

Market capitalization as a stability challenge in the capital market: Evidence from Nepalese banking sector

Basu Dev Lamichhane¹, Prof. Dr Mahananda Chalise^{*2}, Dasarath Neupane³ and Susmita Shrestha⁴

¹Assistant Professor, Tribhuvan University, Saraswati Multiple Campus, Kathmandu, Nepal

²Professor and Dean, Faculty of Management, Tribhuvan University, Kathmandu, Nepal

³Research Director, Atharva Business College, Kathmandu, Nepal

⁴Research Scholar, Saraswati Multiple Campus, Kathmandu, Nepal

Email: mahananda.chalise@tu.edu.np²; neupane.dasarath@gmail.com³;
susmeestha555@gmail.com⁴

ORCID ID: 0000-0001-7987-6512¹; 0000-0002-7210-1244²; 0000-0001-9285-8984³; 0009-0008-5568⁴

*Correspondence: mahananda.chalise@tu.edu.np

Abstract

Traditional finance views stock market and portfolio choices as products, brand, market efficiency, investors' behavior, and rationality. However, research suggests that different factors affect the share market capitalization for its stability. The strategy's role of investment, innovation, SMEs, and financial sustainability has become more crucial for Nepalese economies driven by the interaction among the investors, financial markets, venture capital ecosystem, and sustainable finance. This exploratory study aims to examine the status of market capitalization and its financial determinants, explore the relationship between market capitalization and financial indicators, and analyze the impact of earnings per share (EPS), dividend payout ratio (DPR), return on equity (ROE), book value per share (BVPS), interest rates (IRs), and number of outstanding shares (NOSs) on market capitalization. The study employs a descriptive and causal-comparative research design, utilizing purposive sampling to select 10 commercial banks. The secondary data are acquired from the report of Nepal Rastra Bank (NRB) and the annual report of the respective bank. The data is analyzed using descriptive statistics, correlation analysis, and regression analysis. The study's findings reveal a positive relationship between book value per share, outstanding shares, and market capitalization. In contrast, earnings per share, dividend payout ratio, return on equity, and interest rate do not significantly impact market capitalization. Thus, book value per share and outstanding shares are significant variables affecting market capitalization. The study concludes that structural financial indicators like book value per share and the number of shares

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are of greater importance in determining the market capitalization of Nepalese commercial banks than profitability and macroeconomic indicators. The study recommends that stakeholders in the Nepalese banking sector, including policymakers and management, adopt enhanced financial sustainability frameworks and regulatory support to foster sustainable growth and attract investors.

Keywords: Book Value Per Share, Capitalization, Dividend Payout Ratio, Earnings Per Share, Interest Rate, Return on Equity, Sustainability

JEL Classification: G10, G17, G18

1. Introduction

The market capitalization of a bank is calculated by multiplying its total outstanding equity shares by the market value per equity share. It can decrease due to a decline in the value of its outstanding equity or a reduction in the number of outstanding shares (Kuvshinov & Zimmermann, 2021). Market capitalization reflects the perceived value of a bank's equity, indicating its financial health and value addition. It can be assessed by debenture holders, equity holders, and lenders through stock performance analysis or by evaluating the bank's market value (Santoso et al., 2021). The factors influencing investors' choices include bank profitability, growth, risk, and size. The banking sector has evolved from traditional to modern systems, with equity trade correlating with the information available to investors about bank credibility and operational capacity. Bank valuations are crucial for meeting the diverse expectations of stakeholders (Singh et al., 2024). Regulatory bodies safeguard stakeholder interests and promote investment and safety in banks. Banks are enhancing operations to maximize stakeholder value and operational efficiency. Given the diverse probabilities and time frames of stakeholders, it is crucial to use a combination of metrics to assess the bank's performance (Thach et al., 2021).

Market capitalization in banks is heavily determined by earnings per share (EPS) as this measures profitability and directly influences investor trust and valuation of its shares. A higher EPS attracts additional investors and leads to greater demand, leading to greater market capitalization (Eriemo, 2014). The dividend payout ratio an important indicator, plays an integral part of bank finances by representing financial health and stability. A higher payout ratio can attract investors seeking income through dividends, thus raising market valuation; research points out how stable dividend payouts contribute positively to market capitalization by building investor trust (Widyastuti, 2023). Market capitalization also depends on various external factors. If the economy is performing well, the confidence of the investors will increase, leading to an increase in the demand for bank shares and market capitalization. On the contrary, during the economic crisis, the uncertainty about the profitability and quality of the assets may lead to a decrease in the price of the shares (Puente at.al, 2023).

Better corporate governance practices also increase the trust of investors in the bank. This is important in the case of market capitalization (Al-Matari et al., 2014). Improvement in disclosure practices and the adoption of international reporting practices and better communication with shareholders have an important role in the case of Nepalese banks. Liquidity risk, as indicated by the liquidity ratio, positively influences the financial performance of banks and financial institutions. Ensuring sufficient liquidity not only boosts profitability but also strengthens resilience against economic fluctuations. Moreover, proficient management of liquidity risk is crucial for enhancing the financial performance and market capitalization of banking sectors (Awosanya, Y., 2025). The study aims to identify the factors influencing the market capitalization of listed banks in Nepal, analyzing the effects of earnings per share, dividend payout ratio, return on equity, book value per share, interest rates, and the number of shares. The next section of the paper is as follows. The next section is the problem statement, the objective of the study, and a review of the literature on EPS, DPR, ROE, BVPS, IR, and NOSs in market capitalization. This is followed by research methodology/design/approach and data analysis technique.

This study addresses three specific research questions by analyzing how internal factors affect the market capitalization of Nepalese commercial banks listed on NEPSE.

- RQ1. What is the current state of market capitalization and its key determinants in Nepalese banks listed on NEPSE?
- RQ2. How do earnings per share, dividend payout ratio, and return on equity, book value per share, interest rate, and number of shares relate to market capitalization in Nepalese banks listed on NEPSE?
- RQ3. What is the impact of earnings per share, dividend payout ratio, return on equity, book value per share, interest rate, and number of shares on the market capitalization of Nepalese banks listed on NEPSE?

The study aims to explore the relationship between market capitalization and its determinants in Nepalese banks listed on the Nepal Stock Exchange (NEPSE). The specific objectives of the study are:

- i. To assess the current state of market capitalization and its determinants, including earnings per share, dividend payout ratio, return on equity, book value per share, interest rate, number of shares, and market capitalization in Nepalese banks listed on NEPSE.
- ii. To examine the relationship between market capitalization and earnings per share, dividend payout ratio, return on equity, book value per share, interest rate, and number of shares in Nepalese banks listed on NEPSE.

- iii. To analyze the impact of earnings per share, dividend payout ratio, return on equity, book value per share, interest rate, and number of shares on market capitalization in Nepalese banks listed on NEPSE.

2. Literature Review

2.1 Theoretical reviews

2.1.1 Dividend Relevance Theory (DRT)

The dividend relevance theory (DRT) was first introduced by Gordon (1962) and Lintner (1956). This theory highlights the significance of dividends in firm valuations, emphasizing that paying dividends serves as a crucial signal to investors. Firms that consistently or increasingly pay dividends tend to attract investor confidence, thereby enhancing their market capitalization. The DRT theory argued that the payment of dividends serves to reduce the problem of asymmetry of information between the firm and the investor. This is achieved through the transparent and verifiable mechanism of providing a future earnings potential (Bhattacharya, 1979). This aspect of the theory may be particularly pertinent in emerging markets where informational inefficiency is more prevalent. Tran (2024) concluded that in emerging markets, the payment of dividends would have a greater impact on investor sentiment than in developed markets because it provides a concrete return in the face of the volatility and unpredictability of the market price of shares. For the Nepalese commercial banks operating in an emerging market context, maintaining a stable dividend payout ratio may be a key aspect.

2.1.2 Signaling Theory (ST)

Signaling Theory (ST) was proposed by Spence (1973) and this theory helped to explain how organizations transmit private information to the market through observable behavior. In a setting of imperfect information during business transactions, corporate signals like dividend announcements, earnings per share (EPS), and financial details play a crucial role in reducing the information disparity between parties. These signals assist investors in assessing a firm's quality when direct financial information access is unavailable. The theory argued that financially strong organizations are more likely to transmit positive corporate signals because they are able to support such behavior with actual financial outcomes (Spence, 1973). Financially weak organizations are less likely to follow suit. Miklus and Oplotnik (2016) proved that the predictability of dividend growth had a positive effect on market sentiment and market capitalization. In the same way, the banks operating in the developing countries like Nepal may try to boost the market capitalization by maintaining a stable dividend policy and transparent disclosures in the market in which the retail investors may not possess adequate analytical skills.

Furthermore, another significant figure, earnings per share, is a fundamental figure that reflects the profitability per share. This is also a significant signal for the market. If the EPS is increasing, it is considered a reliable signal for investors that a firm is capable of earning more in the future,

and thus its stock prices may increase, leading to a rise in its market capitalization (Bhattacharya & Ritter, 1983). For banks, EPS is a significant figure, and its increase may reflect efficiency, risk management, and lending strategies, all of which are highly appreciable by investors. As noted by Culham, 2020, during times of economic volatility, banks with clear and consistent financial disclosures were successful in maintaining investors' trust and avoiding volatility in the bank's stocks.

