Study of Relationship on Performance Variables and Stock Price between Standard Chartered Bank Nepal Ltd. and Nabil Bank Ltd*

Sujita Dhungana¹ and Sohan Babu Khatri²

Abstract

This paper tries to explore the relationship between key financial variables and stock price of Standard Chartered Bank Ltd. (SCBL) and Nabil Bank Ltd. (NABIL) in order to compare the nature of such relationship between the two banks. The major goal of this study is to study the key performance financial variables and degree of their relationship with the stock price of these two companies. Performance variables used in this study are Total Assets, NPA/Total Loan, Capital Adequacy Ratio, Total Deposit, Net Profit, Return on Equity (ROE) and Total Expenses. The study was conducted using quarterly data of the fiscal years 2005/2006 to 2010/2011 taken from financial statements and annual reports published by the concerned authorities of respective banks. While analyzing the data it was found that the change in stock price of SCBL was highly correlated with change in Capital Adequacy Ratio (CAR) but was statistically insignificant, while in case of NABIL it was highly correlated with the same variable (CAR) but was statistically significant.

The regression analysis showed that there was positive but insignificant relationship between all the performance variables, except ROE and stock price in case of SCBL, while in case of NABIL, the relationship was positive except ROE but statistically significant only in the case of Capital Adequacy Ratio. In case of SCBL, two independent performance variables of the regression model, viz. NPA/Total Loan and ROE were found to have VIF higher than 10 and hence were highly correlated with each other – which were removed from the multiple regression. However, in case of NABIL, none of the independent variables were found to be highly correlated with regard to VIF parameter. Similarly, the relationship of all variables with stock price is positive in case of both the banks, except in case of Net Profit, it was found negative in case of NABIL. Additionally, the relationship of stock price with none of the independent performance variables was found to be statistically significant in case of SCBL, while it was statistically significant in case of NABIL.

The research outcome revealed good positive relationship between financial performance variables and stock price suggesting that the banks should work on improving these key financial performance variables in order to bring about positive change in stock price. However, some findings were not in line with the theoretical background with regard to the nature and significance of the relationship with respect to the comparative analysis of two big banks.

Keywords: multivariate regression, Nepalese stock market, performance variables, quarterly data

---

¹ This paper is the modified version of an unpublished MBA thesis submitted to Ace Institute of Management, Pokhara University in spring, 2013.
² Ms Dhungana is a graduate student of Ace Institute of Management, Affiliated to Pokhara University, Nepal
Email:
² Mr. Khatri is a visiting faculty at Ace Institute of Management, and CEO of…………………….. Email: