Decoding Market Valuation: Panel Regression Insights into Nepalese Commercial Banks

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Abstract

This paper investigates the key influences, namely the Dividend payout ratio (DPR), Price-to-Earnings Ratio (P/E ratio), Earnings Per Share (EPS), Interest Rate (IR), Book Value per Share (BVPS), Return on Assets (ROA) and Stock Return (SR) on commercial banks' Market Price per Share (MPPS). It consists the panel dataset of 10 of the 19 commercial banks listed in NEPSE. It uses the 10-years data covering from fiscal year 2013/14 to 2023/24.

The fixed effect Hausman test suggests that DPR, P/E ratio, EPS, BVPS and ROA have significant impact on MPS, and P/E ratio is found to have the most influential to explain the equity price of Nepalese banks. Whereas IR and SR exert no notable effect on the prices. The results simply indicate that the market price is highly shaped by profit measure variables such as earnings, dividends, and efficiency. Future research extends incorporating a broader dataset at the population level, by employing alternative methodological approaches, macroeconomic variables, and investor behavioural issues that could provide in-depth facts in price creation process in the emerging capital markets.

Keywords: *Market price per share, dividend payout ratio, price-to-earnings ratio, earnings per share, interest rate, book value per share, return on assets, and stock return.*

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Introduction

Equity prices in commercial banking sector have a multidimensional aspect, as they not only reflect the investors' confidence and financial soundness but also carry important consequences for economic growth and market stability. It signals the investors to assess the degree of risk and returns (Brealey, Myers & Allen, 2020), evaluate the company's performance and market trends by financial experts (Damodaran, 2012), and formulating financial and monetary policies by the concerned regulators (Beck & Levine, 2004; World Bank., 2022). Moreover, the banking sector prices are equally vital in ensuring the stability and promoting economic growth to achieve high quality life in the society, particularly in emerging economies (Levine, 1997).

Commercial banks are the fundamental pillars to maintain the financial stability and promoting economic expansion and overall development of a country (World Bank, 2022). In the context of Nepal, commercial banking sector has significant dominance in the country's capital market with more than 30% of the total market capitalization representing from this sector alone (SEBON, 2023). This research on key contributors to market price is important for understanding the overall market behavior and investors' sentiment.

Dividend payout ratio is argued as important indicator of value to shareholders since a higher ratio conveys

investor confidence and stability, and its often linked to increased stock prices (Gordon, 1962). The higher ratio of market price relative to its earnings, on other hand, signals higher future earnings growth that driving prices upward (Damodaran, 2012). The income generated in relation to each unit of share is used to assess the investor behavior and stock price movements (Brealey et al., 2020) and measures the firm's net worth positively when it appears a greater financial transparency and consistent earnings growth (Hongkong, 2017).

The interest rate is considered a common measure influencing market prices of the companies as higher lending rates affect profitability, risk complexion, and investor sentiment. Fama (1970) in efficient market hypothesis argues stock prices of commercial banks adjust instantly to interest rate movements. Higher lending interest rates are associated with increased net interest margin, enhancing overall profitability, and stock prices (Mishkin, 2021). However, excessively higher lending rates, on the other hand, cause to raise default risk and reduce loan supply, impacting negatively the market price (Bernanke & Blinder, 1992). Nepal Rastra Bank (2023) reports the banks with higher book value per share are perceived as more resilient to economic shocks, driving market price positively. Despite the fact, the market inefficiencies and investors' key decisions especially in the developing economies like Nepal can sometimes lead to inconsistence relations of market price with book value (Dahal et al., 2024). The economies with relatively less efficient market and higher information asymmetry, investors use to have a profitability as a benchmark to measure the overall financial health of the companies, and therefore creating a market value. Brealey et al. (2020) acclaim the increased profitability enhance the investors' confidence, forcing higher stock prices.