The signaling theory pointed out the cost of sending false signals. This is a supporting argument for the credibility of the signaling theory. Firms, like banks, that send false signals of their success by paying dividends that are unsustainable and false, as well as sending false signals of their earnings, will lose the trust of investors when the truth is eventually revealed (Ross, 1977). In a market like NEPSE, where the level of regulation is still developing, it is important for banks to maintain the credibility of the signaling theory. Investors will reward banks that are able to show a level of signaling consistency with a higher stock value, as was found by Tran (2024) in emerging markets. The results found that even during adverse economic times, firms that had a strong system of signaling were able to maintain a higher level of market value. This is a supporting argument for the strategic importance of the signaling theory about the influence of market capitalization in less developed markets.

2.1.3 Liquidity Preference Theory (LPT)

The LP theory (1936) was first introduced by John Maynard Keynes in his famous book, *The General Theory of Employment, Interest and Money*, published in 1937 by Lachmann, L. M. This theory explained the reasons behind the preference for holding liquid assets. Keynes identifies three primary motivations for holding liquid assets: the transactions motive, precautionary motive, and speculative motive. This theory highlights its significance in financial markets and banking, suggesting that banks with strong liquidity are perceived as safer for investors during periods of market uncertainty. This has a greater impact on the capitalization of the financial market, as the confidence level of the investor increases with the ability of the institution to meet its short-term obligations (Keynes, 1936).

For banks, liquidity is not only important for business continuation but also plays a important role in how investors view a bank financially. Banks are naturally vulnerable to liquidity risk given their high dependence on maturity transformation. Should investors or depositors be worried about a bank's inability to meet its short-term liabilities, this could lead to capital outflows or a decrease in shareholders' wealth. Optimal liquidity levels act as a cushion against financial difficulties and help to sustain investors' confidence (Diamond & Dybvig, 1983). Similarly, Culham (2020) established the significance of liquidity in sustaining investors' confidence during economic hard times and argued that banks with high liquidity levels experienced less investor panic during these times. This is consistent with the liquidity preference theory that established that liquidity increases significantly during times of uncertainty.

Thus, the liquidity preference theory provides a theoretical framework for analyzing the relationship between liquidity ratios and market capitalization. It highlights how investor responses are influenced by commercial banks' ability to satisfy liquidity demands, which subsequently affects market capitalization.

2.2 Empirical Reviews

The variables in the research framework for this study are earnings per share, dividend payout ratio, return on equity, book value per share, interest rate, number of shares, and the dependent variable is market capitalization.

2.2.1 Earnings per share (EPS)

EPS is the portion of a company's profit distributed to every outstanding share of common stock, which is a significant independent variable for the study. EPS provides insights into the profitability of a bank, and the results reveal the amount of profit earned on every share owned by investors. The higher the EPS, the better the company's financial performance, which attracts more investors, thereby increasing the market capitalization. Fitrah et al. (2022) proved that EPS positively influences the market capitalization of a company, which is significant for the current study. EPS directly affects the investors' minds, as proved by Suharti et al. (2023), who stated that EPS is significant, although its impact differs for different sectors, which highlights the importance of analyzing the effect of other financial indicators on market capitalization. Ochiai and Nacher (2022) introduced a novel approach called volatility-constrained correlation (VC correlation) to examine the directional influence among key financial variables on market capitalization. The findings revealed that operating income (EPS) was the most influential factor. Revenue and market capitalization were the most affected by other variables. Dibal and Ambam (2024) investigated the institutional determinants of capital market development in Nigeria. This study established that net assets value (ROA) has an indirect and positive influence over total market capitalization and total traded value both long and short term. This study concluded that strengthening the legal and institutional framework as well as increasing investor trust through education, will improve both stability and effectiveness in capital markets. Phan and Nhat (2025) explored the key factors influencing market capitalization among publicly listed firms in Vietnam. The study showed the significant moderating role of the COVID-19 pandemic and financial crises on how internal variables affect market value. The findings recommended that firms should prioritize intellectual capital development as part of their long-term strategy for sustaining share market (EPS) value. Based on the theoretical reviews and empirical evidence, the following hypothesis are formulated.

H₁: EPS has a significant effect on the market capitalization of banks listed in NEPSE.

2.2.2 Dividend Payout Ratio (DPR)

The DPR is a measure of the proportion of earnings that are paid out as dividends to shareholders of a firm. The DPR is an independent variable that measures the proportion of earnings that are

paid out as dividends to the firm's shareholders. A high dividend payout ratio helps create confidence among its shareholders, which positively impacts the valuation of the firm. Suharti et al. (2023) established that dividend payout ratio has a positive impact on market capitalization. Similarly, Permata and Alkaf (2020) established that the Dividend Policy affects investor behavior and firm valuation; therefore, the dividend payout ratio is an important determinant of the performance of the capital market. Miller et al. (1961); Miklus and Oplotnik (2016) examined the impact of dividend payout ratio and its impact on market capitalization. The study found that firms with well-structured dividend policies had higher stock prices and greater market capitalization in European markets. The above findings suggested that the dividend payout ratio directly influences the investor's behavior. Based on the theoretical reviews and empirical evidence, the following hypothesis are formulated.

H₂: DPR has a significant effect on the market capitalization of banks listed in NEPSE.

2.2.3 Return on Equity (ROE)

ROE is a profitability ratio that is considered a fundamental measure for assessing a firm's ability to generate net income from its shareholders' equity invested in the firm. It, therefore, measures how efficiently a firm is able to utilize its shareholders' equity in order to generate profits for its stakeholders. It is calculated as net profit after tax divided by total shareholders' equity. Hence, a higher ROE means that a firm is more efficiently managed, and its financial performance is better, which makes it a significant measure for investors in assessing a firm's profitability and investment potential. Several studies have supported the importance of profitability ratios, such as ROE, in assessing a firm's value and performance in the stock market (Fitrah et al., 2022). Similarly, Batrancea and Fetita (2023) analyzed the important link between banking sector performance and broader economic development. The findings suggested that bank management should focus on improving profitability and managing debt levels to improve market performance and appeal to potential investors. The next, Suharti et al. (2023) explored the effects of return on equity (ROE), earnings per share (EPS), dividend payout ratio, and dividend per share on the market capitalization of consumer goods companies listed on the Indonesia Stock Exchange and LQ45 Index. This study showed that the dividend payout ratio (DPR) is one of the major determinants of market capitalization among consumer goods companies studied. Based on the theoretical reviews and empirical evidence, the following hypothesis are formulated.

H₃: Return on equity has a significant effect on the market capitalization of banks listed in NEPSE.

2.2.4 Book Value per Share (BVPS)

BVPS is calculated as the total shareholders' equity divided by the total number of outstanding shares. The book value per share is a measure of the intrinsic value of a company based on its financial statements. This measure shows the level of asset support available to each outstanding share of the company. Studies have shown that the book value per share has a significant impact

on the market capitalization of a company. The book value per share is a measure that is usually considered when determining the value of a company to the shareholders (Alarussi, 2023; Phan & Nhat, 2025). Das and Swain (2019) identified the key variables that influence market capitalization and their broader impact on stock market growth. Their findings showed that most variables had a significant influence on the development of the stock market. Political instability and high inflation were found to have a negative impact. The study concluded that maintaining political stability and managing inflation effectively are important steps toward supporting capital market growth with the book value of shares. Alshubiri (2021) investigated the relationship between stock market capitalization and financial growth. This study revealed that there are positive and significant relationships among stock market capitalization, foreign direct investment, stocks imported, financial growth, as well as stock market capitalization growth and foreign direct investment flows. GDP per capita growth and inflation have significant negative effects on financial growth. This study concluded that eliminating regulatory obstacles and protecting shareholder rights are fundamental in supporting financial market development. Based on the theoretical reviews and empirical evidence, the following hypotheses are formulated.

H4: Book value per share has a significant effect on the market capitalization of banks listed in NEPSE.

2.2.5 Interest rate (IR)

The interest rate is a term that is used to describe the cost of borrowed money or the rate earned on a financial investment, usually expressed as a percentage of the principal amount over a specified period of time. In this study, the interest rate is used as a proxy for the 91-day Treasury bill rate. The 91-day Treasury bill rate is a type of short-term government security commonly used as a proxy for market interest rates. Changes in the 91-day Treasury bill rate affect the decisions made by investors in the financial market. When the interest rate goes up, investors may prefer safer securities like treasury bills rather than equities. This may affect the market capitalization of the stock market. Empirical studies have shown that interest rates greatly affect the performance of the capital market; moreover, interest rates have a negative relationship with market capitalization (Omodero, 2019; Fitrah et al., 2022). Omodero (2019) examined the influence of economic indicators on capital market performance in Nigeria. The study results showed that exchange rate, inflation rate, interest rate and GDP all have minimal negative influences on capital market capitalization (CMC). Interest rate has significant detrimental results that harm CMC, while GDP shows significant positive influences that promote its expansion. The study concluded that economic growth is essential to capital market enhancement and calls on relevant authorities to closely regulate inflation, interest rates, and exchange rates to maintain market stability. Permata and Alkaf (2020) explored how both internal company factors and broader economic conditions influence the financial value of manufacturing firms listed on the Indonesia Stock Exchange. The results showed that a mix of firm-specific (micro) and economy-wide (macro)

variables significantly affects company valuation. The study concluded the need for an evaluation model that integrates both internal performance indicators and external economic influences.

