth

ΔOA = Other Assets growth other than LA, CA, and PPE.

DU_{it} = Dummy for vector of independent variable

$DU_{it} = 1$ (if $X_{it} < 5$)

$DU_{it} = 0$ (if $X_{it} \geq 5$)

ε_{it} = Stochastic error terms.

Common Stock Returns

The explained variable used for the study is common stock returns. These returns represent the total rate of return from common stocks, encompassing both capital gains from the market and dividend yields. Initially, the study focused on assessing the impact on capital gain yield, which was then compared with dividend yield and total yield. Consequently, capital gain yield, dividend yield, and total return are all utilized as explained variables. CGY indicates the yearly return an investor earns from fluctuations in the market price. DY is the annual rate of dividend received by the investors. TY is the sum of CGY and DY. Symbolically:

$$CGY_{it} = [P_{it} - P_{i(t-1)}] / P_{i(t-1)} \quad \ldots (9)$$

$$DY_{it} = D_{it} / P_{i(t-1)} \quad \ldots (10)$$

$$TY_{it} = [D_{it} + P_{it} - P_{i(t-1)}] / P_{i(t-1)} \quad \ldots (11)$$

Where,

P_{it} = Market price per share of firm 'i' for the year 't'.

$P_{i(t-1)}$ = Market price per share of firm 'i' for the year 't-1'.

D_{it} = Dividend per share of firm 'i' for the year 't'.

$P_{i(t-1)}$ = Market price per share of firm 'I' for the year 't-1'.

Liquid Assets Growth (LA)

Liquid assets growth represents the change in the cash or cash equivalent assets in the balance sheet over the period. It has been measured in terms of percentage change in liquid assets during a period of fiscal year. Symbolically:

$$LA_{it} = \frac{[(Liquid\ Assets)it - (Liquid\ Assets)i(t-1]}{(Liquid\ Assets)i(t-1)} \quad \ldots (12)$$

Current Assets Growth (CA)

Current assets growth represents the change in the current assets other than cash and cash equivalent from the balance sheet over the period. The growth in the current assets has been measured in terms of the of the percentage change in current assets during a period of the fiscal year. Symbolically:

$$CA_{it} = \frac{[(Current\ Assets)it - (Current\ Assets)i(t-1]}{(Current\ Assets)i(t-1)} \quad \ldots (13)$$

Property, Plant, and Equipment Growth (PPE)

Property, plant, and equipment (PPE) growth is the change in the tangible fixed assets in the balance sheet over the period. The growth in the PPE has been measured in terms of the of the percentage change during a period of the fiscal year. Symbolically:

$$PPE_{it} = \frac{[(PPE)it - (PPE)i(t-1]}{(PPE)i(t-1)} \quad \ldots (14)$$

Other Assets Growth (OA)

Other assets growth is the change in the assets other than LA, CA and PPE in the balance sheet over the period. More specifically, other assets represent the investment in intangible assets, research and development, and the financial assets. Other assets growth is measured in terms of the percentage change during a period of the fiscal year. Symbolically:

$$OA_{it} = \frac{[(OA)it - (OA)i(t-1]}{(OA)i(t-1)} \quad \ldots (15)$$

Total Assets Growth (TA)

Total assets growth is the percentage change in total assets over the fiscal year. The firm's assets growth rate for year '*t*' is estimated as the percentage change in fiscal year '*t*' from the fiscal year '*t-1*', as follows:

$$TA_{it} = \frac{[(Total\ Assets)it - (Total\ Assets)i(t-1]}{(Total\ Assets)i(t-1)} \quad \ldots (16)$$

Cooper et al. (2008) studied how changes in a firm's total assets relate to later stock performance. This study focused on whether companies that expand their assets more show different future returns compared to others. Assets growth is important significant component of future returns in US stock market. The evidence further documented negative relation between a firm's assets growth and stock returns. Richardson and Richardson (2003); Zhang (2006); Billet et al. (2007); Polk and Sapienza (2008) and Pontiff and Woodgate (2008) also documented a negative impact of asset growth components on stock returns. Thus, the hypothesis proposed for the study is:

Research Hypothesis (H_1): Assets growth and its decomposition components have the significant negative impact on stock returns.

RESULTS AND ANALYSIS

Descriptive Analysis

The results from the descriptive analysis are presented in Table 2. The descriptive analysis includes ranges of the values of the variables with mean standard deviation.