This study primarily focusses to extend the existing literature from the findings obtained with the examination of the forces determining the equity prices of commercial banks, and can benefits stakeholders: investors, regulators, and other market participants. Despite the aforementioned parameters that are widely used globally to examine the performance of banking sectors; studies in the context of Nepal remains limited and outcomes vary with market dynamics that changing over time and across datasets. This study seeks to examine the issues using the most recent data set of selected listed banks in the country.

Literature Review

Investors, decision-makers, and scholars must comprehend the elements that influence commercial bank market pricing, especially in developing nations like Nepal. As previously discussed such as by Goldsmith (1969), McKinnon (1973), Pagano (1993), Shaw (1973); expansion in financial industry is essential to promoting economic expansion. While their work established that financial intermediation can enhance growth, it did not probe into how specific financial indicators directly affect the market prices of banks. According to Fama (1970) stock markets are thought to effectively represent all available information in their prices, according to the efficient market hypothesis.

Dahal (2024) and Tse (2002) discovered that businesses with a high earnings yield implies a poor ratio between price and earnings produced larger yield, highlighting the importance of stock price based on earnings valuation. Almumani (2014) analysed Amman's listed firms and found that the market P/E ratio, BVPS, and DPR are important factors that influence stock performance. Similarly, Ali and Chowdhury (2010) found that interest rates, dividends, P/E ratios, EPS, and other monetary aspects had a major influence on stock prices of the companies within industries when the Jordan equity market was examined. Nuraeni, Nuzula and Damayanti (2024) documented the effect of book value and return on stock on the company's stock prices, Awwad and Salem (2019) stress on the various financial measures that influencing on the stock prices around the world. Al-Dwiry, Al-Eitan and Amira (2022) highlight the profitability measured by return on assets as an important component in boosting stock prices of companies.

Earlier studies have documented the nexus between the stock price and several financial indicators. For instance, the market price has revealed a high degree of correlations with price-to-earnings ratio (Bhattarai, 2020), dividend payout ratio (Dahal & Puri, 2021), per unit earnings (Kumar, 2017), and accounting value of stock (Ahmadi & Bouri, 2018). The high interest rate, however, has found to influence negatively to the market values (Ellingsen & Söderström, 2001) that indicating a complex dynamic of financial variables to explain prices (Lobo, 2000). The

findings suggest the significance of financial indicators in order to understand the stock price creation process over the markets, including Nepal's banking sector. Nepal's financial market is characterized with typical conditions under the influenced of both domestic and global market trends (Kharel, 2024). Moreover, authorities have argued the importance of similar studies and findings to make the informed decisions to the investors (Olanrewaju et al., 2024; Thomas et al., 2007), the analysts (Hinze & Sump, 2019), and policymakers (Goyal & Kumar, 2021).