Fitrah et al. (2022) explored how various financial indicators, such as EPS, PER, ROA, ROE, and ROI affect market capitalization in Indonesian Islamic Index stocks. The study found that EPS, PER, ROA, and ROE all positively and significantly influence market capitalization. ROI and interest rate exert negative influences on market capitalization. Inflation and Indonesian crude price both show positive yet insignificant effects. Market capitalization negatively and insignificantly influences stock returns. This study concluded that market capitalization does not correlate directly to high stock returns. Based on the theoretical reviews and empirical evidence, the following hypotheses are formulated.

H₅: Interest rate has a significant effect on the market capitalization of banks listed in NEPSE.

2.2.6 Number of Shares (NOS)

The outstanding shares represent the total number of shares that are currently owned by the shareholders but do not include treasury shares. This is an important independent variable because market capitalization is directly computed by multiplying the outstanding shares by the market price of each share. Alarussi (2023) pointed out that outstanding shares are related to market capitalization when companies issue new shares or repurchase existing shares. Phan & Nhat (2025) also indicated that changes in outstanding shares can affect other financial indicators, including leverage and profitability ratios, which are related to investor confidence and market value. Therefore, monitoring outstanding shares is important in understanding market capitalization. Alarussi (2023) examined factors impacting market capitalization among listed Malaysian companies and how these affect shareholders' wealth maximization goals. The findings of the study revealed that market capitalization is positively influenced by book value per share, leverage, profitability, working capital needs, and number of shares issued (NOS). Karna et al. (2024) examined the growth trend of the Nepalese securities market. This study focused on market capitalization, the number of share transactions (NOS), securities traded, and securities listed. The study showed the necessity for strategic interventions to stabilize and foster growth. The research appeals for improved guidance and reforms to address the operational challenges and boost investor confidence in the Nepalese stock market. Based on the theoretical reviews and empirical evidence, the following hypothesis are formulated.

H₆: The number of shares has a significant effect on the market capitalization of banks listed in NEPSE.

2.2.7 Market Capitalization (MC)

The overall market value of a company's outstanding equity shares is represented by market capitalization and is considered the dependent variable (DV) in this study. The greater the market capitalization, the greater the confidence and value that investors have in a given bank and financial

institution (BFIs). Market capitalization is significantly affected by different factors and can be used as a key indicator for the growth and stability of the stock exchange (Das and Swain, 2019). The next, market capitalization represents the overall financial condition and status of listed companies (Alarussi, 2023).

Several studies have been conducted at the international level to explore the determinants of market capitalization by considering various financial indicators as well as macroeconomic indicators (Das & Swain, 2019; Alarussi, 2023; Phan & Nhat, 2025). However, at the Nepalese level, studies like Karna et al. (2024) have been conducted to explore various trends prevailing in the Nepalese securities market; however, financial determinants of market capitalization are not covered at the firm level for the Nepalese banking and financial sector.

3. Methodology

The components of a research methodology may include the research design, population, and sample/sampling design, the nature and sources of the data, the procedures of data collection, and the method of analysis.

3.1 Research Design

A descriptive research design and a causal-comparative research design are used in the study. The descriptive research design is useful in presenting an appropriate depiction of the current state of market capitalization and financial measures like earnings per share, dividend payout ratio, return on equity, book value per share, and number of shares in the selected banks.

3.2 Population, Sample, and Sampling

The population of the study is all the commercial banks that are listed on the NEPSE. There are 19 commercial banks listed on the NEPSE. However, Rastriya Banijya Bank Ltd is excluded from the population of the study because it is not listed on the NEPSE. From the population of the study, the researcher selected three banks as the sample. The sampling method that is used in the study is purposive sampling. Purposive sampling is the method of sampling in which the researcher selects the participants based on specific criteria. The study selects ADBL and NBL from the public category, HBL, EBL, NABIL, and SCB from the joint venture category, and GIBL, SBL, NIMBL, and KBL from the private category as a sample. These banks are selected because they have consistent data availability and play an important role in the Nepalese financial market.

3.3 Nature and Sources of Data and Instruments of Data Collection

The study uses secondary data and implies that the research uses data that is already collected. The main source of the data is the annual reports of the chosen banks. The annual reports contain financial details of the banks. This financial detail includes earnings per share, dividend policy, return on equity, book value per share, number of shares, and market capitalization. In addition to

the bank reports, the study also uses the Nepal Rastra Bank (NRB) reports. NRB is the central bank of Nepal.

3.4 Data Use and Model

The method of analysis used in the study is descriptive and inferential analysis. Descriptive analysis, correlation analysis, and regression analysis are conducted to analyze the data.

3.5 Descriptive Analysis

The descriptive analysis is a summary of the main characteristics of the data, and it is useful in helping us understand the market capitalization and its determinants. This is where the trend and pattern of the earnings per share, dividend payout ratio, return on equity, book value per share, and number of shares are presented. This is where the averages, i.e., mean, and the spread or variability, i.e., standard deviation, are calculated. This is where useful information is presented, which shows the averages and the variability of the data for the banks under consideration.

3.6 Correlation Analysis

Correlation analysis is an analysis of the association between two variables and the extent of the association. This shows if market capitalization is associated with variables earnings per share, dividend payout ratio, return on equity, book value per share, interest rate, and number of shares. The study employed the use of the Pearson correlation coefficient and determined if the association between the variables is positive, negative, or weak.

3.7 Regression Analysis

Regression analysis is used to determine the impact of a variable, i.e., a change in one of the factors while keeping the others constant, on market capitalization. It is used to determine the significance of the impact of the factors, which ones actually influence market capitalization, and so forth. The regression equation used in the study is as follows:

The research model is presented:

$$MC_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 DPR_{it} + \beta_3 ROE_{it} + \beta_4 BVPS_{it} + \beta_5 IR_{it} + \beta_6 NOS_{it} + \epsilon_i, \dots \dots (i)$$

Where,

β_0 = Intercept

MC = Market Capitalization of firm i at the time t

EPS = Earnings per Share firm i at time t

DPR = Dividend per Share firm i at the time t

ROE = Return on Equity firm i at the time t

BVPS = Book Value per Share firm i at time t

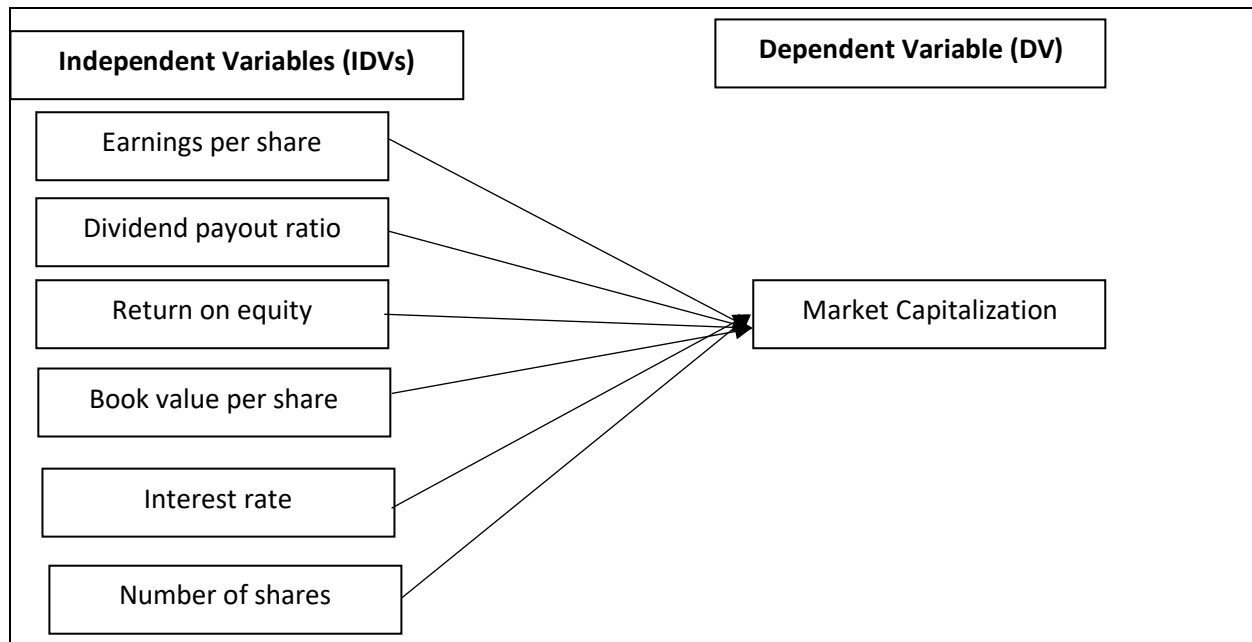
IR= Interest Rate firm i at the time t

NOS= Number of Shares firm i at the time t

B1- β_6 = regression coefficients for each independent variable

ε = the error term

Figure 1. Research Framework



Source: Alarussi (2023); Suharti et al., (2023)

The research framework for this study is selected from the empirical study carried out by Fitrah et al., (2022). This study has generated significant information on the determinants of market capitalization in the banking industry. These variables have been identified as significant determinants for market capitalization in previous studies.

3.8 Data Analysis and Presentation

The presentation of the findings based on the data analysis, interpretation, and their implications in relation to the research objectives is presented in this section. An analysis of the determinants of market capitalization of Nepalese commercial banks listed on NEPSE using descriptive statistics, correlation analysis, and regression analysis are included. The strength and direction of the linear relationship between dependent (DV) and independent variables (IDVs) are examined through correlation analysis, and regression analysis is applied to analyze the impact of financial indicators on the market capitalization of Nepalese commercial banks (NCBs).

