

CHAPTER I

INTRODUCTION

1.1 General Background

Dividend policies are the regulations and guidelines that companies develop and implement as the means of arranging to make dividend payments to shareholders. Establishing a specific dividend policy is to the advantage of both the company and the shareholder. In order to make sure the policy is workable, a company should develop a viable policy and then run this policy through a number of test scenarios in order to determine what impact the dividend policy would have on the operation of the business (bhat,1994).

In many cases, companies choose to explicitly state the provisions within the dividend policy. This is definitely to the advantage of the shareholder, as a well defined policy makes it much easier to project the amount of payout profits generated for the period under consideration and thus be able to determine the size of the dividends that will be issued. When the dividend policy is well defined and documented, it is easy for the shareholder to obtain a written copy and thus be fully informed as to how the policy works.

However, there are cases where the dividend policy is not so well documented. When this is the case, investors sometimes base their assumptions on upcoming dividend payments on what has occurred in the past. While less systematic, it is still possible to project a more or less accurate estimate of what the dividend payout will actually be (Deepak, 1987).

In cases where the dividend policy is not specifically defined, investors often look at the history to spot any trends that emerged in the past. If the dividend payments have been more or less constant for the last several years, and there has been no loss in business volume, it is reasonable to assume the payments will still be in the same general range as before. However, if the dividend history is more volatile, the shareholder may attempt to identify what factors

led to the up and down movement of the dividends and determine if any of those factors are relevant to the current dividend period.

In both expressed and implied dividend policy procedures, it is less common for the dividends to be increased. Part of the reason for that is companies tend to look closely at retained earnings and want to make sure the increased level of earnings will be sustained over the long term. Once this upward trend is deemed to be more or less permanent, the company may choose to increase dividends (Adikhari, 2006).

Far more common is the practice of reducing dividends. This usually takes place because there is a decrease in the company's business volume that is not anticipated to be recaptured in the foreseeable future. At other times, the decrease may be due to the need to retain more cash on hand for capital expenses. In both these scenarios, companies tend to notify the shareholders in advance that these factors exist and a change in dividends will take place in order to meet the challenge to remain profitable.

Economic liberalization policy of the government has encouraged the establishment and growth of finance companies in the country within a short span of time. In a situation when the existing financial institution, especially commercial banks are unable to supply credit timely and carry capital market activities, financial company have come timely to meet the individual credit needs, undertake merchant banking functions and other allied functions. The special features of finance companies are that they go to areas where commercial banks find difficult and not accessible to lend with risk.

Financial companies are essential factors for the process of economic development and to achieve economic growth and prosperity. Financial company offers prospects for the expansion of employment and income. More than that, it generates innovations and technological changes that bring about shifts in the production frontier, thereby accelerating growth and factor productivity. Development of financial sectors, among other sectors is equally essential for the rapid economic development of the country(Bhandari,2006).

Finance companies borrow funds from different sources. The largest parts of their funds are collected from bank loans, commercial paper sales, and issues of both long term and short term debt in the capital market. But, commercial paper is absent in Nepal. Finance companies can accept time deposit of the maturity of minimum three months to maximum six years to a maximum limit of twelve times of the primary capital of the company. But there are allowed to accept deposits not exceeding 2.5 times of their primary capital. However even considering the attraction of deposits, finance companies are facing problems since most investors have not developed full confidence of putting money in fixed deposit certificate of various maturity and sizes. However finance companies are under full control and the monitoring of Nepal Rastra Bank, there is no little chance for them to escape from public accountability and responsibility to depositors and the client(Panday,1988).

Generally, finance companies have centered their business on the lending to customers. Finance companies advance loans to individuals, companies or institutions. Such companies are allowed by the Act to undertake lease financing, offering credit for purchasing or construction of residential houses. They can also perform merchant banking activities with prior approval of NRB. These companies are popular among low income and medium class people for financing hire purchases, vehicles, machinery, tools equipments, durable household goods etc. As a consequence of the financial liberalization policy, finance companies are growing in the Katmandu valley whereas their presence is also gradually growing outside the valley due to Nepal Rastra Bank directives and incentives.

Government made a significant effort to regulate the finance company Act 1985. The aim of this Act was to guide the economy in right way. According to Nepal stock exchange there are only 28 listed finance companies have been issued license by the Nepal Rastra Bank till 200. After the political change in Nepal on 2047 B.S. the economic liberalization, privatization, globalization has been followed by government for the industrialization. This policy has given

more emphasis to the private sector encouraging factor of sustainable economic growth. The new policy has already resulted in establishment of joint venture as well as private bank and finance companies (M.K. Shrestha, 2003).

The policy of economic liberalization and globalization adopted by the government of Nepal will continue to evoke response from the industrial, financial and commercial sectors of the country. The legal foundation of the finance company has started, since the Finance Company Act 1985 came into practice. But companies were started only after 1992.

The development of the finance system in Nepal is applicable. But still much more has to be done in making the financial system as an effective intermediate for the mobilization of domestic savings in productive sectors. The formulation of an effective monetary strategy and reformation of the financial system in the country can make an important contribution in mobilization of more domestic resources as well as to finance the required funds needed for economic expansion. Therefore, much more emphasis should be given to an efficient monetary arrangement and reformation of the financial system which is conducive to the proper growth of the financial system in Nepal.

Dividend policy is an integral part of a firm's financing decision. The dividend policy of the firm is regarded as a tool to determine the appropriate allocation of profits between dividend payments and retained earnings in the firms. Dividend is a portion of the earnings of a firm which is distributed to its shareholders. Retained earnings are the most significant internal sources of financing for the growth of a firm (Singh, P., 1991).

Financial companies whereas they have to make a pertinent decision of dividend to identify exactly how much dividend is needed to run smoothly. Dividend policy of the company on division of its profits between dividend and retention is known as dividend policy. All aspects and questions related to payment of dividend are contained in dividend policy. The dividend, which is distributed to shareholders, may be in cash, share (stock) and securities or a combination of these. Dividend paid on preference share is called "preference

dividend" dividend paid on equity share is called "Equity dividend" and paid on stock is called "stock dividend". Dividends are distributed to shareholders out of corporate profits according to corporate plans and policies.

Corporate profits are the after tax earned income of firms of firms for the past period. In view of maximizing the value of shareholders wealth, the firm needs to explore best ways to use profits.

Whether to distributed all of the profits as dividend, just a part of it or not at all is a matter of policy and managerial decision. Profits belong to investors however, for some operational needs. A part or all of the profit may be retained for reinvestment in the expansion of business, or for in new opportunities (Pradhan, 2004).

1.1.1 Concept

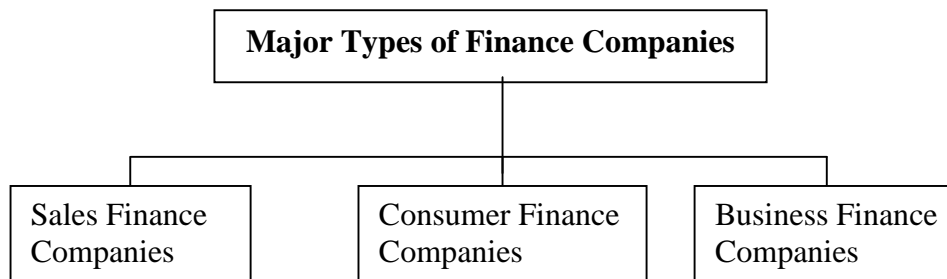
Conceptually speaking, finance companies are the non bank financial institutions operating in the overall financial system of the economy. In practice, however they serve as they Act as the borrowing and lending financial institutions with additional financial risk taking management. So, depending upon a wide variety of finance companies, they are grouped in the following ways:

1. They are solely and wholly deposit taking institutions to disburse loans to the perspective clients.
2. They are again considered to the most diverse non depository financial institutions that tend to meet various kinds of consumer credit needs.
3. In course of time, they are often developing as specialized financial institutions to meet specific needs like leasing, project financing, housing and other real estate financing.
4. Then, as distinct from a number of other financial institutions, finance companies were known to serve as the architects or engineers or financial risk management.

5. Lastly, finance companies began to act as the merchant bankers in having a greater stake in the financial intermediary networks in the nation's financial system.

1.1.2 Types of Finance Companies

Finance companies is that types of financial institution which is company, non banking institution whose majors business is to receive the deposits under any scheme and lending in any manner. It is small business organization. Finance companies offer short and middle term credit to customers. Finance companies can be classified as follows.



Sales Finance Companies: Sales finance companies concentrated on purchasing credit contracts from retailers and dealers. This type of companies provides facility for purchase of automobiles and other durable goods on installment plan. Sales finance companies often purchase retail credit contracts in order to gain new business.

Consumer Finance Companies: Consumer finance companies concentrated on direct loan to the customers. This type of loan is small. The customer uses the loan for household rather than business.

Business Finance Companies: Business or commercial finance companies concentrated on loans to business firms. This type of companies usually provided loans that could not be obtain from commercial banks because banks.

1.1.3 Problems of Finance Companies

Most of the problems of finance companies are regulatory in nature although regulators do have their own stand to justify for tough and tough regulation. At the same time, there are broader micro and macroeconomic issues relating to

finance companies. These issues cover policy level structural issues, of these are addressed below:

Policy Level Structural Issue: At the policy level in every country whether developed or developing, importance has been given to the uniqueness of the commercial banks while non bank financial institutions including financial companies are considered to be of little importance although in various policy statements the remarks is often made that the line of demarcation between the two is less distinct. Fund creating and utilization power needs to be properly addressed.

Regulatory Level Legal Issue: At the regulatory level various regulatory authorities taking from the central of the country to other regulatory bodies like income tax, company affairs registrar, Securities Exchange Board, etc are often found to discriminate the finance companies in the fair treatment of laws and regulation.

Managerial Level Institutional Issue: Finance companies themselves have unique problems of internal management efficiency and operational issues in view of the inadequate level of professionalism providing worldwide events and instances of few fake finance companies playing on the money of the investing public.

1.2 Statement of the Problems

Controversy relevance or irrelevance of the dividend decision arises from two different and somewhat incompatible approaches to the decision-making problem. Thus who argue for the relevance of dividend to the reinvestment of earning the firms, while thus argue for the irrelevance of dividend policy point out at the investment decision need not be controlled by the firm's dividend policy, but may be financed equally well through the issuance. Dividend policy determines the division of earning between payments to the stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financing corporate growth, but dividends constitute the cash flow that accrues to stockholders.