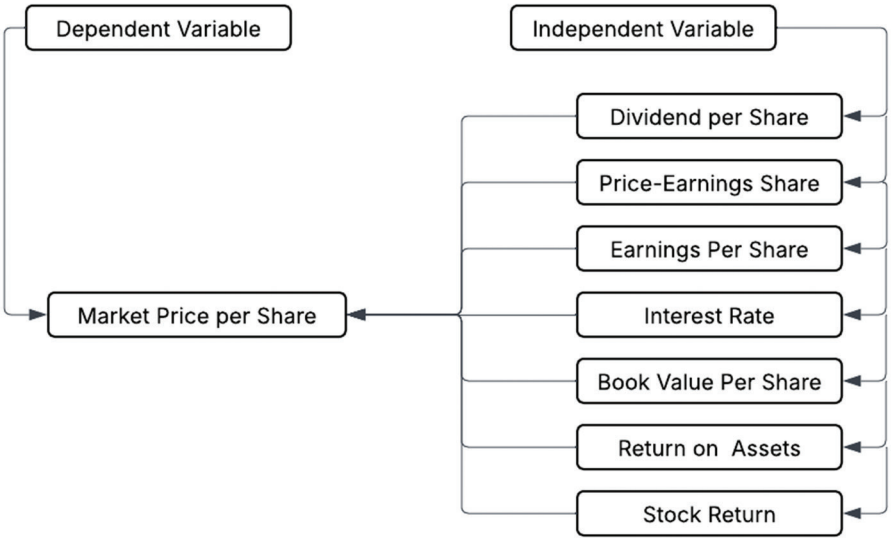

Figure 1: Conceptual Framework

Grounded on the theoretical and empirical review on the similar studies, this study considers the seven essential determinants of market price: dividend payout ratio, price-earnings ratio, income per unit, interest rate, accounting/book value per share, rate of return on assets, and stock return with respect to commercial banks operating in Nepal. As these indicators are supposed to capture profitability, investor perception, and financial performance collectively. The study aims to bridge theoretical perspective with empirical analysis by assessing how these indicators influence the equity price, the dependent variables. Drawing upon the reviewed literature and considering the Nepal's unique regulatory framework, emerging market structure, and limited prior evidence, the conceptual framework (Figure (1)) is developed to link key financial indicators with market price dynamics in Nepalese banking sector.

Research Methodology

Research Design

This study follows a quantitative research framework to assess the nexus of selected financial indicators in relation to the equity price of banking institutions functioning within Nepal; thereby providing empirical evidence regarding the price determination process of banks in Nepal. Particularly, it includes descriptive statistics, correlational analysis, and causal-effect approaches. Descriptive statistics summarize and present the general characteristics of the data; the correlational analysis to assess how strongly and in which direction two variables move each other. The cross-sectional time series regression model is utilized to analyse the causal-effect of the independent variables: dividend payout ratio, market price to earnings ratio, earnings per unit share, interest rate, balance sheet/book value per share, net profit to total assets and stock return on the predicted variable, the market price. The results of fixed effect The Hausman test confirmed the fixed effect (FE) model suitable for the estimation of relationship.

Data Source and Sample

The research applies the stratified sampling approach to choose ten commercial banks out of nineteen commercial

banks listed at NEPSE. They include two commercial banks with government investment involvement namely: the Agriculture Development Bank (ADBL) and Nepal Bank Limited (NBL); three jointly owned banks with foreign investments, and include: NABIL Bank Limited (NABIL), Everest Bank Limited (EBL), and Standard Chartered Bank Nepal Limited (SCB). The five commercial banks out of eleven private-public ownership banks. The included banks are: Global IME Bank Limited (GIME), Nepal Investment Mega Bank Limited (NIMB), Sanima Bank Limited (SANIMA), Prime Commercial Bank Limited (PCBL), and Kumari Bank Limited (KBL). It covers the period ranging from fiscal year 2013/2014 to 2023/2024. All the data that are specific to the sample banks have been taken directly from their respective official websites.

Variable Specifications

Table (1) reports a summary of explained variables and influencing variables, along with their tentative association, with * and ** indicating a directive and inverse associations, respectively. The publicly traded or market price (MPS) is the explained variable and it is obtained directly from the NEPSE website. One of the independent variables included in the model is dividend payout ratio (DPR), obtained dividing total cash and stock dividend paid to the shareholders by particular commercial banks, and the hypothesized to have a direct relationship with MPS (H_{11}*). The P/E Ratio represents the ratio of equity market price per unit with net earnings per unit, and expected to have positive impact on MPS as indicated by H_{12}* in the given Table 1. The EPS is obtained dividing total earnings available to the stockholders by total units of shares available in the market, and predicted to be a favourable impact on MPS (H_{13}*). The lending interest rate is directly sourced from Nepal Rastra Bank and anticipated to have a negative association with the MPS because of the investors' alternative choice between the interest income and stock market gains (H_{14}**). Book value per share (BVPS) represents the ratio total net worth to total units of shares available of the commercial banks, and Gurung and Dahal, et al. (2023) argued that its higher value is associated with higher MPS (H_{15}*). A very common profitability ratio, the ROA is simply the ratio of total net income to total assets employed by the banks, and it is anticipated to have direct impact on MPS (H_{16}*). Finally, the SR that is computed dividing capital gains and dividend received by the original investment, has expected to have positive influence on the MPS (H_{17}).