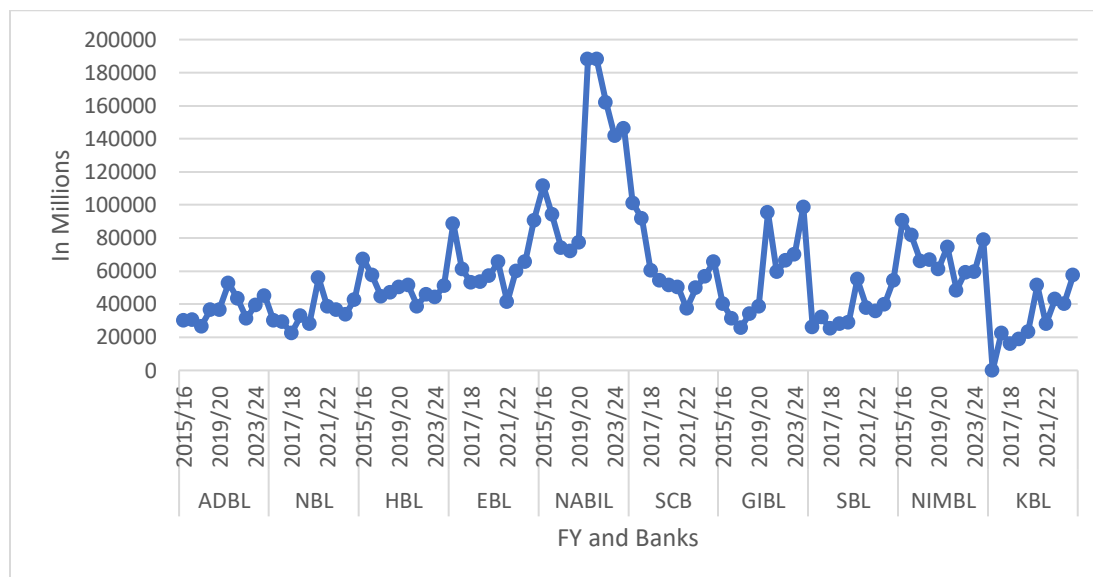
4. Results and Discussion

The main objective of this study is to explore the paradigm of market capitalization as a stability challenge in the Nepalese capital market. The results section discusses statistical findings from an analysis of selected Nepalese commercial banks listed in NEPSE. It utilizes various methods: trend analysis examines market capitalization, earnings per share, dividend payout ratio, return on equity, book value per share, interest rates, and outstanding shares over time; descriptive analysis provides an overview of data distribution; and correlation and regression analyses assess the relationships between independent variables and their impact on market capitalization, delivering quantitative evidence aligned with the study's objectives.

4.1 Market Capitalization

The trend analysis of the market capitalization of selected commercial banks listed in NEPSE examines how their total market value has evolved. Market capitalization serves as a key metric for assessing the performance of banks in the capital market. This analysis aids in understanding the influence of various financial factors on the capitalization of Nepalese commercial banks (NCBs).

Figure 2. Market Capitalization



Source: (Data analysis 2025)

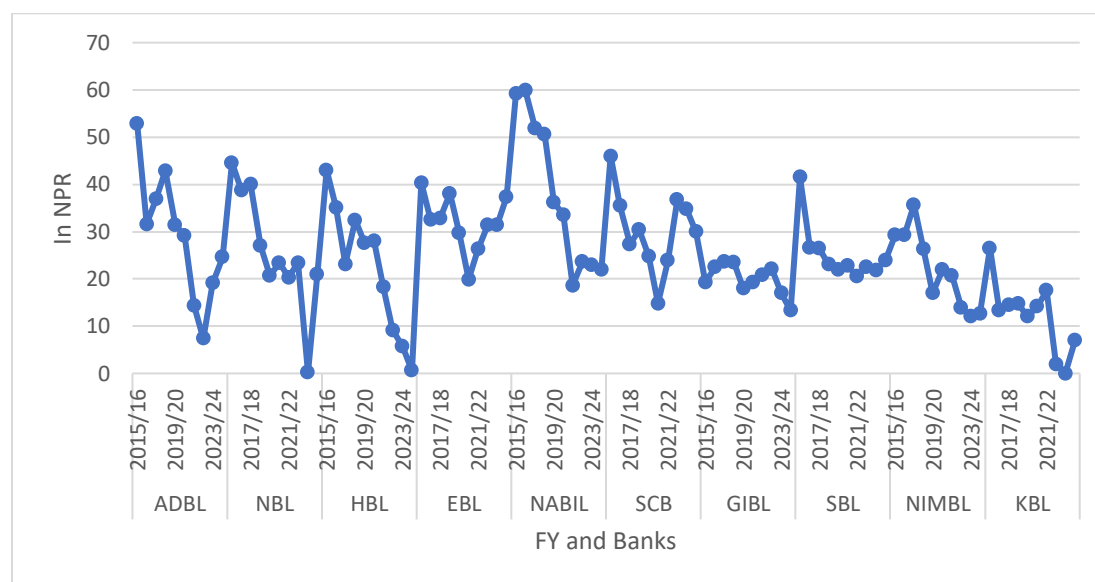
Figure 2 depicts the trend of market capitalization of selected commercial banks during the ten years of the study period from FY 2015/16 to FY 2024/25 which reveals fluctuations in market capitalization of the banks over time. In the case of Agricultural Development Bank Limited (ADBL), there is a relatively stable market capitalization in the early years of the study period, with moderate increases in market capitalization observed in FY 2018/019 and FY 2020/021.

Similarly, in Nepal Bank Limited (NBL), fluctuations in market capitalization are observed, with a decline in market capitalization in FY 2017/018 and a rise in FY 2020/21, when there was a significant rise in the Nepalese stock market. Among the selected banks, several commercial banks, such as NABIL Bank, Standard Chartered Bank (SCB), and Everest Bank Limited (EBL), have recorded relatively higher levels of market capitalization in FY 2020/021 and FY 2021/022, which can be attributed to the peak performance of NEPSE and high investor participation in the banking sector.

4.2 Earnings per share (EPs)

The trend analysis of earnings per share (EPS) of commercial banks listed on NEPSE reveals the changes in profitability over time, which is crucial for assessing the banks' financial performance and their ability to generate returns for shareholders. This analysis highlights the significance of EPS in understanding the relationship with market capitalization.

Figure 3. Earnings per Share



Source: (Data analysis 2025)

Figure 3: The trend analysis of earnings per share (EPS) shows fluctuations in profitability among the chosen commercial banks over the study period. ADBL has shown a significant improvement in EPS from FY 2015/016 to FY 2018/019, indicating a rise in commercial bank performance and profitability. However, a decline in EPS was observed in FY 2019/020, which could be due to economic disturbances and increases in operational costs. Nepal Bank Limited (NBL) has shown fluctuations in EPS over the study period. The bank witnessed a decline in FY 2016/017 followed by an increase in FY 2017/018, indicating a recovery in profitability after a low financial performance in FY 2016/017. Similarly, NABIL Bank and Everest Bank Limited have shown high

performance in terms of EPS over several years, indicating efficient financial management by commercial banks. The highest point of performance in terms of EPS for most commercial banks was observed in FY 2018/019 and FY 2020/021, when commercial banks witnessed high performance in terms of earnings per share. However, fluctuations in EPS over several years indicate that stability in the commercial bank sector is largely dependent upon economic situations.

4.3 Dividend Payout Ratio (DPR)

The analysis examines the dividend payout ratio (DPR) of selected commercial banks listed in NEPSE during the study period. The DPR indicates the percentage of earnings allocated to shareholders as dividends, serving as a metric for assessing banks' dividend policies. By analyzing DPR trends, insights into banks' profit distribution and earnings retention strategies are gained, which are crucial for understanding shareholder returns and their relationship with market capitalization.