Capital market of company in Nepal is operating in an immature stage. There is not satisfactory result about dividend decision. The turnover of dividend is still very poor. It is partly due to the various government rules and regulations acting and reacting in the financing operations. But there is no limit to the identification of the problem about dividend policy that is visible in Nepalese finance companies. In connection to Nepalese public Enterprises Prof. Dr. M.K. Shrestha remarks that, dividend is still considered as unintended strategy or the non payable obligation at a time when Government is not a position to impose the public Limited companies to pay minimum rate of dividend on the equity capital contribution.

Regarding the dividend policy, most of Finance Companies recognize that the market price per share depends upon the dividend per share. Shareholders have a desire to receive market price as the same ratio of dividend per share. But the company's decision regarding the amount of earning to be distributed as dividends depends on the number of factors like legal restriction, liquidity, investment opportunity and inflation etc. So, most of the companies could not able to maintain the market price as per the ratio dividend per share. However most of companies have to maintain the relationship in the same ratio.

According to Walter's study, dividend policy almost always affects the value of the companies, where the investors demand the relationship between internal rate of return on investment regarding the dividend and market rate. Solomon concludes that dividend may offer tangible evidence of the firm's ability to generate cash, and as a result, the dividend policy of the firm affects the share price. Even if dividends do affect the value, there is not much that they do to increase the shareholders wealth. As per previous study, most of the companies are underrating the expectation of investors and there is resulting the low market ability of share on trading floor of stock exchange.

Dividend payment is not regular phenomenon in Nepalese listed companies. There is not adequate legal rule for finding finance company to pay dividend distribution policy and practice in finance companies. In order to the problems,

this study analysis the dividend portfolio, regarding dividends and examines the relationship between dividends and stock prices by taking sample.

1. What is the relationship of dividend per share with other variables such as earning per share, dividend payout, price earnings ratio, market price per share, dividend yield and return on net worth?
2. Is there earning effect on MPS?
3. What is the financial position of listed finance companies in terms of dividends and other variables regarding dividends?
4. Is there any relationship between companies MPS & DPS?
5. How to provide valuable suggestions regarding dividend policy?

1.3 Objectives of the Study

Dividend policy is one of the key instruments, which reflects the firm's ability of internal financing. Thus, this study primarily aims to analyze the dividend policy of Nepalese listed companies. Specific objectives of this study are:

1. To analyze the relationship of dividend per share.
2. To identify the earning effect on MPS.
3. To assess the financial position of listed finance companies in terms of dividends and other variables regarding dividends.

1.4 Significance of the Study

The objective behind investment in stock is to get greater dividend. Dividend policy is an effective way to attract new investors, to keep present investors happy and to maintain the good will of the company. When any new company issues the shares through capital market, many people apply to purchase the stock. It indicates people expectation on higher return of investment in shares.

When investing in shares the investor foregoes opportunity income that he could have earned. The income of capital market is secured from two ways: firstly by means of dividend and secondly by capital gains i.e. appreciation in stock prices. Due to the lack of enough knowledge, people are investing hit or

miss in shares. It is necessary to clear conceptions about the return that result from investing in securities. In Nepal, as result enough study is essential.

Therefore, considering all these facts, the study is undertaken which will help to meet deficiency of the literature relating to dividend decision and factors affecting dividend policy. Lastly it is also a useful literature for the study about the relating topics. Similarly the company may also follow the suggestion of the study to make their policy. Thus the study of dividend policy is significant.

1.5 Limitation of the Study

Since the study is very much challenging it must have to completed and find the optimum solution regarding the study area. Dividend is the most important topic in financial management. Financial manager should have to be undertaken several aspects of decision while managing the job to achieve optimum goal. Areas of financial management decision are investment, capital, structure, liquidity, leverage, dividend and others. So some assumption should be created to fulfill the study. The study will be limited by the following factors.

1. Only secondary data have been analyzed to draw the result of this study.
2. The related data are considered only cash dividend of the finance companies.
3. The study period only covers five fiscal years from 2006/07 to 2010/011.

1.6 Organization of the Study

The whole study will be divided into five main chapters which are as follows. Every chapter bears equal important to some aspect of the study.

Chapter first deals with the subject matter of the study consisting introduction, statement of the problems, significant of the study, objective of the study and limitation of the study.

Chapter second deals with review of literature. It consists a discussion on the conceptual framework on dividend policy and also includes major studies relating with dividend decision.

Chapter third describes research methodology used to evaluate dividend practices of finance companies in Nepal. It consists of research design, source of data, population and sample, statistical and financial tools.

Chapter four explains about presentation and interpretation of data. These data will be interpreted and analyzed with the help of various analytical tools and techniques.

Chapter five deals with major findings, summary, conclusion and recommendation of the study and it states suggestive framework of the study.

CHAPTER - II

REVIEW OF LITERATURE

In this chapter, review of literature has been presented for the purpose of identifying the research gap. This chapter presents the conceptual review, review of earlier studies and the research gap.

2.1 Conceptual Framework

Pradhan (2004) Company's total net income can be divided into two parts: Earning to be distributed to the equity shareholders and earning to be kept in the organization. Earnings that are distributed to the shareholders are known as dividend and earning which is kept in the organization is known as retained earnings. Dividend policy determines the division of earnings between payments to shareholders and reinvestment in the firm. Retained earnings are one of the most sources of funds for financing corporate growth, but dividends constitute the cash flows that accrue to shareholders.

Dividend decision is the crucial area of financial management. The main aspect of the dividend policy is to determine the amount of earnings to be distributed the shareholders and the amount to be retained in the firm. Dividend is a portion of earning, which is distributed to shareholders, in return of their investment in share capital and it is a most significant source of internal financing to growth the firm. Conceptually speaking the difference between dividend and dividend policy is only of degree but not of the kind itself. Dividend implies to the portion of earnings that is paid to the shareholders whereas dividend and dividend policy is only of degree but not of the kind itself. Dividend implies to the portion of earnings that is paid to the shareholders while dividend policy refers to the guidelines that management uses in establishing portion of retained earning that is paid to the shareholders in the form of dividend. Dividend conveys pro rata distribution of earning either in the form of direct cash or additional stock in accordance with his proportionate share holding. Nowadays, it is mostly interpreted in terms of left

over earnings after financing all acceptable investment opportunities and these are used for the payment of dividend. In this way, dividend is just means of distributing unused fund of paying out whatever fund left after making all attractive investment.

Furthermore, it is stated simply as the byproduct of the firm's capital budgeting decision and borrowing decision.

Singh (1991) Dividend policy has effect in two parts, one is retained earning and the other is dividend. The retained earning provides funds to finance the firm's investments. It has been taken as a long term financing decision because it provides funds, which are needed, to the firm without issuing shares. It is preferable because unlike external equity they don't involve any floatation costs. It reduces the cost to be invested in to the new opportunity. So, earning may remain undistributed as part of a long term financing decision. But dividends are generally paid in cash. The distribution of earning uses the available cash of the firm. A firm which intends to pay dividends and also needs funds to finance its investment opportunities will have to use external sources of financing, such as the issue of debt or new common shares, which will be costly because of floatation cost. Despite the fact that only few companies are paying dividends in Nepal. There is also growing practice of paying stock dividend among some Nepalese companies. The clue to stock dividend distributions may lie in there perceived substitution for relatively of earnings, they issue stock dividends so that the shareholders of the firms are content. Manager strongly agrees that stock dividend have a positive psychological impact on investors for receiving them.

The question with respect to dividend distribution is how much to distributed and how to reinvest. In other words, what should be the dividend policy? A closer look into this matter calls for consideration of man related aspects including the availability of present and future opportunities, regulations, and

shareholders expectation. The following figure presents the areas related to dividend management.

Stock split is another aspect of dividend policy. Practitioners have long contended that the purpose of stock split is to move a firm's share price into an "Optimal trading range" specifically investors of small means are presumably penalized by high stock prices that deny them the economics of buying stock in round lots.

Thus, stock split is the popular practice of developed capital market. An alternative form of dividend is share repurchase. If a firm has some surplus cash (or if it can borrow) it may choose to buy back some of its own share. In the developed capital market, corporations are allowed to buy back share and better utilize unused cash. However, Nepalese company Act, 1997, Section 47 has prohibited company from purchasing its own shares. It states that no company shall purchase its own shares or supply loans against the security of its own shares. The issue of how much a company should pay its stockholders as dividends is one that raises its dividends often experiences an increase in its stock price and a company that lowers its dividends has a falling stock price. This seems to suggest that dividends do matter in that they affect stock price. But several researchers have refuted this causal relationship on the grounds that dividends per share do not affect stock prices rather; it is the informational content of dividend that affects stock prices.

Ross (1977) and Bhattacharya (1979) have argued that dividend policy could be viewed as a signaling mechanism whereby firms with profitable projects are able and willing to pay higher dividends in order to segregate themselves forms with less profitable projects.

Dividend policy is set in consistence with the objective of maximizing the value of firm. Investors invest in the stocks with the objective of maximizing the value of firm. Investors invest in the stocks with the expectation of receiving at least risk adjusted rate of return on their investment. With respect

to their investment, nothing would please them more than the corporate reporting increased profits, more dividends and higher stock price. As said before profits belongs to stockholders however, it is the managerial policy on dividends that decides how much of the total profit to distribute as dividends and how much to retain in the business. In a way it should not matter for stockholders how much profit is distributed and how much is retained. Because whether profits are distributed in the form of dividends or reinvested in the business, benefits go to shareholders directly or indirectly. If profits are distributed benefits are direct and are at present. If they are reinvested the benefits are indirect and come in at some future time period or as capital gain from expected stock prices. But the question is which one present dividend or future cash flows benefits more to stockholders?

2.1.1 Stability of Dividends

Stability or regularity of dividends is considered a desirable policy by the management of most companies in practice. Shareholders also seem to favor this policy and value stable dividends higher than the fluctuating ones. All other things being the same, stable dividend may have a positive impact on the market price of share. Stability dividends sometimes means regularity in paying some dividend annually, even though the amount of dividend may fluctuate over years, and may not related with earnings. There are a number of companies which have records of paying dividend for a long unbroken period. More precisely, stability of dividends refers to the amounts paid out regularly.