Table 1: Description of Variables

Variables	Symbol	Proxy	Hypothesis
Targeted Variable			
Market Price Per Share	MPS	Provided by NEPSE	
Explanatory Variables			
Dividend Payout Ratio	DPR	Cash and Stock Dividend Paid by CBs	H_{11}*
Price-Earnings Ratio	P/E Ratio	Unit Market Price /Unit Earnings	H_{12}*
Earnings Per Share	EPS	Net Income/Total Units of Shares Available in the Market	H_{13}*
Interest Rate	IR	Lending Rate Provided by NRB	H_{14}**
Book Value Per Share	BVPS	Total Equity/ Number of Shares	H_{15}*
Return on Assets	ROA	Net Income/Total Assets	H_{16}*
Stock Return	SR	(Capital Gain and Dividend Amount)/ Initial Investment	H_{17}*

Data stationary

Equation 1 examines the Augmented Dickey-Fuller (ADF) test of data stationary, that the time series is tested against previous period/lagged series in order to appropriately address autocorrelation suggested by Dickey and Fuller (1979).

$$\Delta y_t = \alpha + \beta y_{t-1} + \gamma \Delta y_{t-1} + \delta_1 \Delta y_{t-2} + \cdots + \delta_p \Delta y_{t-p} + \epsilon_t \quad \ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Δy_t denotes the difference between the current time series, y_t and lagged period series, y_{t-1}. The Δyt-1, Δy_{t-2}, and so on represent the time series lagged differences, and $\alpha,\beta,\gamma,\delta 1,\ldots,\delta p$ are their respective coefficients. p indicates how many lagged is used in the model. The null hypothesis of the equation is non-stationarity time series,

suggesting series having a unit root against the stationary time series as alternative hypothesis. The sample size and significance level chosen determine the test's crucial values. The acceptance of alterative hypothesis indicates the time series with stationery and series is free from unit root (Kwiatkowski et al., 1992).

Table 2: Summary of unit root test analysis

Variables	ADF t-statistic	P-Value	Order of Integration
MPS	-3.294536	0.0178*	I (1)
DPR	-10.984910	0.0000*	I (1)
PE RATIO	-8.622912	0.0000*	I (1)
EPS	-12.060460	0.0000*	I (1)
IR	-3.141927	0.0268*	I (1)
BVPS	-10.509710	0.0000*	I (1)
ROA	-7.390563	0.0000*	I (1)
SR	-12.655250	0.0001*	I (1)
Critical values for 1%, 5% and 10% are -3.495715, -2.890051 and -2.58251, respectively.			

** indicates significance at a 5 percent level*

Table 2 displays results of a unit root, the ADF t-statistic values are key indicators in this test; higher negative values suggest greater chance of being the series a unit root problem (a sign of non-stationarity). Alternatively, smaller p-value suggests for a stationary time series supporting to alternative hypothesis. Results indicated that the time series are stationary at first difference, first order of integration of I(1).

Models Specification for Hausman Test

The equation (2) presents the general multiple linear regression models proposed to assess the relationship between the targeted variable MPS and other explanatory variables.

$$MPS = \beta_1 DPR + \beta_2 P/R\ Ratio + \beta_3 EPS + \beta_4 IR + \beta_5 BVPS + \beta_6 ROA + \beta_7 SR + \varepsilon \quad \text{.....(2)}$$

As the dataset combines the of cross-sectional and time-series, the Hausman test is chosen to optimize the model between fixed effects (FE) and random effects (RE) models, and reported in Table 3. The test demonstrates that the FE model is the optimal choice as the null hypothesis is not supported for both explained and explanatory variables with a p-value of 0.000 (Borenstein et al., 2010). Hausman test reported in Table 5 indicates the $\chi 2$ value of 29.116 with its associated probability of 0.0001. The probability value appearing below 0.05, suggesting against the RE model. This simply meaning that the unobserved specific effects are correlated with the explanatory variables, and FE model is the best to estimate the influence of variables of interest on the equity price.