Figure 4. Dividend Payout Ratio

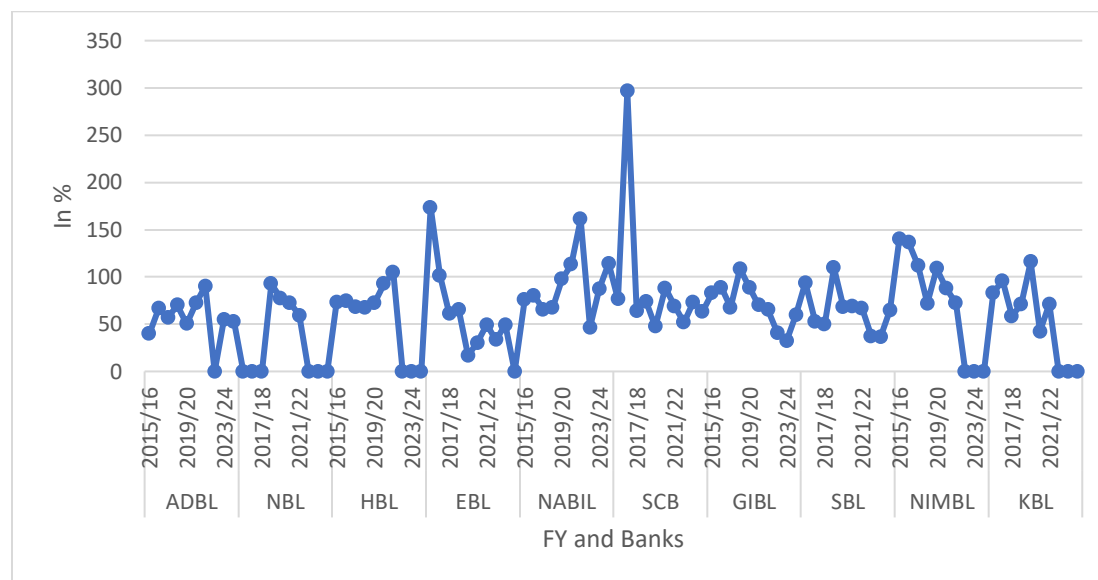


Figure 4 presents the dividend payout ratio of the selected commercial banks and shown variation over the study period. Commercial banks such as NABIL Bank and Standard Chartered Bank have maintained relatively higher dividend payout ratios, indicating their financial performance. On the other hand, banks like Nepal Bank Limited (NBL) have shown variation in their dividend payout ratios over the years. This established the change in profitability and the decisions of the banks regarding their dividend policies. The dividend payout ratio has been higher during the years FY 2018/019 and FY 2019/020 which confirmed the financial performance of the banks, where banks have been able to pay higher dividends to their shareholders. However, there has been a decline in the dividend payout ratio of some banks, and pointed their decisions to maintain their capital base

for future expansion. The dynamic nature of the dividend policies of NCBs, depending upon their profitability, is confirmed from this result.

4.4 Return on equity (ROE)

The trend analysis of the Return on Equity (ROE) for selected commercial banks listed on NEPSE highlights the banks' efficiency in using shareholders' equity to maximize net income. This analysis reveals changes in profitability and operational efficiency over time, providing insights into the banks' financial performance and their ability to generate returns for shareholders, which may influence market capitalization.

Figure 5. Return on Equity

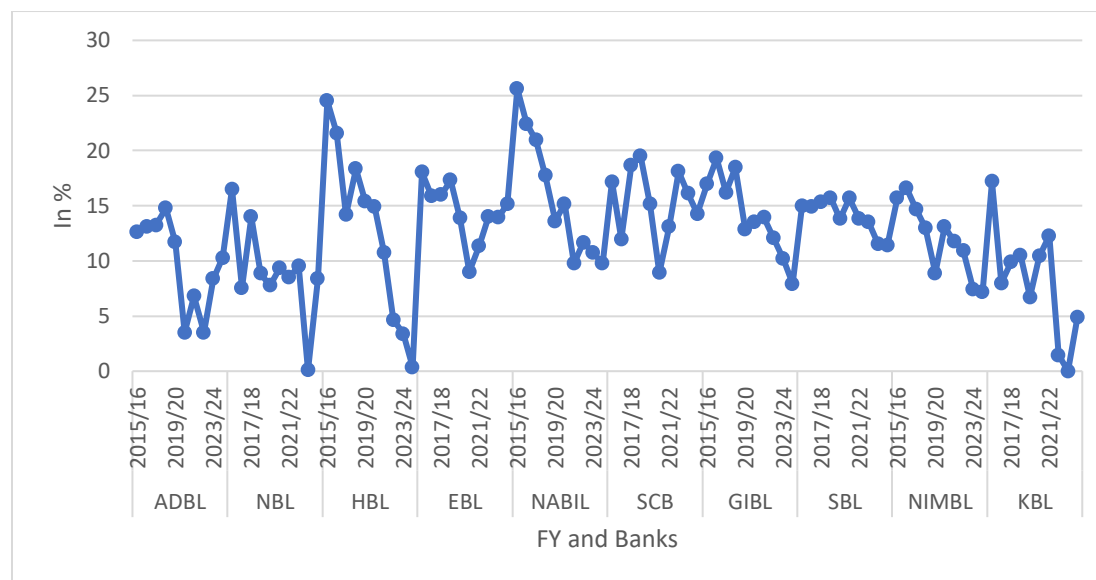


Figure 5 depicts the analysis of ROE which points to the varying efficiency of banks in utilizing the shareholders' funds to generate profit. Agricultural Development Bank Limited (ADBL) maintained moderate return on equity values during the entire period of study, while the highest value of return on equity was recorded during the financial year 2018/019. Similarly, the return on equity values of Nepal Bank Limited (NBL) fluctuated considerably during the entire period of study, while moderate to higher values of return on equity were recorded during the financial year 2015/016, followed by declining values in the following years, while rising values were recorded in later years of study. Other banks, like NABIL Bank and Everest Bank Limited, maintained moderate to higher values of return on equity, while some banks experienced declining values of return on equity in later years of study, which could be due to the rise in competition, regulatory issues, and increasing costs of operation in the Nepalese banking sector.

4.5 Book Value Per Share (BVPS)

A trend analysis of the book value per share (BVPS) of selected Nepalese commercial banks listed on NEPSE is conducted. BVPS reflects the assets a bank holds per share, serving as a vital indicator of bank value. This analysis reveals changes in a bank's net worth over time and its capital accumulation. It also provides insights into the stability of a bank's financial position and its potential relationship with future market capitalization.

Figure 6. Book Value per Share

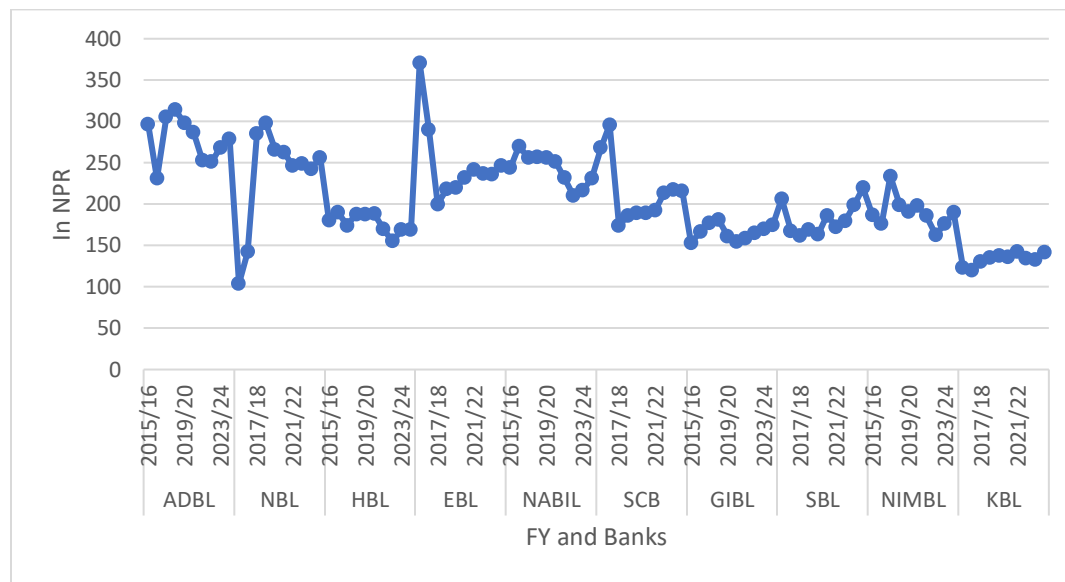


Figure 6 shows that the trend of BVPS has been increasing for the selected banks over the study period. For instance, ADBL and NBL have been gradually increasing their BVPS from the financial year 2015/016 to 2024/025 which points to the continuous increase in their retained earnings and shareholders' equity. Similarly, other banks like NABIL Bank, SCB, and Everest Bank Limited have been increasing their BVPS over time and confirmed their financial stability. Moreover, the highest values of BVPS were recorded for the later years of the study period, i.e., FY 2023/024 and FY 2024/025, which established that the banks have been consistently increasing their shareholders' equity. The slight variation in the values of BVPS for some years may be due to the issuance of additional shares or changes in their retained earnings. However, the increasing trend of BVPS confirms the financial stability of the NCBs.

4.6. Interest Rate (91 Days T-Bill Rate)

The trend analysis of interest rate represented by 91 days Treasury bill (T-bill) rate during the study period is assessed in this part. The 91-day T-bill rate is considered an important macroeconomic indicator as it represents the short-term interest rate environment and monetary policy conditions prevailing in the economy. The changes in this rate have significant impacts on

investment decisions, borrowing rates, and financial market activities in the economy. The trend of the 91-day T-bill rate is considered significant as it can provide an idea about the changes in interest rates and their impacts on financial performance and market valuation of commercial banks listed on NEPSE.