Table 2

Descriptive Analysis

Table 2 presents the descriptive results of the variables used. TA is the total assets growth rate from the balance sheet. LA is the annual growth rate of liquid assets (cash and cash equivalent). CA is the annual growth rate of current assets other than cash and cash equivalent. PPE is the annual growth rate of property, plant, and equipment. And OA is the annual growth rate of assets other than LA, CA and PPE. The reported values are fraction of percentages.

Descriptive Statistics (n = 576)

Variables	Minimum	Maximum	Mean	SD
TA	-0.632	9.711	0.247	0.512
LA	-0.988	13.862	0.475	1.519
CA	-0.997	31.401	0.422	1.996
PPE	-0.728	11.410	0.309	1.247
OA	-1.000	38.578	0.588	2.394

Table 2 reveals that the total assets growth is ranges from lowest -63.2% to highest 971.1% with average 24.7% and standard deviation 51.2%. The results further disclose that liquid assets growth ranges from the lowest -98.8% to highest 1386.2% with average 47.5% and standard deviation 151.9%. Similarly, the growth of current asset other than liquid assets ranges from lowest -99.7% to highest 3140.2% with average 42.2% and standard deviation 199.6%. Likewise, the minimum growth rate of property plant and equipment is -72.8% and maximum growth rate is 1141% while mean growth rate is 30.9% and standard deviation 124.7%. In the same way, other assets growth ranges from minimum -100% to highest 3857.8% with average 58.8% and standard deviation 239.4%.

Table 3 presents the results of the correlation analysis. The results indicate that the correlation coefficients of total assets growth (CGY = 0.065**, DY = 0.022, TY = 0.065**) and other assets growth (CGY = 0.047**, DY = 0.33, & TY = 0.048**) are positive and significant at 1% level of significance for CGY and TY. The significant positive correlation coefficients further reveal that total assets growth and other assets growth have the significant positive relationship with the stock return. More clearly, the higher the total assets growth and other assets growth the higher would be the common stock returns in Nepali capital market.

Table 3

Correlation between Assets Growth and Stock Returns

Table 3 presents the results of the correlation analysis. TA is the total assets growth rate from the balance sheet. LA is the annual growth rate of liquid assets (cash and cash equivalent). CA is the annual growth rate of current assets other than cash and cash equivalent. PPE is the annual

growth rate of property, plant, and equipment. And OA is the annual growth rate of assets other than LA, CA and PPE. The reported values are Pearson's correlations coefficients.

Correlations

	CGY	DY	TY	TA	LA	CA	PPE	OA
CGY	1							
DY	.213**	1						
TY	.999**	.259**	1					
TA	0.065**	0.022	0.065**	1				
LA	-0.065	-0.044	-0.066	.179**	1			
CA	-.123	-0.040	-.123	.245**	-.098*	1		
PPE	-0.048	-0.018	-0.046	.217**	-0.055	0.010	1	
OA	0.047**	0.033	0.048**	.331**	0.054	-0.029	.126**	1

In contrast, the correlation coefficients of liquid assets growth are negative with all three measures of stock returns (CGY = -0.065, DY = -0.044, & TY = -0.066) and statistically insignificant. The insignificant correlation coefficients further suggest that liquid assets growth has the insignificant negative relationship with common stock returns. Similarly, the correlation coefficients of current assets other than liquid assets growth (CGY = -0.123, DY = -0.04, & TY = -0.123) and property, plant, and equipment growth (CGY = -0.048, DY = -0.018, & TY = -0.046) with stock returns are negative and statistically insignificant. The insignificant negative correlation coefficients further suggest that LA, CA, and PPE have also insignificant negative correlation with common stock returns in Nepali capital market.

The correlation analysis of assets growth with common stock returns reveals that only the total assets growth and other assets growth have the significant positive correlation with common stock returns in Nepali capital market.

Regression Analysis

Regression model was applied to examine how assets growth factors are related to common stock returns and to assess the strength of their effects across all three returns measures. Further, the assets growth is also decomposed into different components such as cash and cash equivalent growth, current assets other than liquid assets growth, property, PPE growth, and other assets growth. The main purpose of decomposing the asset is to identify how the different components of the assets growth effect on the cross-section of expected stock returns. Hence, this section of data analysis has been classified into four subgroups.

Firstly, the regression results from the assets growth variables on common stock returns are analyzed. Secondly, results of BFIs sample are analyzed. Thirdly, results of insurance companies are analyzed. Finally, results from the other companies' sample are analyzed.