Table 3: Hausman test summary

Test Summary		$\chi 2$- Statistic	$\chi 2$- d.f.	Prob.
Cross-section random		29.116	7	0.0001*
Variable	Fixed	Random	Var(Diff.)	Prob.
DPR	4.06665	8.56979	1.54253	0.0003
PE RATIO	37.4641	33.7492	2.69192	0.0236
EPS	7.91993	7.37492	0.18997	0.2111
IR	8.23343	-17.56	41.4151	0.0001
BVPS	3.39682	1.76382	0.21495	0.0004
ROA	264.959	164.37	549.849	0.0000
SR	81.1257	68.5694	160.197	0.3212

* indicates 1 percent level of significant

The FE model for a connection between the unobserved variable and any of the explanatory variables (αi, Xi) ≠ 0), as suggested by Hausman (1978), is specified as follows:

$$MPS_{it} = \gamma_0 + \gamma_1 DPR_{it} + \gamma_2 PE\ RATIO_{it} + \gamma_3 EPS_{it} + \gamma_4 IR_{it} + \gamma_5 BVPS_{it} + \gamma_6 ROA_{it} + \gamma_7 SR_{it} + \alpha_i + \varepsilon_i \quad (3)$$

While averaging in Equation (3) over a period, Equation (4) is produced.

$$\overline{MPSi} = \Upsilon_0 + \gamma_1 \overline{DPRi} + \gamma_2 \overline{PE\ RATIOi} + + \gamma_3 \overline{EPSi} + \gamma_4 \overline{IRi} + \gamma_5 \overline{BVPSi} + \gamma_6\ \overline{ROAi} + \gamma_7 \overline{SRi} + \alpha_i + \overline{\mathcal{E}i} \quad (4)$$

To eliminate the impact of the unobserved effect α_i before estimating, subtract Equation (4) from Equation (3). Subtracting Equation (4) from Equation (3), it eliminates the effect of unobserved factor α

$$(MPS_{it} - \overline{MPSi}) = \gamma_1 (DPR_{it} - \overline{DPRi}) + \gamma_2 (PE\ RATIO_{it} - \overline{PE\ RATIOi}) + \gamma_3 (EPS_{it} - \overline{EPSi}) + \gamma_4 (IR_{it} - \overline{IRi}) + \gamma_5 (BVPS_{it} - \overline{BVPSi}) + + \gamma_6 (ROAit - \overline{ROAi}) + \gamma 7 (SRit - \overline{SRi}) + (\varepsilon_{it} - \overline{\mathcal{E}i}) \quad (5)$$

The Equation (6) presents the final FE model used to estimate the relationship among the variables.

$$\Delta MPS_{it} = \gamma_1 \Delta DPR_{it} + \gamma_2 \Delta PE\ RATIO_{it} + \gamma_3 \Delta EPS_{it} + \gamma_4 \Delta IR_{it} + \gamma_5 \Delta BVPS_{it} + \gamma_6 \Delta ROA_{it} + \gamma_7 \Delta SR_{it} + \mathcal{E}_{it} \quad (6)$$

In the given model (6), the change in MPS (ΔMPS_{it}) is examined in light of how the independent variables have changed (ΔDPR_{it}, $\Delta PE\ RATIO_{it}$, etc.), isolating the impact of the observed variables on the MPS while controlling for unobserved, time-invariant factors.