Three distinct forms of such stability may be distinguished:

-) Constant dividend per share
-) Constant payout ratio
-) Constant dividend per share plus extra dividend

Constant dividend per share

Dividend as the under this policy, dividend is paid in a fixed amount per share every year, irrespective of the fluctuations in the earnings. This policy is

followed by most of the companies. It is easy to follow this policy when earnings are stable. If the earnings pattern of a company shows wide fluctuations, it is a difficult to maintain such a policy. Investors who gave only one source of income prefer this policy.

Constant payout ratio

The policy to distribute a certain percentage of profit every period is called constant payout ratio. The payout ratio is the ratio of dividend to profit. There are many companies which use a constant percentage of profit for dividend distribution. When a company uses a constant payout ratio, amount of dividend increases or decreases proportionately with earnings.

Constant dividend per share plus extra dividend

The low regular dividend plus extras policy is a compromise between the first two. It gives the companies flexibility but it leaves investors somewhat uncertain about what their dividend income will be if a company's earnings are quite volatile, however, this policy may well be its best choice. Under this policy, the small amount of dividend is fixed to reduce the possibility of ever missing a dividend payment. By paying extra dividend in periods of good profits an attempt is made to prevent investors from expecting that the dividend represents an increase in the established dividend amount. This policy enables a company to pay constant amount of dividend regularly without a default and allows a great deal of flexibility.

A regular dividend Rs. 4 and an extra dividend to bring to payout ratio is 60%. Thus the annual dividend are the as follows. The following figure represents the dividend pattern for the given under this policy

2.1.2 Significance of Stability of Dividends

Stability of dividends has several advantages as discussed below:

-) Resolution of investors' uncertainty
-) Investors' desire for current income
-) Institutional investors' requirement
-) Raising additional finances.

Resolution of investors' uncertainty

When the company follows a policy of stable dividends, it will not change the amount of dividends if there are temporary changes in its earnings. Thus, when the earnings of the company fall and it continues to pay same amount of dividend as in the past, it conveys to investors that the future of the company is brighter than suggested by the drop in earnings. Similarly the amount of dividends is increased earnings level only when it is possible to maintain it in future. On the other hand, if a company follows a policy of changing dividends with cyclical changes in the earnings, shareholders would not be certain about the amount of dividends.

Investors' desire for current income

There are many investors, such as old and retired persons, women etc. who desire to receive regular periodic income. They invest their saving in the shares with a view to use dividends as a source of income to meet their living expenses. These investors, who desire to receive a regular dividend income, will prefer a company with stable dividend to the one with fluctuating dividends.

Institutional investors' requirements

Shares of the companies are not only purchased by individuals but also by the financial, educational and social institutions and unit trust. Every company is interested to have these financial institutional in the list of their investors. These institutional generally invest in the shares of those companies which have a record of paying regular dividends. A company which has a history of adopting an erratic dividend policy may not be preferred by these institutional investors. Thus to cater the requirement of institutional investors, a company prefer to follow a stable dividend policy.

Raising additional finances

A stable dividend policy is also advantageous to the company in its effort to raise external finances. Stable and regular dividend policy tends to make the

shares of a company as quality investment rather than a speculation. Investors purchasing these shares intend to hold them for long period time. The loyalty and goodwill of shareholders towards a company increases with stable dividend policy. They would be more receptive to an offer by the company for the further issues of shares. A stable dividend policy also helps the sale of debentures and preference shares. The fact that the company has been paying dividend regularly in the past is a sufficient assurance to the purchasers of these securities that no default will be made by the company in paying their interest or preference dividend and returning the principle sum. The financial institutional are the largest purchasers of these securities. They purchase debentures and preference shares of those companies which have a history of paying stable dividends.

2.1.3 Danger of Stability of Dividend

The great danger in adopting a stable dividend policy is that once it is established, it cannot be changed without seriously affecting investors' attitude and the financial standing of the company. If a company, with a pattern of stable dividend misses dividend payment in a year, this break will have an effect on investors more severe than the failure to pay dividend by a company with unstable dividend policy. The companies with stable dividend policy create a clientele which depends on dividend income to meet their living and operating expenses. A cut in dividend is considered as a cut in 'salary'. Because of the serious depressing effect on investors due to a dividend cut, directors have to maintain stability of dividends during lean years even though financial prudence would indicate elimination of dividends or a cut in it. Consequently, to be on the safe side, dividend rate should be fixed at a conservative figure so that it may be possible to maintain it even in lean periods of several years. To give the benefit of the company' prosperity, extra or interim dividend, can be declared. When a company fails to pay extra dividend, it does not a depressing effect on investors as the failure to pay a regular dividend does.

2.1.4 Payment Procedure

The actual payment procedure is of some important, and the following is an outline of the payment sequence.

1. Declaration date

The directors meet, say, on November 15 and declare the regular Dividend. On this date, they issue a statement similar to the following : " On November 15, 19X0, the directors of the XYZ company met and declared the regular quarterly dividend of 50 cents a share, plus an extra dividend of 75 cents a share, to holders of record on December 15, payment to be made on January 2, 19X1"

2. Holder of record date

On December 15, the holder record date, the company closes its stock transfer books and makes up a list of the shareholders as of that date. If XYZ Company is notified of the sale and transfer of some stock before December 16, the old stockholder gets the dividend.

3. Ex-dividend date

Suppose Irma Jones buys 100 shares of stock from Robert Nobel on December 13. Will the company be notified of the transfer in time to list her as a new owner and pay her the dividend? To avoid conflict, the brokerage business has set up a convention of declaring that the right to the dividend remains with the stock until the four days prior to the holder of record date, on the fourth day before the date, the right to the dividend no longer goes with the shares.

The date when the right to the dividend leaves the stock is called the ex dividend date. In this case, the ex dividend date is four days prior to December 15, or December 11. Therefore, if Jones is to receive the dividend, she must buy the stock by December 10. If she buys it on December 11 or later, Noble will receive the dividend. The total dividend regular plus extra, amount to Rs. 1.25, so the ex dividend date is important. Barring fluctuations in the stock

market, we would normally expect the price of a stock to drop by approximately the amount of the dividend on these dividend date.

4. Payment date

The Company actually mails the checks to the holders of record on the January 2, the payment date.

5 Types of Dividend Policy

Residual dividend policy

The residual dividend policy suggests that dividend paid by a firm should be viewed as residual amount or left after all acceptable investment opportunities. There are many factors, as noted before, which influence dividend policy. However, among all earnings and investment opportunities are considered as determining factors in the residual dividend policy. The residual dividend policy is the outcomes of the belief that investors are better off in reinvesting company profits and they prefer so. If expected return on the reinvestment is higher than what individual investors can realize on their own it is to the shareholders advantages to first invest profits in those projects that promise higher profit and then distribute only the leftover as dividends.

The Residual Theory of Dividend

Dividend policy can be viewed as one of a firm's investment decisions. A firm that behaves in this manner is said to believe in the residual theory of dividends. According to this theory, dividend policy is a residual from investment policy. Whether or not a company pays dividends depends on its investment policy. It assumes that the externally generated funds are comparatively cheaper than the funds obtained from external sources. The theory is based on the premise that investors prefer to have the firm retain and reinvest earning rather than pay them out in dividends if the returns on reinvested earnings exceeds the rate of return the investor could, himself obtain on other investments of comparable risk. The dividend under the residual dividend policy equals the amount left over from earnings after equity investment. If the equity investment equals earnings, no dividends are paid. If

equity investment is greater than earnings, then no dividends are paid and new shares are sold to cover any equity investment not covered by earnings. If there is no any investment opportunity, then cent percent earnings are distributed to shareholders. Dividend is therefore merely a residual remaining after all equity investment needs are fulfilled. Although the residual theory of dividends appears to make further analysis of dividend policy unnecessary, it is indeed not clear that dividends are solely a means of distributing excess funds. It would therefore be imprudent to conclude that there are no other implications of dividend policy, and so this study shall take a closer look at the relationship between dividends and value.

2.1.5 Review the provision of Dividend policy under the Nepalese Company Act

There is nothing stated in Nepal company Act 2021 regarding dividend policy. The responsibility to undertake required actions to protect shareholders interest is given to stock exchange center by then securities exchange Act 1983. However, this organization is not competent enough to protect shareholders interest since attitude of the board of director plays dominant role in management to public limited companies. In many cases, a firm can pay long term debt indentures and preferred stock agreements contain restrictions to protect senior claim holders from excessive with draws by residual owners. In Nepal regarding dividend policy, the Nepalese company Act 2053 with first correction 059/03/24 determined the following rules and regulation. Company has to provide dividend to the shareholders. According to the rules under this company Act 2053, company has allowed to pay dividend against the amount, which is remaining to pay as a share price. According to the company Act 2053 section 42 (5), company could not pay dividend against the unlearned capital. If company is not cleared about dividend payment in the rules of company, company has to pay dividend in nominal value.

According to this Act dividends have to pay in cash. This amount should pay by Cheque to shareholders within 45 days. Without special cause, company

should not pay interest against the dividend. But if the company could not able to pay dividend until 45 days, since declaration date of dividend, company have to pay interest against the dividend.

-) According to section 64 (4), dividend, which is declared by annual general meeting, should not more than declared by board of members committee.
-) According to section 42 (5), generally company will not be forced to pay dividend until company could not able to earn more profit.
-) Although, company based on any accounting procedure for account, account should be prepared under the section 82 (1) and 83 (2) of Nepalese company Act 2053.

2.1.6 Forms of Dividend

Although most particular form of dividend is cash dividend, corporations need to follow different types of dividend in view of the objective and policies which they implement. The type of dividend that corporation follows is partly of a matter of attitude of director, partly a matter of the various circumstances and financial constraints that bound corporate plan and policies.

According to changing needs of corporations, dividend is being distributed in several forms like cash dividend, stock dividend, and scrip dividend. In Nepal and India, only cash dividend and stock dividend are declared and paid.

1. Cash Dividend

Cash dividend is the dividend, which is distributed to the shareholders in cash out of the earning of the company. When cash dividend is distributed both total assets and net worth of the company decrease as cash and earning decrease. In a sample of companies, Elton and Gruber found that on average a stock declined by 0.78 of the dividend on the ex-dividend data.

2. Stock Dividend

A stock dividend is the payment of existing owners of a dividend in is the form of stock. Although stock dividends don't have a real value, firms pays stock dividend as a replacement for a supplement to cash dividend. A stock dividend simply is the payment of additional stock to shareholders nothing more than a

recapitalization of the company: a stock holder proportional ownership remains unchanged.