Table 4

Regression Results of Total Assets Growth on Stock Returns (All Samples)

Table 4 shows the regression result of total assets growth. The explained variables are the three measures of stock returns. The explanatory variable is TA. TA is the total assets growth rate from

the balance sheet. And, DU is the dummy variable. Given values are beta coefficients of independent variables with standard errors in parentheses.

$CGY_{it} = \beta_1 + \beta_2 TA_{it} X\ DU_{it} + \varepsilon_{it}$

$DY_{it} = \beta_1 + \beta_2 TA_{it} X\ DU_{it} + \varepsilon_{it}$

$TY_{it} = \beta_1 + \beta_2 TA_{it} X\ DU_{it} + \varepsilon_{it}$

All Samples (n = 576)

Variables	Capital Gain Yield (CYG)				Dividend Yield (DY)				Total Yield (TY)			
	Coefficients	t	P		Coefficients	t	P		Coefficients	t	P	
Constant	0.441	4.457	0.000		0.047	9.850	0.000		0.489	4.880	0.000	
	(0.099)				(0.005)				(0.100)			
TA	0.120	2.300	0.022		0.002	0.716	0.475		0.122	2.309	0.021	
	(0.052)				(0.003)				(0.053)			
Model Summary	F	5.292	P	0.022	F	0.512	P	0.475	F	5.331	P	0.021
	R^2	0.010	SEE	1.019	R^2	0.001	SEE	0.050	R^2	0.010	SEE	1.030
	Adjusted R^2	0.008	DW	2.264	Adjusted R^2	-0.001	DW	1.590	Adjusted R^2	0.008	DW	2.262

Table 4 reports the findings from the regression analysis and explains how assets growth affects on stock returns analyzed separately across the full sample of firms. The results indicate the slope coefficients of total assets growth variable on common stock returns in the Nepali listed companies. The beta coefficients of total assets growth on CGY and TY are positive. The positive estimations indicates that total assets growth has the significant positive impact on CGY and TY. It means, an expansion in the firm assets is linked with an increase in equity returns within the Nepali firms.

Table 5 presents the regression results of assets growth on stock returns from BFIs sample. The estimations of total assets growth are positive on stock returns. The positive estimations indicate that stock return is positively affected by total assets growth. In simple terms, banks and financial institutions in Nepal tend to earn greater stock returns when their assets base expands more rapidly.

Table 5

Regression Results of Total Assets Growth on Stock Returns (BFIs Sample)

Table – 5 shows the regression result of total assets growth. The explained variables are the three measures of stock returns. The explanatory variable is TA. TA is the total assets growth rate from the balance sheet. And, DU is the dummy variable. Given values are beta coefficients of independent variables with standard errors in parentheses.

$CGY_{it} = \beta_1 + \beta_2 TA_{it} X\ DU_{it} + \varepsilon_{it}$

$DY_{it} = \beta_1 + \beta_2 TA_{it} X\ DU_{it} + \varepsilon_{it}$

$TY_{it} = \beta_1 + \beta_2 TA_{it} X\ DU_{it} + \varepsilon_{it}$

BFIs Sample (n = 336)

Variables	Capital Gain Yield (CYG)				Dividend Yield (DY)				Total Yield (TY)			
	Coefficients	t	P		Coefficients	t	P		Coefficients	t	P	
Constant	0.323	3.192	0.002		0.050	7.755	0.000		0.373	3.588	0.000	
	(0.101)				(0.007)				(0.104)			
TA	0.109	2.039	0.042		0.001	0.166	0.868		0.110	1.992	0.047	
	(0.054)				(0.003)				(0.055)			
Model Summary	F	4.156	P	0.042	F	0.028	P	0.868	F	3.969	P	0.047
	R^2	0.013	SEE	0.714	R^2	0.000	SEE	0.046	R^2	0.013	SEE	0.735
	Adjusted R^2	0.010	DW	2.142	Adjusted R^2	-0.003	DW	1.534	Adjusted R^2	0.010	DW	2.132

Table 6

Regression Results of Total Assets Growth on Stock Returns (Insurance Sample)

Table 6 shows the regression result of total assets growth. The explained variables are the three measures of stock returns. The explanatory variable is TA. TA is the total assets growth rate from the balance sheet. And, DU is the dummy variable. Given values are beta coefficients of independent variables with standard errors in parentheses.