Figure 7. Interest Rate (91 Days T-Bill Rate)

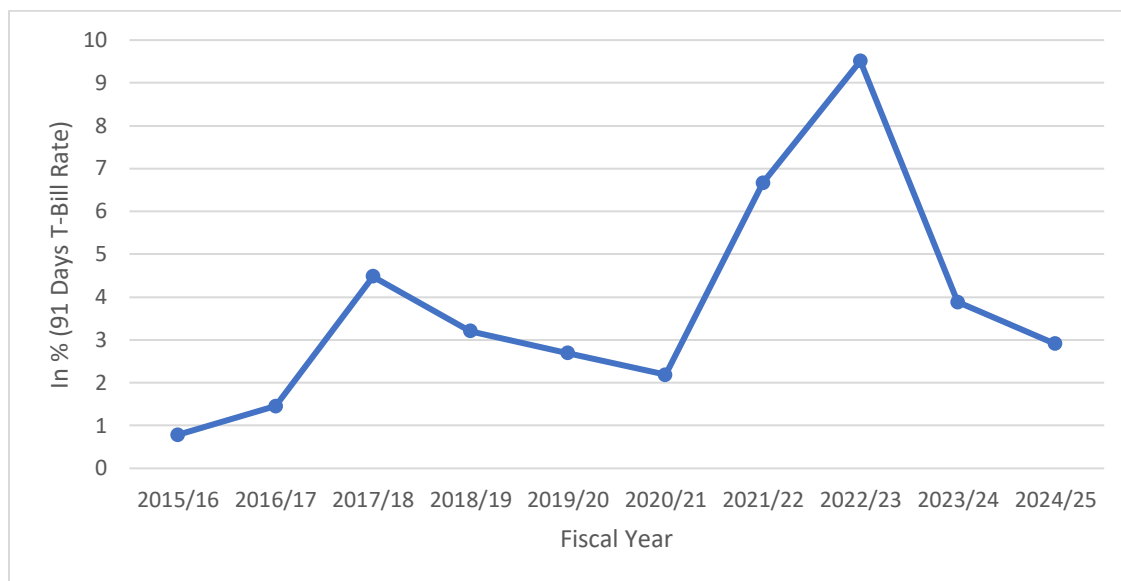


Figure 7 shows the trend in the 91-day Treasury bill rate, which indicates the prevailing short-term rate environment in Nepal during the sample period. For the earlier years, i.e., during FY 2015/016 to FY 2017/018, the interest rate environment remained moderate, as the monetary policy environment supported the economic growth. However, the rate environment has been volatile during the later years, i.e., FY 2018/019 to FY 2020/021, due to changes in the liquidity environment and monetary policy actions undertaken by the Nepal Rastra Bank. The interest rate has been high during certain years when the monetary policy environment has been tightened to control inflation and stabilize the liquidity of the financial system. Conversely, the Treasury bill rate has been declining during certain years when the monetary policy environment has been accommodative to stimulate investment and economic activity.

4.7 Number Of Outstanding Shares (Noss)

The trend analysis of the NOSs of the selected commercial banks listed on NEPSE during the study period is presented. The number of outstanding shares, which are issued and held by shareholders, plays a crucial role in determining a bank's market capitalization. Changes in outstanding shares can occur due to rights issues, bonus shares, or other capital expansion programs. Analyzing the trends in outstanding shares helps in understanding the banks' expansion and their relationship with market capitalization.

Figure 8. Number of Outstanding Shares (NOSs)

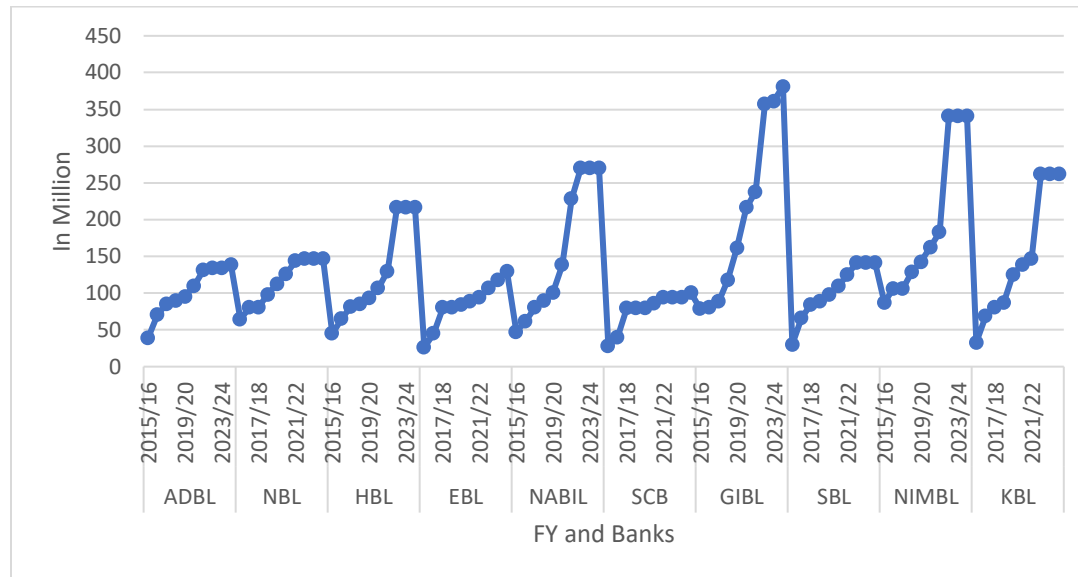


Figure 8 presents the outstanding shares of the selected commercial banks, which pointed an upward trend over the entire period of the study. Banks like ADBL, NBL, and NABIL gradually increased their outstanding shares with the issuance of bonus shares, rights shares, and capital expansion. A sharp increase in the number of outstanding shares has been observed during the middle and later years of the entire period after the financial year 2019/20 as many banks expanded their shares to meet the regulatory requirements set by the Nepal Rastra Bank. The highest levels of outstanding shares were recorded during the financial years 2023/024 and 2024/025. The increase in the number of outstanding shares directly contributes to the increase in the market capitalization and the growth and development of the Nepalese banking industry.

4.8 Summary of Descriptive Analysis

A summary of the descriptive statistics for the study's variables-market capitalization (MC), earnings per share (EPS), dividend payout ratio (DPR), return on equity (ROE), book value per share (BVPS), interest rate (IR), and number of outstanding shares (NOS)-is presented. This subdivision provides insights into the data and summarizes key measures, including the minimum, maximum, mean, and standard deviations of the variables to characterize the selected commercial banks. Table 1 shows the summary of descriptive statistics for the variables used in the study. These variables include market capitalization (MC), earnings per share (EPS), dividend payout ratio (DPR), return on equity (ROE), book value per share (BVPS), interest rate (IR), and number of outstanding shares (NOS). From Table 1, it is clear that the summary of descriptive statistics for the variables used in the study shows that the minimum and maximum values for market capitalization (MC) are 0.00 and 25.96, respectively.

Table 1. Summary of Descriptive Analysis

Variables	N	Minimum	Maximum	Mean	Std. Deviation
MC	100	.00	25.96	24.3960	2.51169
EPS	100	-3.91	4.09	3.0123	1.05315
DPR	100	.00	296.59	64.2704	44.54384
ROE	100	.01	25.61	12.5466	5.00473
BVPS	100	103.85	370.84	206.8964	51.97950
IR	100	.79	9.51	3.7767	2.48055
NOS	100	17.08	19.76	18.5314	.57291

However, it is worth mentioning that the variable MC is in its natural logarithmic form. In addition, it is clear that the mean and standard deviation of market capitalization (MC) for the selected commercial banks in Nepal are 24.3960 and 2.5116, respectively. From the values of market capitalization (MC), it is clear that the selected commercial banks in Nepal maintain high values of market capitalization in the Nepalese stock exchange (NEPSE) market.

For EPS, the minimum value is -3.91 Nepalese Rupees and the maximum value is 4.09 Nepalese Rupees. The average value is 3.0123 Nepalese Rupees and the standard deviation is 1.05315. The presence of negative values for earnings per share pointed that some banks experienced losses at certain periods of time. However, since the mean is positive, it is evident that banks are earning profits for their shareholders. The standard deviation is moderate, which confirms that banks are earning at varying rates depending on their performance and efficiency.

The descriptive results for the DPR show that the minimum and maximum are 0.00% and 296.59%, respectively. The mean for the dividend payout ratio is 64.2704%, while the standard deviation is 44.54384. The minimum for the dividend payout ratio implies that some banks did not pay any dividends during the given period, possibly due to lower profitability. The maximum and standard deviation for the dividend payout ratio imply that the dividend policy for banks was quite dynamic during the given period, as indicated by the differences in profitability and the dividend policy of the banks. For the variable of ROE, the minimum value is 0.01 percent, while the maximum value reaches 25.61 percent, with an average value of 12.5466 percent and a standard deviation of 5.00473. The high maximum value indicates that the banks were successful during certain years. The average ROE of around 12.55 percent indicates that the commercial banks operating in Nepal can generate a reasonable ROE on their shareholders' funds.

The descriptive statistic results for the variable book value per share show that the minimum and maximum values for the variable are NPR 103.85 and NPR 370.84, respectively. Similar to the variable market capitalization, the variable book value per share is also presented in its natural logarithmic form. The mean for the variable book value per share is NPR 206.8964, and its standard deviation is 51.97950. A high mean for the variable book value per share implies that the selected banks have high levels of shareholders' equity. A moderate level of variation in the net asset value per share among banks also implies stability in the financial industry. IR is measured in terms of the 91-day Treasury bill rate, it is observed that the minimum value is 0.79 percent, whereas the maximum value is 9.51 percent. Moreover, it is also observed that the average value is 3.7767 percent, and the standard deviation is 2.48055 percent. It is due to this reason that there is a huge difference between the minimum and maximum values of interest rates, as it is a short-term interest rate and varies in accordance with monetary policy and liquidity in the Nepalese financial system. Finally, it is observed that with regard to the NOS, the minimum value is 17.08 million shares, whereas the maximum value is 19.76 million shares. Moreover, it is also observed that the average value is 18.5314 million shares, and the standard deviation is 0.57291. It is due to this reason that there is a small difference in the standard deviation of the number of outstanding shares of all the selected banks, although it is increasing gradually.