This involves a payment of assets/property in any form other than cash. This form of dividend may be followed whenever there are assets that are no longer necessary in the operation of the business or in extra ordinary circumstances. Company owns products and the securities of subsidiaries are the example that has been paid as property dividend.

3. Bond dividend

Bond dividend by its name is dividend is distributed to shareholder in form of a bond. Bond dividend helps the payment of cash. In other words, company declares dividends in the form of its own with a view to avoid cash outflow.

4. Scrip dividend

When earning of the company justify dividends but the company's cash position is temporarily weak and doesn't permit cash dividend, it may declare dividend in the form of scripts. In the method of dividend, company issue and distributed to shareholders transferable promissory notes which may be interest bearing or not. A scrip dividend is justified only when the company has really earned profit and has only to wait for the conservation of others current assets into cash in the course of operation.

2.1.7 Practical Considerations in dividend policy

The view that dividends are irrelevant is not entirely correct, once we modify the assumptions underlying this view to consider the realities of the world. In practice, every firm follows some kind of dividend policy. The typical dividend policy of most firms is to retain between one third to half of the net earnings and distributed the remaining amount to shareholders.

The following questions relate to the dividend policy of a firm:

-) What are the preferences of the shareholders: dividend income or capital gains?
-) What are the financial needs of a company?

-) What are the constraints on paying dividend?
-) Should the company follow a stable dividend policy?
-) What should be the form of dividends (i.e. cash or bonus shares)?

It is not easy to answer these questions. A number of factors will have to be evaluated to analyze each of these questions to evolve a long term dividend policy for the firm. Broadly speaking to develop a long term dividend policy, the directors should aim at bringing a balance between the desires of shareholders and the needs of the company. The factors which generally influence the dividend policy of the firm are as discussed below.

Shareholder's Expectations

Shareholders are the legal owners of the company, and directors, appointed by them, are their agents. Therefore, directors should give due importance to the expectations of shareholders in the matter of dividend decision. Shareholder's preference for dividends or capital gains may depend on their economic status and the effect of tax differential on dividends on capital gains. In most countries, dividend income is taxed at a rate higher than the capital gains. Wealthy shareholders, in a high income tax bracket, may be interested in capital gains than current dividends. On other hand, a retired person with small means, whose main source of income is dividend, would like to get regular dividend and may not be interested in capital gains.

Closely- Held Company

In the case of closely held company, the body of the shareholders is small and homogeneous and the expectations of shareholders are usually known to management. Therefore they can easily adopt a dividend policy which satisfies most shareholders. If most of the shareholders are in high tax brackets and have a preference for capital gains to current dividend incomes, the company can establish a dividend policy of paying less or no dividends and retaining the earnings within the company.

Widely – Held Company

It is a formidable task to ascertain the preference the preferences of shareholders in a widely held company. The number of shareholders is very large, and they may have diverse desires regarding dividends and capital gains. As a result, it is not possible in case of widely held company to follow a dividend policy which equally satisfies all shareholders. The firm may follow a dividend policy which serves the purpose of the dominating groups, but does not completely neglect the desires of others. Shareholders of a widely held company may be divided, for example in to four groups:

-) Small shareholders
-) Retired and old persons
-) Wealthy investors
-) Institutional investors

Small shareholders

Small shareholders are not the frequent purchasers of the shares. They hold a small number of shares in a few companies with the purpose of receiving dividend income, or making capital gains. Thus, they do not have a definite investment policy. They purchase shares only when their savings permit. This group rarely proves to be dominating in the body of shareholders in a company, and it is not much concerned with the dividend policy of the company.

Retired and old person

Retired and old person generally invest in shares to get a regular income. They use their saving or provident funds to purchase shares. These persons may, therefore, select shares of the companies which have a history of paying regular and liberal dividends. However, a retired person who has some source of income and is in a high tax bracket may be interested in capital gains.

Wealthy investors

Wealthy investors are very much concerned with the dividend policy followed by a company. They have a definite investment policy of increasing their

wealth and minimizing taxes. These persons are in high tax brackets and the dividend received in cash by them would be taxed at high rate. Therefore, they generally prefer a dividend policy of retaining earnings and distributing bonus shares. The wealthy shareholders' group is quite dominating in many companies as they hold relatively large blocks of shares and able to influence the composition of the board of directors by their majority voting rights. On the dividend policies of these companies, this group will have a considerable influence.

Institutional investors

Institutional investors purchase large blocks of shares to hold them for relatively long periods of time. Institutional investors, unlike wealthy shareholders, are not concerned with personal income taxes but with profitable investments. Most institutional investors avoid speculatively issues, seek diversification in their investment portfolio and favor a policy of regular cash dividend payments.

2.1.8 Factors Affecting Dividend policy

The factors affecting dividend decision is one of the main focus of this study. Mostly government owned public limited companies are in less in there is no question of paying dividend rather than minimizes losses. However in case of joint venture companies and other privately owned enterprises management has somewhat understood the important of the dividend thought all of them are not protecting shareholders rights. Therefore, it is desirable to describe the factors recognized as active variable in determination of dividend in Nepalese companies.

Legal rules

Certain legal rules may limit the amount of dividend a firm may pay. These are:

1. The net profits rule: - The net profits rules provide that dividends can be paid from past earnings.

2. Capital impairment rule: - The capital impairment rule protects creditors by forbidding the payment of dividend from capital. (Paying dividends from capital would be distributing the investment in a company rather than earnings.)
3. The insolvency rule:- The insolvency rule provides that corporations cannot pay dividends while insolvent. (Insolvency is defined here, in the bankruptcy sense, as liabilities exceeding assets. To pay dividends under such conditions would mean giving stockholders funds that rightfully belong to creditors.)

Liquidity position

The cash or liquidity position of a firm influences its ability to pay dividends. A firm may have sufficient retained earnings, but if they are invested in physical assets cash may not be available to make dividend payments.

Need to repayment debt

When a firm has issued debt to finance expansion or to substitute for other firm of financing, it is faced with two alternatives. It can refund the debt at maturity by replacing it with another firm of a security, or it can make provisions for paying off the debt. If the decision is to retire the debt this will generally require the retention of earnings.

Restrictions in debt contracts

Debt contracts, particularly when long term debt is involved, frequently restrict a firm's ability to pay cash dividends. Such restriction, which are designed to protect the position of the lender, usually state that (1) future dividends can be paid only out of earnings generated after the signing of the loan agreement (that is, they cannot be paid out of past retained earnings) and (2) that dividends cannot be paid when net working capital (current assets minus current liabilities) is below specified amount. Similarly, preferred stock agreements generally state that no cash dividends can be paid on the common stock until all accrued preferred dividends have been paid.

Rate of Assets Expansion

The more rapidly a firm is growing the greater its needs for financing assets expansion. The greater the future need for funds, the more likely the firm is to retain earnings rather than pay them out. If a firm seeks to raise funds externally, the primary sources are the present shareholders, who already know the company. But if earnings are paid out as dividends and subjected to high personal income tax rates, only a portion of them will be available for reinvestment.

Profit Rate

The expected rate of return on assets determines the relative attractiveness of paying out earnings in the form of dividends to stockholders or using them in the present enterprise.

Stability of Earnings

A firm that has relatively stable earnings is often able to predict approximately what its future earnings will be. Such firm is therefore more likely to pay out a higher percentage of its earnings than is a firm with fluctuating earnings. The unstable firm is not certain that in subsequent years the hoped for earnings will be realized, so it is likely to retain a high proportion of current earnings. A lower dividend will be easier to maintain if earnings fall off in the future.

Access to the Capital Market

A large well established firm with a record of profitability and stability of earnings has easy access to capital markets and other forms of external financing. A small new or venturesome firm however is riskier for potential investors. Its ability to raise equity or debt funds from capital markets is restricted, and it must retain more earnings to finance its operations. A well established firm is thus likely to have a higher dividend payout rate than is new or small firm.

Control

Another important variable is the effect of alternative sources of financing on the control situation of the firm. As a matter of policy, some corporations

expand only to the extent of their internal earnings. This policy is defended on the ground that raising funds by selling additional common stock dilutes the control of the dominant group in that company. At the same time, selling debt increases the risks of fluctuation earnings to the present owners of the company.

Tax Position of Stockholders

The tax position of stockholders also affects dividend policy. For example corporations owned largely by taxpayers in high income tax brackets tend towards lower dividend payout because the tax rate applied to dividend. Corporations owned by small investors tend toward higher dividend payouts. Some time there may be a conflict between stockholders in high income tax brackets and stockholders in lower tax brackets.

Tax Position of the Corporations

In addition the tax position of the corporations affects its dividend policies. Possible penalties for excess accumulation of retained earnings may induce higher payout ratios.

2.2 Review of Articles & Journal

Walter's Study

Professor James E. Walter argues that the choice of dividend policies almost always affect the value of the firm. His model one of the earlier theoretical works clearly shows the importance of the relationship between the firm's rate of return, r , and its cost of capital, k , in determining the dividend policy that will maximize the wealth of shareholders. Walter's model is based on the following assumptions:

-) The firm finances all investment through retain earnings, that is debt or new equity is not issued.
-) The firm's rate of return, r and its cost of capital, k , are constant.
-) All earnings are either distributed as dividend or reinvested internally immediately

-) Beginning earnings and dividends never change. The values of the earnings per share, EPS, and the dividend per share, DIV, may be changed in the model to determine results, but any given values of EPS or DIV are assumed to remain constant forever in determining a given value.
-) The firm has a very long or infinite life.

Walter's formula to determine the market price per share is as follows.

$$P = \frac{DPS}{K} + \frac{r(EPSt - DPS)k}{K}$$

Or ,

$$P = \frac{DPS + r/k(EPSt - DPS)}{K}$$

Where,

P = market price per share

DPS = dividend per share

EPS = earnings per share

r = firm's rate of return (average)

K = firm's cost of capital or capitalization rate.