$CGY_{it} = \beta_1 + \beta_2 TA_{it} X DU_{it} + \varepsilon_{it}$

$DY_{it} = \beta_1 + \beta_2 TA_{it} X DU_{it} + \varepsilon_{it}$

$TY_{it} = \beta_1 + \beta_2 TA_{it} X DU_{it} + \varepsilon_{it}$

Insurance Companies Sample (n = 168)

Variables	Capital Gain Yield (CYG)				Dividend Yield (DY)				Total Yield (TY)			
	Coefficients	t	P		Coefficients	t	P		Coefficients	t	P	
Constant	0.365	1.851	0.066		0.028	3.916	0.000		0.393	1.981	0.049	
	(0.197)				(0.007)				(0.198)			
TA	0.269	0.435	0.664		0.013	0.570	0.569		0.282	0.453	0.651	
	(0.619)				(0.023)				(0.623)			
Model Summary	F	0.189	P	0.664	F	0.325	P	0.569	F	0.205	P	0.651
	R^2	0.001	SEE	1.449	R^2	0.002	SEE	0.053	R^2	0.001	SEE	1.460
	Adjusted R^2	-0.005	DW	2.365	Adjusted R^2	-0.004	DW	1.714	Adjusted R^2	-0.005	DW	2.366

Table 6 presents the regression results of total assets growth on common stock returns for insurance sample. The estimations of F-statistics are insignificant for 5% level. The insignificant estimations suggest that the model used for the insurance sample are inappropriate. Therefore, no further explanation is done for this model.

Table 7

Regression Results of Total Assets Growth on Stock Returns (Other Sample)

Table 7 shows the regression result of total assets growth. The explained variables are the three measures of stock returns. The explanatory variable is TA. TA is the total assets growth rate from the balance sheet. And, DU is the dummy variable. Given values are beta coefficients of independent variables with standard errors in parentheses.

$CGY_{it} = \beta_1 + \beta_2 TA_{it} X DU_{it} + \varepsilon_{it}$

$DY_{it} = \beta_1 + \beta_2 TA_{it} X\ DU_{it} + \varepsilon_{it}$

$TY_{it} = \beta_1 + \beta_2 TA_{it} X\ DU_{it} + \varepsilon_{it}$

Other Companies Sample (n = 72)

Variables	Capital Gain Yield (CYG)				Dividend Yield (DY)				Total Yield (TY)			
	Coefficients	t	P	VIF	Coefficients	t	P	VIF	Coefficients	t	P	VIF
Constant	0.150 (0.098)	1.520	0.133		0.039 (0.006)	6.276	0.000		0.189 (0.098)	1.927	0.058	
TA	0.195 (0.285)	0.684	0.496		0.025 (0.018)	1.391	0.169		0.220 (0.284)	0.775	0.441	
Model Summary	F	0.007	P	0.496	F	1.934	P	0.169	F	0.601	P	0.441
	R^2	0.007	SEE	0.744	R^2	0.027	SEE	0.047	R^2	0.009	SEE	0.740
	Adjusted R^2	-0.008	DW	2.178	Adjusted R^2	0.013	DW	1.539	Adjusted R^2	-0.006	DW	2.129

Table 7 presents the regression results of assets growth on stock returns for other companies' sample. The estimations of F-test are insignificant at 5% level. The insignificant F-test result indicates that the model used for the analysis is inappropriate for the other sample. Therefore, no further explanation is done.

Table 8

Regression Results of Decomposed Assets Growth on Stock Returns (All Samples)

Table – 8 shows the regression result of decomposed assets growth components. The explained variables are the three measures of stock returns. The explanatory variable are different measures of assets growth. LA is liquid assets growth. CA is current assets growth other than LA. PPE is property, plant & equipment growth. OA is other assets growth other than LA, CA, & PPE. And, DU is the dummy variable. Given values are beta coefficients of independent variables with standard errors in parentheses.

$CGY_{it} = \beta_1 + \beta_2 \Delta LA_{it}\ X\ DU_{it} + \beta_3 \Delta CA_{it}\ X\ DU_{it} + \beta_4 \Delta PPE_{it}\ X\ DU_{it} + \beta_5 \Delta OA_{it}\ X\ DU_{it} + \varepsilon_{it}$

$DY_{it} = \beta_1 + \beta_2 \Delta LA_{it}\ X\ DU_{it} + \beta_3 \Delta CA_{it}\ X\ DU_{it} + \beta_4 \Delta PPE_{it}\ X\ DU_{it} + \beta_5 \Delta OA_{it}\ X\ DU_{it} + \varepsilon_{it}$

$TY_{it} = \beta_1 + \beta_2 \Delta LA_{it}\ X\ DU_{it} + \beta_3 \Delta CA_{it}\ X\ DU_{it} + \beta_4 \Delta PPE_{it}\ X\ DU_{it} + \beta_5 \Delta OA_{it}\ X\ DU_{it} + \varepsilon_{it}$

All Samples (n = 576)

Variables	Capital Gain Yield (CYG)				Dividend Yield (DY)				Total Yield (TY)			
	Coefficients	t	P	VIF	Coefficients	t	P	VIF	Coefficients	t	P	VIF
Constant	0.220 (0.053)	4.179	0.000		0.044 (0.003)	16.699	0.000		0.264 (0.053)	4.949	0.000	
LA	-0.066 (0.051)	-1.294	0.196	1.016	-0.002 (0.003)	-0.890	0.374	1.016	-0.068 (0.051)	-1.323	0.186	1.016
CA	-0.102 (0.089)	-1.137	0.256	1.020	0.002 (0.004)	0.458	0.647	1.020	-0.100 (0.090)	-1.102	0.271	1.020
PPE	-0.057 (0.068)	-0.827	0.408	1.021	-0.003 (0.003)	-0.769	0.442	1.021	-0.059 (0.069)	-0.855	0.393	1.021
OA	0.205 (0.073)	2.809	0.005	1.010	0.003 (0.004)	0.842	0.400	1.010	0.208 (0.074)	2.818	0.005	1.010
Model Summary	F	3.170	P	0.014	F	0.641	P	0.634	F	3.203	P	0.013
	R^2	0.022	SEE	0.984	R^2	0.004	SEE	0.049	R^2	0.022	SEE	0.995
	Adjusted R^2	0.015	DW	2.220	Adjusted R^2	-0.003	DW	1.518	Adjusted R^2	0.015	DW	2.219

Table 8 presents the regression results from the decomposition of assets growth variables on common stock returns for all samples companies. The estimations of other assets growth on stock returns are positive. The positive estimations suggest that other assets growth has the significant positive effect on stock returns. In clear terms, firms in the Nepali capital market generally show stronger equity returns when growth in other assets increases.

On the other hand, the regression coefficients of liquid assets growth, current assets other than liquid assets growth, and property, plant and equipment growth are statistically insignificant. The insignificant coefficients further confirm that, liquid assets growth, current assets other than liquid assets growth, and property, plant and equipment growth have the insignificant impact on common stock return in Nepali capital market.

Table 9

Regression Results of Decomposed Assets Growth on Stock Returns (BFIs Sample)

Table – 9 shows the regression result of decomposed assets growth components. The explained variables are the three measures of stock returns. The explanatory variable are different measures of assets growth. LA is liquid assets growth. CA is current assets growth other than LA. PPE is property, plant & equipment growth. OA is other assets growth other than LA, CA, & PPE. And, DU is the dummy variable. Given values are beta coefficients of independent variables with standard errors in parentheses.

$CGY_{it} = \beta_1 + \beta_2 \Delta LA_{it}$ X $DU_{it} + \beta_3 \Delta CA_{it}$ X $DU_{it} + \beta_4 \Delta PPE_{it}$ X $DU_{it} + \beta_5 \Delta OA_{it}$ X $DU_{it} + \varepsilon_{it}$

$DY_{it} = \beta_1 + \beta_2 \Delta LA_{it}$ X $DU_{it} + \beta_3 \Delta CA_{it}$ X $DU_{it} + \beta_4 \Delta PPE_{it}$ X $DU_{it} + \beta_5 \Delta OA_{it}$ X $DU_{it} + \varepsilon_{it}$

$TY_{it} = \beta_1 + \beta_2 \Delta LA_{it}$ X $DU_{it} + \beta_3 \Delta CA_{it}$ X $DU_{it} + \beta_4 \Delta PPE_{it}$ X $DU_{it} + \beta_5 \Delta OA_{it}$ X $DU_{it} + \varepsilon_{it}$

BFIs Sample (n = 336)

Variables	Capital Gain Yield (CYG)				Dividend Yield (DY)				Total Yield (TY)			
	Coefficients	t	P	VIF	Coefficients	t	P	VIF	Coefficients	t	P	VIF
Constant	0.123	2.353	0.019		0.049	14.519	0.000		0.172	3.206	0.001	
	(0.052)				(0.003)				(0.054)			
LA	-0.114	-1.355	0.176	1.005	-0.004	-0.671	0.503	1.005	-0.117	-1.360	0.175	1.005
	(0.084)				(0.005)				(0.086)			
CA	0.025	0.314	0.753	1.027	-0.007	-1.323	0.187	1.027	0.018	0.222	0.824	1.027
	(0.079)				(0.005)				(0.081)			
PPE	-0.265	-1.818	0.070	1.039	-0.005	-0.505	0.614	1.039	-0.270	-1.799	0.073	1.039
	(0.146)				(0.009)				(0.150)			
OA	0.278	2.170	0.031	1.046	0.015	1.807	0.072	1.046	0.293	2.224	0.027	1.046
	(0.128)				(0.008)				(0.132)			
Model Summary	F	2.330	P	0.050	F	1.257	P	0.287	F	2.353	P	0.050
	R^2	0.027	SEE	0.699	R^2	0.015	SEE	0.045	R^2	0.028	SEE	0.719
	Adjusted R^2	0.016	DW	2.110	Adjusted R^2	0.003	DW	1.464	Adjusted R^2	0.016	DW	2.095

Table 9 presents the regression results from the decomposition of assets growth components on stock returns for BFIs sample. The results show that regression coefficients of other assets growth are positive. The positive estimations indicate that other assets growth has the positive impact on stock returns. In simple words, Nepali banks and financial institutions tend to record higher equity returns as growth in other assets rises.

On the other hand, the regression coefficients of liquid assets growth, current assets other than liquid assets growth, and property, plant, and equipment growth are statistically insignificant on common stock returns. The insignificant coefficients further confirm that liquid assets growth,

current assets other than liquid assets growth and property, plant, and equipment growth have the insignificant impact on stock returns. in Nepali BFIs.

Table 10

Regression Results of Decomposed Assets Growth on Stock Returns (Insurance Sample)

Table 10 shows the regression result of decomposed assets growth components. The explained variables are the three measures of stock returns. The explanatory variable are different measures of assets growth. LA is liquid assets growth. CA is current assets growth other than LA. PPE is property, plant & equipment growth. OA is other assets growth other than LA, CA, & PPE. And, DU is the dummy variable. Given values are beta coefficients of independent variables with standard errors in parentheses.

$CGY_{it} = \beta_1+\beta_2\Delta LA_{it}$ X $DU_{it}+ \beta_3\Delta CA_{it}$ X $DU_{it} + \beta_4\Delta PPE_{it}$ X $DU_{it} + \beta_5\Delta OA_{it}$ X $DU_{it}+\varepsilon_{it}$

$DY_{it} = \beta_1+ \beta_2\Delta LA_{it}$ X $DU_{it}+ \beta_3\Delta CA_{it}$ X $DU_{it} + \beta_4\Delta PPE_{it}$ X $DU_{it} + \beta_5\Delta OA_{it}$ X $DU_{it} + \varepsilon_{it}$

$TY_{it} = \beta_1+ \beta_2\Delta LA_{it}$ X $DU_{it}+ \beta_3\Delta CA_{it}$ X $DU_{it} + \beta_4\Delta PPE_{it}$ X $DU_{it} + \beta_5\Delta OA_{it}$ X $DU_{it} + \varepsilon_{it}$

Insurance Companies Sample (n = 168)

Variables	Capital Gain Yield (CYG)				Dividend Yield (DY)				Total Yield (TY)			
	Coefficients	t	P	VIF	Coefficients	t	P	VIF	Coefficients	t	P	VIF
Constant	0.381	2.583	0.011		0.032	5.468	0.000		0.413	2.780	0.006	
	(0.148)				(0.006)				(0.149)			
LA	-0.073	-0.628	0.531	1.075	0.001	0.113	0.910	1.075	-0.072	-0.620	0.536	1.075
	(0.115)				(0.005)				(0.116)			
CA	-0.199	-1.366	0.174	1.053	-0.003	-0.590	0.556	1.053	-0.203	-1.381	0.169	1.053
	(0.146)				(0.006)				(0.147)			
PPE	-0.225	-0.953	0.342	1.017	-0.007	-0.734	0.464	1.017	-0.232	-0.976	0.330	1.017
	(0.236)				(0.009)				(0.238)			
OA	0.998	4.190	0.000	1.113	0.011	1.139	0.256	1.113	1.009	4.208	0.000	1.113
	(0.238)				(0.009)				(0.240)			
Model Summary	F	6.711	P	0.000	F	0.642	P	0.633	F	6.776	P	0.000
	R^2	0.141	SEE	1.356	R^2	0.016	SEE	0.053	R^2	0.143	SEE	1.365
	Adjusted R^2	0.120	DW	2.374	Adjusted R^2	-0.009	DW	1.741	Adjusted R^2	0.122	DW	2.379