Results

Descriptive statistics

Table 4 is the results associated to the descriptive statistics for MPS, DPR, PE Ratio, EPS, IR, BVPS, ROA, and SR. The MPS exhibits a strongly skewed distribution, indicating the prices among the sample banks have considerable volatility. Whereas, the DPR distribution shows a positive skew and also exhibits a considerable variability in dividend distribution between the commercial banks in Nepal. The positive skewness of the price multiplier, while combining with its large difference and greater standard deviation indicating that there is a considerable valuation of stocks of the banks, with a few banks valued their stocks moving the mean above the median.

Table 4: Descriptive Statistics

Variables	Observations	Mean	Median	Maximum	Minimum	Std. Dev.
MPS	110	629.79	433.50	3600.00	171.00	635.08
DPR	110	20.92	17.30	105.26	0.00	15.42
PE RATIO	110	21.07	17.64	78.33	0.86	11.55
EPS	110	30.28	23.93	198.53	5.30	22.85
IR	110	10.61	10.61	14.42	6.80	1.82
BVPS	110	185.78	162.06	370.84	59.26	62.36
ROA	110	1.62	1.59	3.12	0.47	0.55
SR	110	0.14	-0.03	2.64	-0.66	0.58

The distribution of EPS is positively skewed, with the mean value exceeding the median value. The wide range of EPS with its larger value of standard deviation indicates the significant variability in earnings across the sampled banks. The interest rates exhibit a same value of mean and median, indicating the symmetric distribution in

interest rates among banks. Moreover, the relatively its low standard deviation and lower range suggest the fairly stable level of interest rates across the sample period. The BVPS is positively skewed and its mean value exceeds over the median. The wide range of values supported by the substantial standard deviation indicates the considerable variability in the accounting value of the banks. The ROA distribution is relatively symmetric, as its mean value is closer to the median. Relatively the moderate range between the maximum and minimum value with low standard deviation shows the asset returns have modest variability. The stock returns distribution shows a slight positive skew with moderate level of standard deviation. The wide range in the returns, however, indicates the considerable variability in the equity returns of the company.

In sum up, the descriptive statistics provide notable differences in the distributions among the sample banks' key financial indicators. The ROA and interest rates exhibit relatively symmetric distribution, whereas other variables show positively skewed, indicating the presence of outliers in the series.

Correlation Coefficients

Table 5 presents the output of correlation between the unit equity price and other key variables of the sampled banks as in specified in models.

MPS and PE Ratio exhibits a strong positive correlation with its observed value of 0.733 and significant at 1% level. This shows the dividend payout ratio has higher association with the market price, and it is followed by the relationship with DPR (i.e., 0.712). The market price has moderate level of positive relationship with the EPS and BVPS, however the relationship is not as strong as that experienced for DPR and PE Ratio. While the ROA (0.287, significance at 1%) and SR (0,218, significance at 5%), both show the positive relations with the MPS, however, their relatively low values indicate the modest associations with MPS. In contrast, the interest rates have significant negative correlation, suggesting decline equity price and rising interest rates. The overall results highlight the impact variations between the independent variables and market price of commercial banks that providing perspectives for further analysis.

Table 5: Correlation coefficients

Correlation Probability	MPS	DPR	PE RATIO	EPS	IR	BVPS	ROA	SR
MPS	1 0.0000*							
DPR	0.712 0.0000*	1						
PE RATIO	0.7328 0.0000*	0.4139 0.0000*	1					
EPS	0.4306 0.0000*	0.3346 0.0004*	-0.0445 0.6442	1				
IR	-0.493 0.0000*	-0.307 0.0011*	-0.5851 0.0000*	-0.0324 0.7369	1			
BVPS	0.4993 0.0000*	0.4721 0.0000*	0.1521 0.1127	0.3309 0.0004*	-0.1038 0.2806	1		
ROA	0.2865 0.0024*	0.4198 0.0000*	-0.1684 0.0787**	0.4138 0.0000*	0.0682 0.4791	0.3126 0.0009*	1	
SR	0.2175 0.0225*	0.068 0.4801	0.2027 0.0337*	0.0834 0.3861	-0.0443 0.6459	-0.0462 0.632	-0.0024 0.9805	1

** indicates 1 percent level of significant, ** indicates 5 percent level of significant*

Hausman Test and FE Model Results

Table 6 reports the results after employing FE model, after the confirmation from Hausman Text. Particularly,

it shows the change in market price per share that resulting from every unit change in key financial indicators considered in the study.