Dividend Policy Adn The Value Of The Share (Walter's Model) :

Growth form, r>k	Normal firm, r=k	Decline firm, r<k
Basis Data	Basis Data	Basis Data
r=0.15	r=0.10	r=0.08
k=0.10	k=0.10	k=0.10
EPS=Rs. 10	EPS=Rs.10	EPS= Rs.10
payout ratio 0%	payout ratio 0%	payout ratio 0%
DIV = Re. 0	DIV = Re. 0	DIV= Re.0
$P=0+(0.15/0.10)(10-0)$	$P=0+(0.10/0.10)(10-0)$	$P=0+(0.08/0.10)(10-0)$
/0.10	/0.10	/0.10
=Rs.150	=Rs.100	=Rs. 80

<p>payout Ratio 40%</p> <p>DIV = Rs.4</p> $P = 4 + \frac{0.15}{0.10}(10 - 4)$ <p>=Rs.130</p>	<p>payout ratio 40%</p> <p>DIV = Rs.4</p> $P = 4 + \frac{0.10}{0.10}(10 - 4)$ <p>= Rs. 100</p>	<p>Payout ratio 40%</p> <p>DIV =Rs. 4</p> $P = 4 + \frac{0.08}{0.10}(10 - 4)$ <p>=Rs. 88</p>
<p>payout ratio 80%</p> <p>DIV = Rs.8</p> $P = 8 + \frac{0.15}{0.10}(10 - 8)$ <p>=Rs.110</p>	<p>payout ratio 80%</p> <p>DIV = Rs.8</p> $P = 8 + \frac{0.10}{0.10}(10 - 8)$ <p>= Rs.100</p>	<p>payout ratio 80%</p> <p>DIV= Rs.8</p> $P = 8 + \frac{0.08}{0.10}(10 - 8)$ <p>=Rs. 96</p>
<p>payout ratio 100%</p> <p>DIV = Rs.10</p> $P = 10 + \frac{0.15}{0.10}(10 - 10)$ <p>= Rs.100</p>	<p>payout ratio 100%</p> <p>DIV = Rs. 10</p> $P = 10 + \frac{0.10}{0.10}(10 - 10)$ <p>= Rs. 100</p>	<p>payout ratio 100%</p> <p>DIV = Rs. 10</p> $P = 10 + \frac{0.08}{0.10}(10 - 10)$ <p>=Rs.100</p>

Walter has suggested different dividend policy for different firms based on their growth.

They are:

Growth Firm

Growth firms are those firms which expand rapidly because of ample investment opportunities yielding returns higher than the opportunities cost of capital. The firms are able to reinvest earnings at a rate (r) which is higher than the rate of expected by shareholders (K) . They will maximize the value per share if they follow a policy of retaining all earnings for internal investment. Thus the optimum payout ratio for growth firms is zero. The market price per share increases as payout ratio declines where $r > k$.

Normal Firms

When the firms do not have unlimited invest opportunities with $r > k$. After exploiting portable investment opportunities, these firms earn equal to the cost of capital and they have $r = k$. When firms are in this situation dividend policy

does not have any effect on market value per share. Thus, there is not unique optimum payout ratio for the normal firms.

Institutional investor

When the firms do not have any profitable investment opportunity to invest, these are referred as declining firms. These firms invest on unattractive investors. So, investing on these investments is worthless. Thus optimum payout ratio for declining firm is 100 percent. The market value per share p , increases as payout ratio increases.

Criticism of Walter's Approach

Walter's model is quite useful to show the effects of dividend policy on all equity firms under different assumptions about the rate of return. However, the simplified nature of the model can lead to conclusions which are not true in general, though true for the model. The following is a critical evaluation of the assumptions underlying the model:

-) No External Financing- Walter's approach assumes that retained earnings only and no external financing finance the investment opportunities of the firm. When such situation exists, either the firm's investment or its dividend policy or both will be sub optimum.
-) Constant Rate of Return r - Walter's model is based on the assumption that r is constant. In fact, r decreases as more and more investment is made. This reflects the assumption that the most profitable investments are made first and the poorer investments are made. The firm should stop at a point where $r = k$.
-) Constant Opportunity Cost of Capital, k - A firm cost of capital or discount rate k does not remain constant; it change directly with the firm's risk. Thus the present value of the firm's income moves inversely with the cost of capital. By assuming that the discount rate, k , is constant, Walter's model abstracts from the effect of risk on the value of the firm.

Gitman (1988) has recommended the interest approach relating the market value of the firm to dividend policy. He holds that investors have a strong

preference for present dividends to future capital gains under the condition of uncertainty. It is assumed that current dividend is less risky than the expected capital gain. According to him, market value of a share is equal to the present value of an infinite stream of dividends to be received by the share. Gitman's model is based on the following assumption:

-) **All equity firm** The firm is an all equity firm, and it has no debt.
-) **No external financing** No external financing is available. Consequently retained earnings would be used to finance any expansion. Thus just as Walter's model Gitman's model too confounds dividend and investment policies.
-) **Constant return** the internal rate of return, r , of the firm is constant.
-) **Constant cost of Capital** The appropriate discount rate of k for the firm remains constant. Thus, Gitman's model also ignores the effect of a change in the firm's risk class and its effect on k .
-) **Perpetual earnings** the firm and its stream of earnings are perpetual.
-) **No taxes** Corporate taxes do not exist.
-) **Constant retention** the retention ratio, b , once decided upon, is constant. Thus, the growth rate, $g = br$, is constant forever.
-) **Cost of capital greater than growth rate** the discount rate is greater than growth rate, $k > g$. If this condition is not fulfilled, we cannot get a meaningful value for the share,

Based on above assumption, the formula advanced by him is as follows:

$$P_0 = \frac{EPS_1 (1 - b)}{K - g}$$

Where,

P_0	=	Price per share
EPS_1	=	Expected Earning per share
b	=	Retention Ratio
K	=	Capitalization rate
g	=	Growth rate
$1 - b$	=	Dividend payout ratio

Dividend Policy And The Value Of The Firm (Gitman's Model)

Growth form, $r > k$	Normal firm, $r = k$	Decline firm, $r < k$
<p>Basis Data</p> <p>$r = 0.15$</p> <p>$k = 0.10$</p> <p>EPS = Rs. 10</p> <p>payout ratio 0%</p> <p>DIV = Re. 0</p> <p>$P = 0 + (0.15/0.10) \quad (10-0)$</p> <p>$/0.10$</p> <p>=Rs.150</p> <p>payout Ratio 40%</p> <p>DIV = Rs.4</p> <p>$P = 4 + (0.15/0.10) \quad (10-4)$</p> <p>$/0.10$</p> <p>=Rs.130</p> <p>payout ratio 80%</p> <p>DIV = Rs.8</p> <p>$P = 8 + (0.15/0.10) \quad (10-8)$</p> <p>$/0.10$</p> <p>=Rs.110</p> <p>payout ratio 100%</p> <p>DIV = Rs.10</p> <p>$P = 10 + (0.15/0.10) \quad (10-10)/0.10$</p> <p>= Rs.100</p>	<p>Basis Data</p> <p>$r = 0.10$</p> <p>$k = 0.10$</p> <p>EPS = Rs.10</p> <p>payout ratio 0%</p> <p>DIV = Re. 0</p> <p>$P = 0 + (0.10/0.10) \quad (10-0)$</p> <p>$/0.10$</p> <p>=Rs.100</p> <p>payout ratio 40%</p> <p>DIV = Rs.4</p> <p>$P = 4 + (0.10/0.10) \quad (10-4)$</p> <p>$/0.10$</p> <p>= Rs. 100</p> <p>payout ratio 80%</p> <p>DIV = Rs.8</p> <p>$P = 8 + (0.10/0.10) \quad (10-8)$</p> <p>$/0.10$</p> <p>= Rs.100</p> <p>payout ratio 100%</p> <p>DIV = Rs. 10</p> <p>$P = 10 + (0.10/0.10)(10-10)$</p> <p>$/0.10$</p> <p>= Rs. 100</p>	<p>Basis Data</p> <p>$r = 0.08$</p> <p>$k = 0.10$</p> <p>EPS = Rs.10</p> <p>payout ratio 0%</p> <p>DIV = Re.0</p> <p>$P = 0 + (0.08/0.10) \quad (10-0)$</p> <p>$/0.10$</p> <p>=Rs. 80</p> <p>payout ratio 40%</p> <p>DIV = Rs. 4</p> <p>$P = 4 + (0.08/0.10) \quad (10-4)$</p> <p>$/0.10$</p> <p>=Rs. 88</p> <p>payout ratio 80%</p> <p>DIV = Rs.8</p> <p>$P = 8 + (0.08/0.10) \quad (10-8)$</p> <p>$/0.10$</p> <p>=Rs. 96</p> <p>payout ratio 100%</p> <p>DIV = Rs. 10</p> <p>$P = 10 + (0.08/0.10)(10-10)$</p> <p>$/0.10$</p> <p>=Rs.100</p>

It is relevant that under Gitman's model:

-) The market value of the share, P , increases with the retention ratio, b , for firms with growth opportunities, i.e. when $r > k$.
-) The market value of the share, P , increases with the payout ratio, $(1 - b)$, for declining firms with $r < k$.
-) The market value of the share is not affected by dividend policy when $r = K$.
-) Cost of Capital is greater than Growth Rate.

Gitman's model's value of share is not affected by dividend policy are similar to that of Walter's model. This similarity is due to the similarities of assumptions which underlie both the models. Thus the Gitman's model suffers the same limitations as the Walter model.

Modigliani and Miller (2003) under a perfect market situation, the dividend policy of a firm is irrelevant as it does not affect the value of the firm. They argue that the value of the firm depends on the firm's earnings which result from its investment policy.

Thus when investment decision of the firm is given earnings is the split between retained earnings and dividends is no significance in determining the value of the firm.

A firm operating in perfect capital market conditions may face one of the following three situations regarding the payment of dividends:

-) The firm has sufficient cash to pay dividends.
-) The firm does not have sufficient cash to pay dividends, and therefore it issues new share to finance the pay of dividends.
-) The firm does not pay dividends, but a shareholder needs cash.
-) The Firm does not paid tax.
-) Transaction cost does not exist.

In the first situation, when the firm pays dividends, shareholders get cash in their hands, but the firm's assets reduce (its cash balance declines). What

shareholders gain in the form of cash dividends they lose in the form of their claims in the (reduced) assets? Thus, there is a transfer of wealth from shareholder's one pocket to another pocket. There is no net gain or loss. Since it is a fair transaction under perfect capital market conditions, the value of the firm will remain unaffected.

In second situation, when the firm issues new shares to finance the payment of dividends, two transactions take place. First existing shareholders get cash in the form of dividend but they suffer an equal amount of capital loss since the value of their claim on assets reduces. Thus the wealth of shareholders does not change. Second the new shareholders part with their cash to the company in exchange for new shares at fair price per share. The fair price per share is share price before the payment of dividends less dividend per share to existing shareholders. The existing shareholders transfer a part of their claim (in the form of new share) to the new shareholders in exchange for cash. There is no net gain or loss. But transactions are fair, and thus the value of the firm will remain unaltered after these transactions.

In third situation, if the firm does not pay any dividend a shareholder can create a "homemade dividend" by selling a part of his/ her shares at the market (fair) price in the capital market for obtaining cash. The shareholder will have less number of shares. He or she has exchanged a part of the claim on the firm of to a new shareholder for cash. The net effect is the same as in the case of the second situation. The transaction is a fair transaction and no one loses or gains. The value of the firm remains the same, before or after these transactions.

M-M's hypothesis of irrelevance is based on the following assumptions:

-) **Perfect capital markets:** the firm operates in perfect capital market where investors behave rationally, information is freely available to all and transactions and flotation costs do not exist. Perfect capital markets also imply that no investor is large enough to affect the market price per share.

-) **No taxes:** Taxes do not exist or there is no difference in the tax rates applicable to capital gains and dividends. This means that investors value a rupee of dividends as much a rupee of capital gains.
-) **Investment policy given:** The firm has a fixed investment policy.
-) **No risk:** Risk of uncertainty does not exist. That is investors are able to forecast future prices and dividends with certainty and one discount rate is appropriate for all securities and all time periods. Thus, $r = k$, for all t .

Under the M-M assumptions, r will equal to the discount rate, k and identical for all shares. As a result, the price of each share must adjust so that the rate of return, which is composed of the rate of dividends and capital gains, on every share will be equal to the discount rate and be identical for all shares. Thus, the rate of return for a share held for one year may be calculated as follows:

$$r = \frac{\text{Dividends} + \text{Capital Gain(Loss)}}{\text{Purchase Price}}$$

or

$$r = \frac{D_1 + P_1 - P_0}{P_0}$$

Where,

P_0 = Market or purchase price per share at time 0

P_1 = Market price per share at time 1

D_1 = Dividend per share at time 1

As hypothesized by M-M, r should be equal for all shares. If it is not so, the low return yielding shares will be sold by investors who will purchase the high return yielding shares. This process will tend to reduce the price of the low return shares and increase the prices of the high return shares. This switching or arbitrage will continue until the differentials in rates are eliminated. The discount rate will also be equal for all firms under the M-M assumptions since there are no risk differences.

From M-M's fundamental principle of valuation described by following formula, we can derive their valuation model as follows:

$$P_0 = \frac{Dl \Gamma Pl}{l \Gamma k}$$

Since $r = k$ in the assumed world of certainty and perfect market. Multiplying both side of above formula by number of share outstanding, n , we obtain the total value of the firm if no new financing exists:

$$V = nP_0$$

or

$$V = \frac{n(Dl \Gamma Pl)}{l \Gamma K}$$

If the firm sells m number of new shares at 1 at a price P_1 , the value of the firm at time 0 will be:

$$V = \frac{n(Dl \Gamma Pl) \Gamma mpl Zmpl}{l \Gamma K}$$

or

$$= \frac{nDl \Gamma nPl Zmpl}{l \Gamma K}$$

or

$$= \frac{nDl \Gamma (n \Gamma m) Pl Zmpl}{l \Gamma K}$$

The investment programs of a firm in a given period of time can be financed either by retained earnings or the issue of new shares or both. Thus, the amount of new shares issued will be:

$$\begin{aligned} mP_1 &= I_1 - (X_1 - N_{div}1) \\ &= I_1 - X_1 + nDIV_1 \end{aligned}$$

Where,

I_1 = The total amount of investment during first period

X_1 = Total net profit of the firm during first period

By substituting above formula, M-M showed that the value of the firm is unaffected by its dividend policy, thus,

$$\begin{aligned}
nP_0 &= \frac{nDIV_1 + (n+m)P_1 - mP_1}{1+K} \\
&= \frac{nDIV_1 + (n+m)P_1 - (I_1 - X_1 + nDIV_1)}{1+K} \\
&= \frac{(n+m)P_1 - I_1 + X_1}{1+K}
\end{aligned}$$

A firm which pays dividends will have to raise funds externally to finance its investment plans. M-M's argument, that dividend policy does not affect the wealth of the shareholders, implies that when the firm pays dividend, its advantage is offset by external financing. This means that the terminal value of the share (say, price of the share at first period if the holding period is one year) declines when dividends are paid. Thus, the wealth of the shareholders—dividend plus terminal price remains unchanged. As a result, the present value per share after dividends and external financing is equal to the present value per share before the payment of dividends.

Thus the share holders are indifferent between payment of dividends and retention of earnings.

The Bird in the Hand Argument

According to Gordon's model dividend policy is irrelevant where $r = k$, when all other assumptions are held valid. But when the simplifying assumptions are modified to conform more closely with reality, Gordon concludes that dividend policy does affect the value of a share even when $r = k$. This view is based on the assumption that under conditions of uncertainty, investors tend to discount distant dividends (capital gain) at a higher rate than they discount near dividends. Investors behaving rationally are risk averse and therefore have a preference for near dividends to future dividends. The logic underlying the dividend effect on the share value can be described as the bird in the hand argument. The bird in the hand argument was put forward first of all by Krishnan in the following words:

Of two stocks with identical earnings record, and the prospects but the one paying a large dividend that the other, the former will undoubtedly command a higher price merely because stockholders prefer present to future values. Myopic vision plays a part in the price making process. Stockholders often act upon the principle that a bird in the hand is worth two in the bush and for this reason are willing to pay a premium for the stock with the higher dividend rate just as they one with the lower rate.

The bird in the hand argument has been expressed more convincingly and in the formal terms by Gordon. According to him uncertainty increases with futurity; that is the future one looks into future the more uncertain dividends become. Accordingly, when dividend policy is considered in the context of uncertainty the appropriate discount rate k can not be assumed to be constant. In a fact it increases with uncertainty investors prefer to avoid uncertainty and would willing to pay higher price for the share that pays the greater current dividend all other things held constant. In other words, the appropriate discount rate would increase with the retention rate as shown in given figure. Thus the distance dividends would be discounted at a higher rate than near dividends. Symbolically, $K_t > K_{t-1}$ for $t = 1, 2, 3, \dots$ because of increasing uncertainty in the future. As the discount rate increases with the length of the time, a low dividend payment in the beginning will tend to lower the value of share in future.

When the discount rate is assumed to be increasing, we can get following formula:

$$P_0 = \frac{DIV_1}{(1+k)} + \frac{DIV_2}{(1+k)} + \frac{DIV_3}{(1+k)} + \dots + \frac{DIV_t}{(1+k)}$$

Here P_0 is the price of the share when the retention rate, b , is zero and $K_t > K_{t-1}$. If the firm is assumed to retain a fraction b of earnings, dividend per share will be equal to $(1-b) EPS_1$ in the first year. Thus the dividend per share is expected to grow at rate $g = br$, when retain earnings are reinvested at r rate of return. The dividend in the second year will be $DIV_0 (1+g)$

Thus incorporating uncertainty into his model, Gordon concludes that dividend policy affects the values of the share. His reformulation of the model justifies the behaviour of investors who value a rupee of dividend income more than rupee of capital gains income. These investors prefer dividend above capital gains because dividends are easier to predict, are less uncertain and less risky, and therefore discounted with a lower discount rate. However all do not agree with this view.

Pradhan (2004) had conducted a comprehensive study on stock market behavior in a small capital market. The study was based on pooled cross sectional data of 17 enterprises whose stocks are listed in stock exchange centre and traced in stock market. The results revealed by the study are as follows.

-) Stock with larger Market value to book value have larger P/E ratios and lower dividends. Price earnings ratios are more variable for stock with larger MV to BV ratios dividend ratios are more variable for stock with smaller MV to BV.
-) Stock with larger MV to BV ratios have lower liquidity, higher leverage lower earnings lower turnover and lower interest coverage, however liquidity and leverage are more variable for stocks with larger MV to BV ratios while earnings assets turnover and interest coverage are more variable for stocks with smaller MV to BV
-) Stock with larger P/E ratios has larger MV to BV of equity and smaller dividend ratios. But these ratios of MV to BV and dividends are more variable for smaller stocks than for larger stocks.
-) Stock with larger P/E ratio have lower liquidity, higher leverage, lower profitability, lower assets turn over and lower interest coverage. However liquidity leverage earnings turn over and interest coverage's are more variable for stock with smaller P/E ratios.
-) Stocks paying higher dividends have higher liquidity, leverage, higher earnings, higher turnover, and higher coverage's. However liquidity and leverage ratios are more variable for stocks paying lower dividends while

earnings, assets turnover and interest coverage are more variables for the stocks paying higher dividends'

2.3 Review of Previous Studies

There are very few theses have been written by some student regarding the study topic. Some of them are supposed to be relevant for the study, which are summarized as below.

Bhandari (2006) explain that dividend policy is major decision of the firm under which it is determined that what percentage of the earnings is retained in the firm is distributed to its shareholders and what percentage of the earnings is retained in the firm which is desirable for the growth of the firm

Dividend policy being of crucial importance and purely a policy matter is to be formulated with consistent approach instead of making decision of moment basis. Retention of earning is desirable for the growth of the firm whereas as shareholders are interested to get some sort of return in the form of dividend. Thus this study aims to focus on prevailing practice and policies of some Nepalese listed companies regarding dividend payments. Nepalese finance companies are not seen so serious regarding dividend decision. Most of them don't have any consistent and clear dividend policy on dividend distributed. This study is covering different areas of business like banking, manufacturing, trading, and insurance sectors.

The main problems of the study are what is the prevailing practice of the Nepalese listed companies regarding their dividend policy? Whether or not the prevailing dividend policy affects corporate liquidity and stock prices of selected companies? What is the relationship of dividend with earning per share, net profit, net worth and market price of the stock?

The basis objectives are of the study is to assess the prevailing practice of the Nepalese listed companies regarding dividend and to test whether or not dividend decision is influencing factors of financial structure, the flow of funds, corporate liquidity, stock prices and investors satisfaction and to test the

relationship between dividend with earning per share net profit net worth and market price of the stock. In this study the data is analyzed by using secondary whereas statistical as well as financial tools.