Table 10 presents the regression results from the decomposition of assets growth variables on common stock returns for insurance companies' sample. The results show that the estimations of other assets growth on common stock returns are positive. The significant positive estimations of other assets growth indicates that other assets growth positively effect stock returns in Nepali insurance companies. In simple words, highly growth other assets tend to receive higher returns from the market.

Furthermore, regression coefficients of liquid asset growth, current assets other than liquid assets growth, and property, plant, and equipment growth are statistically insignificant. The insignificant coefficients further confirm that liquid assets growth, current assets other than liquid assets growth, and property plant, and equipment growth have insignificant impact on common stock returns in Nepali insurance companies.

Table 11

Regression Results of Decomposed Assets Growth on Stock Returns (Other Companies' Sample)

Table 11 shows the regression result of decomposed assets growth components. The explained variables are the three measures of stock returns. The explanatory variable are different measures of assets growth. LA is liquid assets growth. CA is current assets growth other than LA. PPE is property, plant & equipment growth. OA is other assets growth other than LA, CA, & PPE. And, DU is the dummy variable. Given values are beta coefficients of independent variables with standard errors in parentheses.

$CGY_{it} = \beta_1 + \beta_2 \Delta LA_{it}$ X $DU_{it} + \beta_3 \Delta CA_{it}$ X $DU_{it} + \beta_4 \Delta PPE_{it}$ X $DU_{it} + \beta_5 \Delta OA_{it}$ X $DU_{it} + \varepsilon_{it}$

$DY_{it} = \beta_1 + \beta_2 \Delta LA_{it}$ X $DU_{it} + \beta_3 \Delta CA_{it}$ X $DU_{it} + \beta_4 \Delta PPE_{it}$ X $DU_{it} + \beta_5 \Delta OA_{it}$ X $DU_{it} + \varepsilon_{it}$

$TY_{it} = \beta_1 + \beta_2 \Delta LA_{it}$ X $DU_{it} + \beta_3 \Delta CA_{it}$ X $DU_{it} + \beta_4 \Delta PPE_{it}$ X $DU_{it} + \beta_5 \Delta OA_{it}$ X $DU_{it} + \varepsilon_{it}$

Other Companies' Sample (n = 72)

Variables	Capital Gain Yield (CYG)				Dividend Yield (DY)				Total Yield (TY)			
	Coefficients	t	P	VIF	Coefficients	t	P	VIF	Coefficients	t	P	VIF
Constant	0.136	1.339	0.185		0.040	6.233	0.000		0.176	1.741	0.086	
	(0.102)				(0.006)				(0.101)			
LA	0.068	0.865	0.390	1.086	0.000	-0.050	0.960	1.086	0.068	0.865	0.390	1.086
	(0.079)				(0.005)				(0.079)			
CA	0.079	0.669	0.506	1.008	0.013	1.687	0.096	1.008	0.091	0.779	0.439	1.008
	(0.118)				(0.007)				(0.117)			
PPE	0.091	0.566	0.573	1.232	-0.005	-0.530	0.598	1.232	0.086	0.534	0.595	1.232
	(0.161)				(0.010)				(0.160)			
OA	-0.034	-0.348	0.729	1.252	0.001	0.160	0.873	1.252	-0.033	-0.339	0.736	1.252
	(0.098)				(0.006)				(0.098)			
Model Summary	F	0.319	P	0.864	F	0.791	P	0.545	F	0.350	P	0.843
	R^2	0.019	SEE	0.755	R^2	0.045	SEE	0.048	R^2	0.020	SEE	0.752
	Adjusted R^2	-0.040	DW	2.139	Adjusted R^2	-0.012	DW	1.544	Adjusted R^2	-0.038	DW	2.096

Table 11 presents the regression results from the decomposition of assets growth variables on common stock returns for other companies' sample. The estimations of F-test are insignificant at 5% for the all models. Therefore, no additional explanation is done for the results.