4.9 Correlation Analysis

The correlation analysis investigates the relationship between variables, determining both the direction and extent of their correlation. It provides initial insights into the correlation between financial variables and market capitalization, which will be further explored in the subsequent regression analysis.

Table 2. Correlation Results

		MC	EPS	DPR	ROE	BVPS	IR	NOS
MC	Pearson Correlation	1	.004 (.968)	.011 (.916)	-.054 (.591)	.244* (.014)	.108 (.286)	.256* (.010)
EPS	Pearson Correlation		1	.348** (.000)	.693** (.000)	.323** (.001)	-.178 (.076)	-.453** (.000)
DPR	Pearson Correlation			1	.357** (.000)	.220* (.028)	-.326** (.001)	-.385** (.000)
ROE	Pearson Correlation				1	.117	-.289**	-.583**

	(.247)	(.004)	(.000)
BVPS Pearson Correlation	1	-.054	-.253*
		(.595)	(.011)
IR Pearson Correlation		1	.503**
			(.000)
NOS Pearson Correlation			1

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Table 2 displays the correlation coefficients between the variables included in the study: market capitalization (MC), earnings per share (EPS), dividend payout ratio (DPR), return on equity (ROE), book value per share (BVPS), interest rate (IR), and number of outstanding shares (NOS). From the correlation analysis results, it is found that earnings per share (EPS) have a very weak positive correlation with market capitalization (MC), with a correlation coefficient of 0.004, and are statistically insignificant at a p-value of 0.968, and this confirmed that the earnings per share do not significantly influence the market capitalization of the selected commercial banks. In other words, investors operating in the Nepalese stock exchange may not use earnings per share as the only financial indicator to measure the market capitalization of banking sector stocks. Earnings per share are often regarded as a significant indicator for investors; however, investors operating in the NEPSE may use other financial indicators for decision-making.

Similarly, in the case of dividend payout ratio (DPR), there is a weak positive relationship between market capitalization and dividend payout ratio, with a correlation coefficient of 0.011, which is statistically not significant at a p-value of 0.916. This confirmed that the dividend distribution policies of the banks are not significant in terms of market capitalization. In other words, the variations in dividend payout practices of the selected banks are not found to have a significant influence on market capitalization of bank shares in Nepal. The correlation between return on equity (ROE) and market capitalization (MC) is found to be negative but very low with correlation value of -0.054 , which is statistically not significant at p value of 0.591 and pointed that even though ROE is a reflection of profitability and efficiency in utilizing shareholders' funds, it is not found to have a significant relationship with market capitalization in terms of commercial banks. This also confirmed that variations in ROE do not affect the market capitalization of bank shares

in Nepal. The BVPS has shown a positive and statistically significant correlation with market capitalization, with a correlation value of 0.244 and a p-value of 0.014. This means that as book value per share increases, the market capitalization of selected commercial banks also increases. The positive correlation shows that investors do consider the intrinsic value of commercial banks, which is represented by book value per share, while making investment decisions. Although this correlation is moderate, it is still significant and shows the importance of book value per share in influencing market capitalization.

Correlation between IR and market capitalization is positive but weak with a correlation value of 0.108, and it is statistically insignificant with a p-value of 0.286. This shows that changes in the 91-day Treasury bill rate do not have significant effects on the market capitalization of selected commercial banks. Although interest rates are important factors in financial markets and investment decisions, they have shown low correlation with the market capitalization of commercial banks. Moreover, the analysis reveals that there is a positive and statistically significant relationship between the number of outstanding shares (NOS) and market capitalization, with a correlation value of 0.256 and a p-value of 0.010. This confirmed that there is a direct relationship between the increase in the number of outstanding shares and the increase in market capitalization. Market capitalization, derived from the share price multiplied by outstanding shares, shows a significant positive relationship with equity capital increases from share issuance, which notably boosts market capitalization. From the correlation analysis, it is evident that among all the independent variables, book value per share (BVPS) and number of outstanding shares (NOS) are positively correlated with market capitalization, whereas earnings per share (EPS), dividend payout ratio (DPR), return on equity (ROE), and interest rate (IR) are weakly correlated and statistically insignificant with market capitalization.

4.10 Regression Analysis

Multiple linear regression analysis assesses the impact of independent variables on a dependent variable, offering model fitness values and identifying the significance of each independent variable through regression coefficients. It aids in determining which financial variables most influence the dependent variable and supports hypothesis testing in research.

Table 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.436 ^a	.190	.138	2.33242

a. Predictors: (Constant), NOS, BVPS, DPR, EPS, IR, ROE

Table 3 presents a summary of the multiple regression model, which shows the impact of earnings per share (EPS), dividend payout ratio (DPR), return on equity (ROE), book value per share (BVPS), interest rate (IR), and number of outstanding shares (NOS) on market capitalization (MC). The value of the correlation coefficient is 0.436 which points to a moderate level of association that exists between market capitalization and all independent variables in the model. Moreover, the coefficient of determination R-squared is 0.190, which means that 19 percent of the variation in market capitalization of the selected commercial banks is explained by all independent variables in the model. The value of adjusted R-squared is 0.138, which shows that after adjusting the number of independent variables in the model, 13.8 percent of the variation in market capitalization is explained by all independent variables in the model.

Table 4. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	118.616	6	19.769	3.634	.003 ^b
	Residual	505.937	93	5.440		
	Total	624.552	99			

a. Dependent Variable: MC

b. Predictors: (Constant), NOS, BVPS, DPR, EPS, IR, ROE

Table 4 shows the analysis of variance (ANOVA) for the regression model and displays the effect of earnings per share (EPS), dividend payout ratio (DPR), return on equity (ROE), book value per share (BVPS), interest rate (IR), and number of outstanding shares (NOS) on market capitalization (MC) for the selected firms. From the analysis in Table 4, it is evident that the regression model is significant since the calculated F-statistic value is 3.634 with a significance level of 0.003, which is less than the 0.05 level of significance. Therefore, it is evident that the regression model is valid and applicable in analyzing the determinants of market capitalization for the selected firms since it is clear that all independent variables have a combined effect on the dependent variable, which is market capitalization for the selected firms. In addition, it is evident that all independent variables have a combined effect on the dependent variable since the regression model is valid and applicable to analyze the determinants of market capitalization for the selected firms. Regression coefficients, which show the impact of earnings per share (EPS), dividend payout ratio (DPR), return on equity (ROE), book value per share (BVPS), interest rate (IR), and number of outstanding shares (NOS) on market capitalization (MC), are presented in Table 5. The constant is -32.910, which is the expected market capitalization when all independent variables are zero. Although the

constant is significant ($p = 0.014$), it is difficult to interpret since it is unlikely that all independent variables are zero in real financial conditions.

Table 5. Regression Result

Model	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-32.910	13.154		-2.502	.014	
	EPS	-.102	.330	-.043	-.309	.758	.454
	DPR	.294	.599	.052	.490	.625	.771
	ROE	.089	.074	.177	1.203	.232	.402
	BVPS	3.418	1.030	.343	3.318	.001	.817
	IR	-.052	.112	-.051	-.462	.645	.712
	NOS	2.071	.578	.472	3.582	.001	.501

a. Dependent Variable: MC

The regression coefficient for earnings per share (EPS) is -0.102 with a p-value of 0.758. This implies that earnings per share have a negative and statistically insignificant effect on market capitalization. This implies that if earnings per share change by one unit, then market capitalization would change by -0.102 units; however, since it is not statistically significant, earnings per share do not have any effect on market capitalization. The regression coefficient for dividend payout ratio (DPR) is 0.294 with a p-value of 0.625. This implies that the dividend payout ratio has a positive and statistically insignificant effect on market capitalization. This implies that if dividend payout ratio changes by one unit, then market capitalization would change by 0.294 units; however, since it is not statistically significant, since its p-value is more than 0.05, dividend payout ratio does not have any effect on market capitalization. Likewise, the regression coefficient for return on equity (ROE) is 0.089 with a p-value of 0.232, which indicates that ROE has a positive and statistically insignificant impact on market capitalization. This means that if the value of ROE changes by one unit, the market capitalization would change by 0.089 units, keeping the other variables constant. However, the results indicate that ROE has no significant impact on market capitalization. On the other hand, the regression coefficient for book value per share (BVPS) indicates a positive and statistically significant impact on market capitalization, with the

coefficient and p-value being 3.418 and 0.001, respectively. This means that if the value of BVPS changes by one unit, the market capitalization would change by 3.418 units, keeping the other variables constant. Moreover, the results indicate that BVPS has a significant impact on the market value of the chosen commercial banks. The coefficient for the interest rate (IR) is -0.052 with a p-value of 0.645. This shows that it is not statistically significant. Therefore, it is concluded that if there is an increase in the interest rate by one unit, then there is a decrease in market capitalization by 0.052 units. However, it is not statistically significant since its p-value is high. On the other hand, it is concluded that there is a positive and statistically significant relationship between the number of outstanding shares (NOS) and market capitalization since its p-value is 0.001. Its coefficient is 2.071. Therefore, if there is an expansion in equity capital by one unit, then there is an increase in market capitalization by 2.071 units. Moreover, collinearity statistics also show that there is no significant problem of multicollinearity between independent variables. The tolerance values vary from 0.402 to 0.817, which are above the threshold limit of 0.10. Furthermore, variance inflation factor (VIF) values vary from 1.225 to 2.488, which are significantly lower than the threshold limit of 10.