The intercept value does not represent the starting value of MPS in the absence of independent variables; rather, captures the average of all unobserved, time-invariant bank-specific effects that influence MPS but are not directly included in the model. This serves as a baseline reflecting these latent characteristics rather than an initial value of MPS. Moreover, the Hausman test result reported strongly supports the use of the FE against the RE model, validating the interpretation. The influence of DPR on MPS is statistically significantly positive at the one percent level as it reports the coefficients of 4.067 and a probability of 0.0089. With a t-statistic of 12.628 and a probability of 0.0000, the PE Ratio's massive positive coefficient of 37.464 indicates a large and substantial influence on MPS. EPS and MPS also exhibits a significant positive correlation at the 1 percent level (coefficient of 7.920). The high probability of 0.5873 and the t-statistic of 0.545 indicate that the IR coefficient of 8.233 is not statistically significant.

Table 6: Fixed effect model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1643.571	253.847	-6.475	0.0000*
DPR	4.067	2.210	1.840	0.0089*
PE RATIO	37.464	2.967	12.628	0.0000*
EPS	7.920	1.097	7.221	0.0000*
IR	8.233	15.115	0.545	0.5873
BVPS	3.397	0.596	5.697	0.0000*
ROA	264.959	51.407	5.154	0.0000*
SR	81.126	37.824	2.145	0.0346**
R-squared	0.9082	Adjusted R-squared	0.8924	
F-statistic	57.5070	S.E. of regression	208.3110	
Prob(F-statistic)	0.0000	Durbin-Watson stat	1.9138	
ΔMPS= -1643.571 + 4.067ΔDPR + 37.464ΔPE RATIO + 7.920ΔEPS + 8.233ΔIR + 3.397ΔBVPS + 264.959ΔROA + 81.126ΔSR + €it				

** and ** are significant at significance levels of 1% and 5%, respectively.*

This implies that bank IR reveals no significant impact on MPS in the model. The BVPS also revealed a positive relationship with MPS. ROA significantly increases MPS with a low likelihood and a very high coefficient of 264.959. SR appears to have a positive but less clear impact on MPS than other components, as indicated by its coefficient.

In overall, the FE model suggests the DPR, PE Ratio, EPS, BVPS, and ROA have significant influenced on market price and SR exhibits relatively lower predictive power to explain the market price variation. The interest rates, however, do not show the relationship with market price. The model explains approximately 89.24% of the variations in MPS, implying a strong overall fitness. F-statistic (57.5057, 0.000) is significant and it further confirms that the set of key financial indicators collectively has influence on the equity price in Nepalese banking sector, validating the overall model's explanatory power. Finally, the Durbin-Watson statistics of 1.914 further suggest the free from any autocorrelation in the residuals of dataset used.

Results Discussion

The results indicate a significant relation of market price with DPR, PE Ratio, EPS, BVPS, ROA and SR; whereas the interest rates show no significant relationship with the stock market price of commercial banking institutions in Nepal. The positive association of DPR with MPS supports the H_{11}* of this study, and this linkage is grounded in both theory and investors' reactions. Essentially, the companies paying with higher dividends often signal as strong profit situation and resiliency power of the company against financial adversity, leading to higher investors'

confidence towards company performance that results higher prices with increased demand. The finding is consistent with (Al-Twaijry, 2007; Yanuarti & Dewi, 2019), among others, who claimed the dividends as a major factor affecting the share prices in all the industries. The association between PE Ratio and MPS, supporting the hypothesis H_{12}*, arises from the fundamental relationship between them as a high PE Ratio is usually perceived the investors with strong future earnings growth of particular company, and are eager to pay additional price for increased earnings. This is seen the common behaviour of the investors in Nepal; whey they place a higher value on the banks with higher perceived future earnings. The similar conclusions are supported by the earlier empirical studies carried out by the Kumar (2017), Bhattarai (2020), and Almumani (2014).