Table 12 provides an overview of the empirical findings on how firm expansion influences equity performance across the full dataset and stratified samples, alongside the expected relationships, and these outcomes are evaluated in relation to earlier research.

The results reveal that regression coefficients of total assets growth and other assets growth on common stock returns are positive and statistically significant. In simple terms, greater growth in total assets is associated with higher sotck returns in Nepali capital market. In addition, the regression results of assets decomposition analysis confirmed that among the assets decomposed components, only the other assets growth has the significant positive impact on common stock returns for all samples firms, BFIs firms, and insurance companies' sample.

Table 12

Comparison of Expected and Observed Relationship

Table 12 shows the summary result of total and decomposed assets growth components across the stratified sample on stock returns. The explained variables are the three measures of stock returns. The explanatory variable are different measures of assets growth. LA is liquid assets growth. CA is current assets growth other than LA. PPE is property, plant & equipment growth. OA is other assets growth other than LA, CA, & PPE. The indicated directions align with expectations and reflect the observed links between the outcome variables and the explanatory factor.

Variables	Expected Sign	Capital Gain Yield (CGY)				Dividend Yield (DY)				Total Yield (TY)			
		All	BFIs	Insurance	Other	All	BFIs	Insurance	Other	All	BFIs	Insurance	Other
TA	-	+*	+*	NA	NA	NA	NA	NA	NA	+ *	+*	NA	NA
LA	-	-	-	-	NA	NA	NA	NA	NA	-	-	-	NA
CA	-	-	+	-	NA	NA	NA	NA	NA	-	+	-	NA
PPE	-	-	-	-	NA	NA	NA	NA	NA	-	-	-	NA
OA	-	+*	+*	+*	NA	NA	NA	NA	NA	+*	+*	+*	NA

Where, '+' = Positive effect, '-' = Negative effect, '*' = Significant, and 'NA' = Model is Not Applicable

DISCUSSION

The findings derived based on the assessment of the effect of assets growth on common stock returns are summarized and compared with the findings of some past empirical studies. The positive impact of assets growth on common stock returns is more likely to happen because whenever the company performs well, obviously, the results directly reflect into the financial reports of the company in the form of positive growth. If the company publish financial reports with the positive change in all the balance sheet indicators, the market reacts positively to such assets. Hence, the price and then the returns to the investors' increases. However, this finding contradicts with the large body of existing empirical evidences such as Asquith (1983), Rau and Vermalen (1998), Wiklund (1998), Richardson and Richardson (2003), Zhang (2006), Billet et al. (2007), Polk and Sapienza (2008), Pontiff and Woodgate (2008), and Cooper et al. (2008) confirming that assets expansion tend to be followed by the low returns.

Global studies such as Fairfield et al. (2003), Cooper et. al. (2008), Watanable et al. (2013) confirmed that assets expansion is generally linked with the lower profitability and lower returns. However, the Nepali market shows the opposite pattern, suggesting that investors interpret asset growth specially growth in the 'other assets' category as a sign of business expansion and improved further prospects rather than a signal of overvaluation. This aligns more closely with studies that argue emerging markets may react differently because of limited information flow, lower market

efficiency, and stronger reliance on balance sheet signals (Chen et al., 2001; Hou et al., 2015). Overall, the results highlight a clear gap between global assets growth anomalies and the behaviour of an emerging market like Nepal. Thus, the current results don not provide enough support for the hypothesis that assets growth negatively affects stock returns in Nepali capital market.

CONCLUSION

This research investigated the link between assets expansion and equity returns within the Nepali capital market using a panel dataset of 48 firms over 12 years. Contrary to the conventional hypothesis suggesting a negative association, the results indicate that total asset growth exhibits a statistically significant positive impact on stock returns, particularly in banking, financial, and insurance sectors. More importantly, when asset growth was decomposed into its subcomponents, only the growth in "other assets" consistently showed a significant and positive relationship with common stock returns across all firm categories. In contrast, growth in liquid assets, current non-cash assets, and property, plant, and equipment had no significant predictive power. These results indicate that both investors and regulators need to closely consider how assets growth is structured and managed especially the "other assets" category, which may encapsulate intangible or strategic investments often overlooked in conventional valuation. The study challenges dominant global narratives by providing new insights from an emerging market, indicating the need for context-specific asset pricing models.

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