Finally, it can be concluded from the regression results that book value per share (BVPS) and number of outstanding shares (NOS) have significant positive effects on market capitalization, while earnings per share (EPS), dividend payout ratio (DPR), return on equity (ROE), and interest rate (IR) do not have significant effects on market capitalization. This shows that investors in the Nepalese stock market may consider the intrinsic value of banks and their equity structure more than their profitability indicators.

4.11 Results of Hypotheses

It is considered to be accepted or rejected based on the level of significance (p-value). This analysis helps to know which independent variables have a significant impact on market capitalization and can be used as evidence to prove the research hypothesis developed earlier.

Table 6 describes the result of hypothesis testing on the impact of earnings per share, dividend payout ratio, return on equity, book value per share, interest rate, and number of outstanding shares on the market capitalization of banks listed on NEPSE. From the result, it is clear that earnings per share, dividend payout ratio, return on equity, and interest rate are not significant factors in market capitalization. Therefore, these hypotheses are rejected. Book value per share and number of outstanding shares are significant factors in market capitalization. Hence, these hypotheses are accepted. From the result, it is clear that book value per share and number of outstanding shares are significant factors in market capitalization.

Table 6. Results of Hypotheses Testing

Hypotheses	Beta Value	p Value	Result
H ₁ : EPS has a significant effect on the market capitalization of banks listed in NEPSE.	-.102	.758	Not Supported
H ₂ : DPR has a significant effect on the market capitalization of banks listed in NEPSE.	.294	.625	Not Supported
H ₃ : Return on equity has a significant effect on the market capitalization of banks listed in NEPSE.	.089	.232	Not Supported
H ₄ : Book value per share has a significant effect on the market capitalization of banks listed in NEPSE.	3.418	.001	Supported
H ₅ : Interest rate has a significant effect on the market capitalization of banks listed in NEPSE.	-.052	.645	Not Supported
H ₆ : The number of shares has a significant effect on the market capitalization of banks listed in NEPSE.	2.071	.001	Supported

(Source: Data Analysis, 2025)

5. Discussion and Conclusion

This study reveals that certain Nepalese commercial banks have high market capitalization, showing variations in earnings per share (EPS), dividend payout ratio (DPR), return on equity (ROE), book value per share (BVSP), interest rate (IR), and number of shares (NOS), indicating differences in firm-specific and market-related factors among the commercial banks.

5.1 Discussion

This study explores the paradigm of market capitalization in the Nepalese capital market. This study is consistent with Das and Swain (2019), who revealed that some variables had a significant impact on stock market development. Market capitalization is influenced by various factors, and not a single factor. This study is consistent with Permata and Alkaf (2020), who revealed that some variables are related to firm value from an internal company perspective and some from an external economic perspective. This study is consistent with Karna et al. (2024), who revealed that there is fluctuation in the Nepalese securities market. With regard to the relationship between the dependent variable and independent variables, the study revealed that the book value per share of the banks has a positive and significant relationship with market capitalization. This implies that banks that have higher book values and higher basic worth tend to have higher market

capitalization. This study is consistent with the study of Alarussi (2023), which revealed that the book value per share of the banks positively and significantly influences market capitalization. This study is also consistent with the study of Dibal and Ambam (2024), which revealed that net asset value positively influences total market capitalization in the long and short runs. This study is also consistent with the study of Ochiai and Nacher (2022) to some extent, as they concluded the importance of structural financial variables in explaining market capitalization. This study revealed that in the context of Nepal, the asset base and basic worth of the banks are of significant importance to the investors. The next study also revealed that the number of shares has a significant and positive impact on market capitalization. This result suggests that an increase in the number of shares is related to a higher market capitalization for banks. This result is consistent with Alarussi (2023), who also found that the number of shares issued has a significant and positive impact on market capitalization. The study revealed that earnings per share do not significantly impact market capitalization. This implies that profitability in terms of earnings per share is not a significant variable in determining market capitalization for the chosen Nepalese commercial banks. This result is consistent with Suharti et al. (2023), who revealed that earnings per share do not significantly impact market capitalization. However, this result is inconsistent with Fitrah et al. (2022), who revealed that earnings per share positively and significantly influence market capitalization. The inconsistency between these two studies may be attributed to various factors. While the Indonesian stock exchange may be highly responsive to earnings per share information, the Nepalese stock exchange may be more responsive to balance sheet information. Likewise, the result of this study also showed that return on equity has no significant impact on market capitalization. This implies that the capacity of banks to make returns from shareholders' equity has no significant impact on market capitalization in Nepal. This result is consistent with the result reported by Suharti et al. (2023), who also reported that return on equity has no significant impact on market capitalization. However, the result is contradictory to the result reported by Fitrah et al. (2022), who reported that return on equity positively and significantly affects market capitalization. This result is also contradictory to the result reported by Phan and Nhat (2025), who reported that profitability has a positive impact on market capitalization. This result is also contradictory to the result reported by Batrancea and Fetita (2023), who reported that bank performance indicators have a significant impact on market performance.

Additionally, the study also found that the dividend payout ratio does not have a significant impact on market capitalization. It implies that the payment of dividends does not significantly impact the market value of commercial banks in Nepal. It contrasts with the findings of Suharti et al. (2023), which stated that the impact of the dividend payout ratio on market capitalization is significant and positive. It also highlighted the importance of the dividend policy in determining capitalization. It also contrasts with the findings of Permata and Alkaf (2020), which stated that the impact of the dividend policy on the valuation of companies is significant.

In the context of Nepal's banking sector, investors prioritize the long-term financial strength of banks over dividend payments. The study indicates that interest rates have a negative, yet insignificant, impact on market capitalization. This implies that changes in the 91-day Treasury bill rate have no direct and significant impact on the market capitalization of listed commercial banks in Nepal. This result contradicts Omodero (2019), who concluded that the interest rate has a significant negative impact on capital market capitalization. This result also contradicts Permata and Alkaf (2020), who concluded that macroeconomic factors, including interest rates, have significant effects on firm valuation. This result is not in line with Fitrah et al. (2022), who concluded that the interest rate has a negative impact on market capitalization. The study's regression analysis indicates that book value per share and number of shares positively influence market capitalization, while earnings per share, dividend payout ratio, return on equity, and interest rate show no significant impact.

The overall findings of the present study are consistent with Alarussi (2023), which revealed that book value per share and number of shares positively influence market capitalization. The overall findings of the present study also support Dibal and Ambam (2024), who revealed that asset variables positively influence market capitalization. However, the findings of the present study contradict those of Das and Swain (2019), who revealed that most of the variables significantly influenced market development. The findings of the present study also contradict Phan and Nhat (2025), who revealed that market capitalization is influenced by various factors, including both internal and external variables. Therefore, it could be concluded that the market capitalization of commercial banks in Nepal is influenced more by structural factors of the balance sheet than profitability ratios and short-run macroeconomic variables. This study identifies book value per share and number of shares as key factors influencing the market capitalization of commercial banks in Nepal, while earnings per share, dividend payout policy, return on equity, and interest rates do not affect market capitalization.

5.2 Conclusion and Recommendations

The main objective of this study is to explore the paradigm of market capitalization in the Nepalese capital market. Thus, this study is to identify the association between market capitalization and its determinants in Nepalese commercial banks listed on the Nepal Stock Exchange (NEPSE). The research objectives include evaluating the present situation regarding market capitalization and its determinants, identifying the relationship between market capitalization and financial indicators, and exploring the impact of EPS, DPR, ROE, BVPS, IR, and NOS on market capitalization. The study found that selected commercial banks in Nepal exhibit high market capitalization on the stock exchange. Key financial indicators, including earnings per share and return on equity, show significant variation over time. Overall, the Nepalese banking industry demonstrates moderate stability in its financial indicators, affected by management practices and fluctuations in the stock market.

The correlation analysis demonstrated a significant positive association between book value per share, outstanding shares, and market capitalization for Nepalese commercial banks. It was found that banks with robust equity and larger share capital typically exhibit higher market capitalization. In contrast, EPS, DPR, ROE, and interest rates had weak, insignificant ties to market capitalization, indicating that investors prioritize a bank's financial position and asset size over profitability metrics. The regression analysis further confirmed that book value per share and the number of outstanding shares significantly influence market capitalization, while other factors like earnings per share and return on equity do not have a substantial effect.

Overall, the study concludes that the market capitalization of Nepalese commercial banks is primarily influenced by structural financial variables such as book value per share and the number of outstanding shares, rather than by profitability or macroeconomic factors. It suggests that investors prioritize financial stability when making investment decisions in the Nepalese banking sector.

5.3 Policy implications

The study highlights key findings relevant for policymakers regarding market capitalization in Nepal's commercial banks and suggests further research incorporating additional variables such as macroeconomic factors, market sentiment, corporate governance, and bank size to enhance the study's scope and depth. Further research is recommended to broaden the study's scope and offer crucial insights for investors, BFIs, stock brokers, the Central Bank, regulators, academics, and policymakers about the factors influencing market capitalization in Nepal, aiding in the formulation of effective capital market policies fostering financial sustainability and public trust.

Conflict of Interest:

The authors declare no conflict of interest.

Data Availability Statement:

The data supporting the findings of this study are available when required.

Informed Consent Statement:

Written informed consent was obtained from all participants and is retained by the authors.

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