The notable relation of EPS on MPS, on the other hand, supports H_{13}*. Higher EPS causes to increase the MPS; theoretically it is argued that the increased EPS signals strong profitability that supports to push the prices up from the amplified investors' demand resulting from built up confidence. The earlier study by Gurung et al. (2023) also concluded that the EPS is one of key fundamental variables to explain the stock prices in the context of Nepalese companies. A high BVPS indicates the companies with strong asset base and financial position, and its positive relationship with the MPS is obvious even in the context of banking sectors of Nepal. This simply increase in investors' overall confidence and influences in the price creation process positively. The result supports H_{15}* hypothesis that stating a positive linkage between them. The finding aligns with the previous studies that argue the investors should consider the accounting value while judging companies' intrinsic value (Ahmadi & Bouri, 2018; Dahal et al., 2025; Nuraeni et al., 2024; Purnamasari, 2015).

The positive relationship between profitability, measured by ROA, with MPS (hypothesis H_{16}*) is similar to the findings supported by Al-Dwiry, Al-Eitan and Amira, (2022). They concluded that profitability demonstrates the company's effectiveness of utilizing its resources to produce revenue, and the asset efficiency is directly linked to stock price determination, particularly in emerging markets. The stock return has revealed a moderately related to the MPS, this simply imply that the companies past performance influences on current market prices. This finding is very much similar with the conclusion made by Banz (1981), who noted that stock returns are important factor to explain the market price, but at a lesser extent, especially in the equity market of developing nation. The interest rate in the study does not support H_{14}** hypothesis, and the result is not significant that implying the bank interest rates, at least in the context of Nepalese banks, do not explain the market price. The result, however, is contradictory with the prevailing theory and investor behaviour. The theory suggests that inclined interest rates make the stock market investment less attractive, that results stock prices down with decreased stock investment demand. One of the facts behind this result is the bank interest rates in Nepal often guided by the monetary policy in Nepal, that observed relatively stable over period even over the periods the stock prices moving ups and downs, largely influenced by public sentiments driven with other external forces (Gurung, 2020).

Conclusions

This study examined the dynamics of market prices in relation to key financial indicators, namely: the dividend payout ratio (DPR), price-earnings ratio (PE Ratio), earnings per share (EPS), interest rate (IR), book value per share (BVPS), return on assets (ROA), and the stock return (SR) within the context of commercial banking institutions in Nepal. The results revealed the market prices associated positively with the DPR, PE Ratio, EPS, BVPS, ROA and SR. This simply indicates that the bank specific components such as profitability, asset base, and investors' returns have important role in creating stock prices in the banking sector of Nepal. Though the interest rates are theoretically expected to influence the stock price negatively, the results show an insignificant relationship. It implies that the stock prices formation may be further driven from other macroeconomic forces, limiting the influence of interest rate in the study.

These results support the underlying theoretical premise that company-specific performance indicators play an important role to shape investor sentiment in stock price formation process. Notably, the results suggest to improve the company performance focussing on earnings generation, asset efficiency and dividend distribution policies to enhance the investors' confidence, that exerts direct impact on banks' equity price. The policymakers and regulators require to enhance transparency and strengthen sound governance to maintain the overall financial

stability to foster confidence among market participants. Further research could be carried with an extended dataset at the population level, by employing alternative methodological approaches. Moreover, inclusion of macroeconomic variables and investor behavioural issues can provide a further understanding of the dynamics of equity prices in emerging capital markets.

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