In finally the dividend per share and earnings per share of the Nepalese listed companies are positively correlated. Market price per share of the listed companies is higher than net worth per share. The market price per share and dividend payout ratios are inversely correlated which seems ridiculous. The dividend per share and investment are positively correlated which means higher the investment, higher the dividend per share.

Adhikari (2007) conducted that dividend has a number of unique advantages over alternative managerial communications. The empirical evidence conforms that alternatives are not perfect substitutes for dividends. Dividends serve as a simple, comprehensive signal of management's interpretation of the firm's recent performance and its future prospects. The improved corporate dividend practice is thus an essential means to solve the problem of asymmetric information between management of newly established Nepalese companies and Nepalese investors who have poured their funds there in dividend decision however still a crucial as well as controversial area of managerial finance is. Only a few companies are paying dividend there is also growing practice of paying stock dividend among some Nepalese companies.

The problems of the study are, do the companies paying larger dividends have a good financial position. Are the companies with higher dividend yield having improved financial ratios?

What relationship between dividends and stock price? Where legal restriction on share repurchases should continue to prevail? What kind of dividend policy should be followed by Nepalese enterprises?

The major objectives of this study are to assess corporate dividend practice in Nepal. The specific objectives are to analyze to properties of portfolios formed on dividends. To examine the relationship between dividends and stock prices

and to survey the opinions of financial executives on corporate dividend practices. In this study the data is analyzed by using statistical as well as financial tools under primary and secondary data.

The major finding of secondary data is stocks with larger ratio of dividend per share to book value per share have higher liquidity. However, liquidity position of stocks paying higher dividends is also more variable as compared to stocks paying lower dividends. Positive relationship is observed between the ratio of dividend per share to book value per share and turnover ratios. There is positive relationship between the ratio of dividend per share, book value per share and interest coverage. Negative relationship between dividend payout and earnings before tax to net worth. The result from primary data is among the major decisions of finance, the majority of the respondents felt that investment decisions are more important. Financing decisions got second importance and dividend decisions got third and last importance. It indicates that dividend decisions are relatively less important. As regards dividend as residual decision the majority of the respondents felt that it is not a residual decision. Nepalese shareholders are not really indifferent towards payment or not payment of dividends.

Upadhyaya (2008) explained that dividend key factor for the investment on the company's shares is desirable from the stockholder's point of view. But commercial bank in Nepal has not adopted consistent policy on dividend decision. Firstly, dividend distribution does not match with the earnings of the commercial banks. Secondly, there is not proper relationship between dividend and quoted market price of shares. Similar commercial banks with lower returns record stable share price and vice versa. Thus return of the banks does not reflect the market price of shares. Ownership patterns attitude of management forms of management, government rules and regulations may be the partial causes of such a situation. The obvious problems of these banks regarding dividend policy is the problem of appropriate relationship of dividend with earnings per share, market price per share, book value per share.

The problem of relevance of the possibility of increasing the market price of stock by changing dividend payout ratio. Net profit and net worth of the bank relative consistency problem of dividend policy and practice of the commercial banks. The problem of relevancy of dividend decision to affect the market price per shares issued by different banks.

The study primary focuses on the dividend policy and practice of commercial banks with a view to suggests some appropriate dividend strategy. In this regard, specific objectives of this study are to highlight the various aspects of dividend policies and practices of NBL and NABIL. To analysis he relationship of dividend with various keys variables such as earning per share, net profit, net worth and stock price. To recommend the policy markets and executives to overcome various issues and gaps based on the finding of the analysis. In order to accomplish the objectives of the study, various financial and statistical tools have been used. The result of analysis has been properly tabulated, compared analyzed and interpreted. In this study simply regression technique has used to analyze the influence of independence variables on variables.

The finding of the study is the net profit and dividend per share are positively correlated in both the banks with means dividend decision of these banks depend upon net profit earned. So an increase in meet profit results in a increase in dividend per share and vice versa. But these banks have followed growth rates of dividend per share. This indicates that both banks have adopted the stable dividend policy. Moreover, different financial indicators of both the banks show that average EPS of NBL is higher than of NABIL but the average DPS of NABIL is higher than of NBL. So it is obvious that NBL is earning more profit but paying lower portion of its earning as dividend to shareholder as compared to NABIL. However, in case of both the banks, there is no stable growth rate of DPS. But NABIL'S dividend payout ratio is higher than that of NBL. A change in DPS affects the share prices differently in different banks. There is not uniformity of dividend distribution policy and practices in both the banks.

Timilsina (2009) the policy of the company on the division of its profit between distributed to shareholders as dividend and retention for its investment is known as dividend policy. All aspect and question related to payment of dividend are contained in a dividend policy. There is a reciprocal relation between retained earnings and cash dividend. Dividend decision is one of the major decisions of managerial finance. The major problems that have been identified for the purpose of this study is the problem is not ability to pay dividend but the attitude to pay dividend. What is the relationship of dividend with earning per share, market price of share, book value of share net profit and net worth of companies? Does the dividend policy affects to the market price of share of different companies? Is it possible to increase the value of stock by changing dividend policy or payout ratio? The overall objective of the study are to highlight dividend practices of the banks to analyze the relationship of dividend with various important variables such as earning per share, stock price, net profit and net worth.

The major finding of the study are dividend payout ratio is higher than earning as dividend, dividend per share is positive correlated with earning per share, net profit, market price per share and net worth, market price per share is considerable higher than actual net worth. In some case market price of shares is three times higher than net worth. This clear shown that investors do not have adequate knowledge about to evaluate value of shares before investing on it.

The pattern of dividend payout ratio of both the banks shows the conservative dividend policy followed by the banks. Relationship of earning and dividend payment is matching with growth and expansion program of the banks. Practices of low dividend payout without having growth and diversification schemes lead to hammer on maximization of the share holders' wealth³⁷.

Poudel (2010) explained that dividend is the return distributed dividend is the return distributed by the firm in term of cash, share and other form of the earning to its shareholders for their investment in share capital. Dividend policy

has a direct influence on these two companies of return. So dividend policy of the firm is yet another crucial area of financial management. The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm.

The main problem of the study is, there is no any proper relationship between dividend and quoted market price per share exists. Distribution of dividend is not matching with the earning of the finance companies. Do the finance companies have uniformity in dividend distribution policy? Does the dividend policy affect the market price of the share differently of different companies? Is there relationship between financial tools? The ability to pay dividend is not a problem but the attitude to pay the dividend is the problem of the companies.

The objective of this study is dividend decision should be maximize the shareholders return, so that value of their investment is maximized. Objective of the study focus to analyze the relationship of dividend with earning per share, net profit after tax, net worth, average stock price, and percentage retained earnings.

-) To highlight dividend practices of the finance companies.
-) To provide a workable suggestion and possible guidelines to overcome various and gaps based on the findings of the analysis.
-) To find out whether the capital market are efficient or inefficient. In this study the data is analyzed by using secondary whereas statistical as well as financial tools.

The finding of the study is the relationship between NPAT and DPS were positively correlated. Higher the P/E ratio, it is the better for the owners. There is no adequate legal rule for binding finance companies to pay dividend when they are in profit position. There is the fluctuating trend of average market price in all finance company, all these happens due to the slackness in capital market, price per share of all these finance companies reached peak at one time began to drop considerably at present. Again they are quite able to improve their market value per share.

Ghimire (2010) determined that dividend policy is one of the important topics in financial management. But few student conducted research on dividend policy based on some sector. The data analyzed by using secondary data taking financial as well as statistical tools.

Major finding of the study is there are differences in financial position of high dividend paying and low dividend paying companies, other things remaining the some financial position of high dividend paying companies in comparatively better than that of low dividend paying companies. Another interesting conclusion is that market price of share is affected by dividends. Dividend payout is not regular in Nepalese listed companies.

There is not uniformity of dividend distribution policy and practice in selected companies. Change in dividend per share and payment ratio affects the share price of different sector companies. The relationship between dividend per share with net profit and net worth are positive in all sectors companies.

2.5 Research Gap

Review of literature is an essential part of all studies. A critical review of literature helps the research through understanding and insights into previous research works that relates the present study. It also avoids investigating problem that has already been definitely answered. Therefore researcher seems to identify these new contributions and add them to the body of knowledge before researcher conducts own investigation. Some researcher uses both primary and secondary data but only secondary data are considered in this research. Besides this, latest data are used which makes it the latest version on this study of related finances. Furthermore this study will be helpful to the interested groups and the study will improve the foreseen ability to the investors, in such level of study, previous researchers' work didn't reach. At last this study will be different from the above in terms of sample companies, data presentation as well as statistical tools used for interpretation and analysis of data.

CHAPTER III

RESEARCH METHODOLOGY

3. Research Methodology

Research methodology is the description of the method used a detailed study and investigation of a particular subject to discover new facts and to get additional information. It is a process of systematic and in depth study of particular subject or topic, backed by collection, competition, presentation and interpretation of relevant data.

3.1 Research Design

The research design includes specification of the method of the purposed study and detail plan for carrying out the study with various empirical data for the analysis of the problem. The present study is mainly based on two types of research design i.e. descriptive and analytical. Descriptive research design describes the general pattern of the Nepalese investors, business structure, problem of finance companies etc. The analytical research design makes analysis of the gathered facts and information and makes a critical evaluation of it. The research design is followed to analyze the ‘Dividend policy’ of finance companies. For the analytical purpose, the actual reports of relative finance companies and financial statement of finance companies were collected for the year 2006/07 to 2010/11.

3.1.1 Source of Data

The present study is basically conducted based on secondary data. Depending on the nature of data and information following sources have been utilized.

❖ Secondary Sources

I have taken this as main source of my research. Most of the data available in this research are based on it. The data as well as information presented in this report are taken from official publication, reference book of the course, newspaper and other thesis.

3.1.2 Nature and Source of Data

To analyze the study topic, require secondary data have been collected from different financial companies as well as financial institutions, which are related with dividend. It is not possible to involve the primary data regarding the study topic so only secondary data is basis of the study topic for the year 2006/07 to 2010/11.

The required data is collected from mentioned below.

-) Annual reports
-) Security Board of Nepal
-) Nepal Stock Exchange Limited
-) Books Journals and Articles

3.1.3 Method of Analysis

The analysis of the finance companies data had been done according to pattern of data available. Various financial and statistical tools have been used to analyze the variables regarding the study topic. Mainly the analysis had been done by using financial tools, correlation. The various calculated result have been obtaining through financial and statistical tools are tabulated under different headings. By using various financial and statistical tools, the relationship between different variables dividend had been drawn out. Then results are compared with each other to interpret.

3.1.4 Selection of Sample

Mid April, 2011 there had been 79 licensed finance companies. So there are many finance companies operating in the country but only few companies that their shares have traded actively on stock market. Hence it is not possible to study all the finance companies regarding study topic. So this study will cover altogether 6 companies. Therefore sampling will be done selecting from population. The samples are as follows:

-) Mahalaxmi Finance Limited
-) Om Finance Limited

-) United Finance Limited
-) National Finance Limited
-) Siddhartha Finance Limited
-) World Merchant Banking & Finance Limited

In the context of Nepal, data problem is acute. Even the financial statements of the companies published by them are not readily available since they are treated as confidential. Nepal stock Exchange Ltd. Publishes financial statements of some of the listed companies to avail and ease information regarding capital market. For the research purpose we need sufficient data of several years regarding the study topic. So newly established finance companies do not have sufficient data even though they are listed in Nepal stock exchange market. Only those companies are included in samples, which have sufficient data from several years. Only those companies are included whose shares are actively traded in stock market and make some contribution towards the financial markets.

3.1.5 Selection Criteria

There are many financial companies currently operating in the country. But it is not possible to take all of them to the study criteria, only few of them can be covered to the study criteria for some reasons. The reasons are that the sample companies are operating regularly during the period of 2006/07 to 2010/11. So, there is sufficient data available for the study. Those companies have maximum regularity of paying dividend which will be more helpful the study topic. As will in the context of Nepal it is difficult to get accurate data but the sample company's researcher has found to get actual from the companies.

3.1.6 Financial Tools

Earning per a Share (EPS)

Net earning means after tax profit which are calculated after deducting reserve etc to shareholders. Calculating of earning per share over the years indicates that whether the finance companies earning power on per share basis have

changed over the period or not. Earning per share would be calculated by dividing net earning by the total number of outstanding share.

$$\text{EPS} = \frac{\text{Net Profit after tax}}{\text{No of Common shares outstanding}}$$

Dividend per Share (DPS)

The whole amount of earning may or may not be distributed to shareholders by a company. How much per share the dividend is distributed to common shareholders can be known from this ratio. Dividend per share is calculated by dividing the total dividend to equity share holders by the total no. of shares.

$$\text{DPS} = \frac{\text{Net profit after interest and preference dividend}}{\text{No of ordinary shares outstanding}}$$

or

$$= \frac{\text{Earning to shares holders}}{\text{No of share outstanding}}$$

Dividend payout ratio (DPR)

The purpose of calculating this ratio is known the portion of dividend distributed out of total earning. This ratio shows the relation between the returns belonging to equity shareholders and the dividend paid to them.

$$\text{DPR} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

or

$$= \frac{\text{DPS}}{\text{EPS}}$$

Dividend yield ratio (DYR)

Market value per share is highly influenced by the dividend yield ratio because a change in DPS can bring effective change in the MPS. It is calculated by dividing the dividend per share by market price per share.

$$\text{DYR} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

or

$$= \frac{\text{DPS}}{\text{MV}}$$

Price earning ratio (PER)

Price earning ratio reflects the price, which is currently paid by the market for each rupees of currently, reported earning per share. The price earning ratio could be calculated by dividing the market value per share by earning per share.

$$\text{PER} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

or

$$\frac{\text{MV}}{\text{EPS}}$$

Return to net worth (RONW)

It refers to the owner's claim in the assets of finance companies. This can be found by subtracting total liabilities from total assets and also this is the indicator of company's good financial performance that means it indicates how well the finance companies have used the resources of the investors. It is calculated by dividing net profit after taxes by net worth. The formula used is as follows.

$$\text{RONW} = \frac{\text{Net profit after tax}}{\text{Net worth}}$$

Simple Coefficient of Correlation between Variables (r_{xy})

The coefficient of correlation measures the degree of relationship between two sets of figures. Correlation analysis is the statistical tools that we can used to describe the degree to which one variable is linearly related to another. So, on the basis of correlation theory we can the cause, effect relationship between two or more set of variables. Thus to determine the relationship between two factors with Dividend per share to other variables (EPS, MPS, DPR, PER, DY, ROWN).

The simple correlation coefficients are as follows:

1. Dividend per share and Earning per share
2. Dividend per share and Market price per share
3. Dividend per share and Dividend payout Ratio
4. Dividend per share and Price earning ratio
5. Dividend per share and Dividend yield
6. Dividend per share and Return on net worth

Simple Arithmetic Mean (X)

The most population and widely used measure of representation the entire data by one variable is the arithmetic mean. The number of items obtains by adding together all items and by dividing this total its value Mean values of different variable represent the average value of for the study period.

In generally if X_1, X_2, \dots, X_n are the given 'n' observations then their arithmetic mean.

Standard Deviation

The standard deviation measures the absolute dispersion. Dispersion can be defined as the measurement of the scatter ness of the mass of figures in a serious about an average in known as dispersion. The greater amount of dispersion indicates the greater standard deviation. A large standard deviation means a low degree of uniformity of the observation as well as homogeneity of a series a small means a high degree of uniformity of the observation as well as homogeneity of a series. Standard deviation is calculated that for selecting dependent and independent variables specified in the models presented above regarding this study.

Standard deviation is usually denoted by small sigma. It is defined as positive square root of the arithmetic mean of the square of the deviation from their arithmetic mean. It is measured an absolute term of dispersion depending upon unit of measurements.

Coefficient of Variation

The coefficient of variation is the relative measure of dispersion. The greater the value of coefficient of variation, the less will be the uniformity (or consistency, stability etc) and the smaller the value of coefficient of variation the more will be the uniformity (less will be the variability).

CHAPTER IV

PRESENTATIONS AND ANALYSIS OF DATA

Dividend policy is an important function of due to its decision impact upon value of the firm. In this context, this section of the study attempts to analyze the secondary data regarding dividend policy of the finance companies. The analysis includes financial and statistical indicators as well as the attitude of management towards the optimum dividend decision. In order to achieve the objectives of the study, this analysis is highly supported by the practices of dividend distribution of finance companies. Presentation and interpretation of financial statement are done here to determine the meaning of the financial data. Some graphic and diagram presentation is used to highlight the company's performance.

This study mainly based upon the Walter's study, whereas dividend policy almost always affects to the market value of the enterprise. So it is analyzed to dividend per share with market price per share. Hence it is tried to analyze data regarding dividend, by taking the market price per share as a dependent variables and dividend per share and other related variables (EPS, DPR, PER, DY, and RONW) in the terms of dividend are taken as an independent variables. Without this, here is tried to analyze the data between variables through coefficient of correlation matrix and other tools.

4.1 Relationship of Dividend per share

4.1.1 Earnings per Share (EPS)

Earning per share is calculated by dividing the net profit after taxes by the total number of the common share outstanding. Higher EPS of the companies indicates its good performance in financial markets whereas lower EPS of the companies indicates its weak performance in financial markets. So the achievement of the companies and organizations are measured with the help of its capacity to generate higher earnings per share. Therefore, higher EPS is the

important financial tools (factors) of business organization to achieve its goals and objectives.

EPS calculations made over years indicate whether or not the firm's earnings power on per share basis has changed over that period. The EPS of the company should be compared with industry average and the earnings per share of other firms. EPS simply shows the profitability of the firm on a per share basis; it does not reflect how much is paid as dividend and how much is retained in the business. But as a profitability index, it is a valuable and widely used ratio.

The following table of the finance company shows all the details regarding to its EPS.

Table 4.1
Earning per share (EPS)

YEAR Company	2006/07	2007/08	2008/09	2009/10	2010/11
MFL	29.95	24.66	25.37	24.88	29.07
OFL	45.4	21.76	19.55	26.7	24.95
UFL	13.4	21.18	34.97	18.65	24.5
NFL	69.12	17.37	25.36	14.62	19.44
SFL	32.31	17.54	26.04	24.79	36.69
WMB&FL	22.27	25.82	32.24	34.59	36.41

Source: Financial Indicators of Bank and Financial Intuitions by Rabindra Bhattarai (2011).

Mahalaxmi Finance Limited (Bittiya Sanstha)

The following figure represents of earning per share of Mahalaxmi Finance Limited:

Figure 4.1
EPS of Mahalaxmi Finance Limited

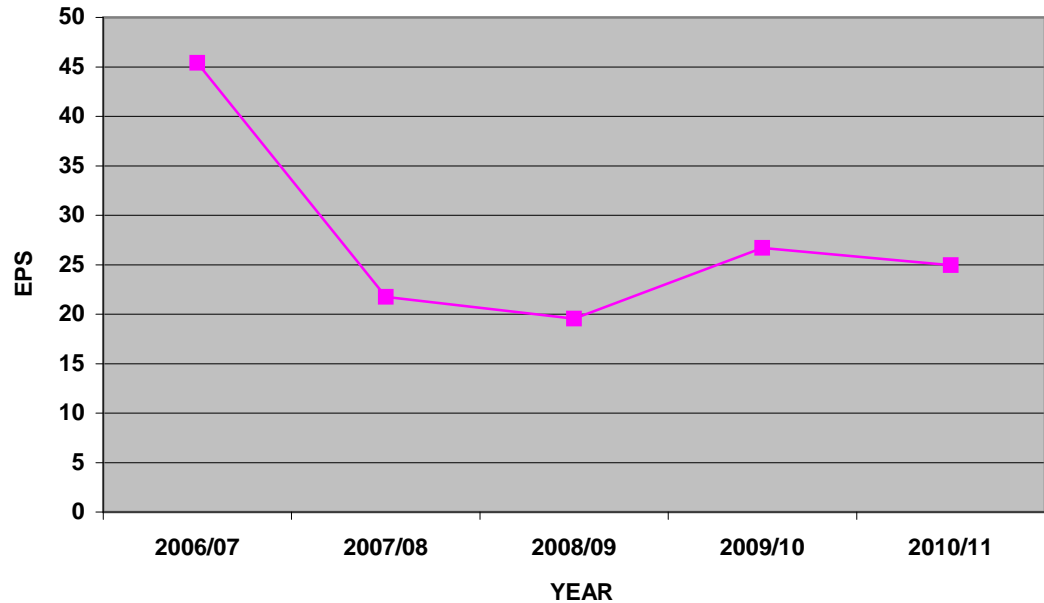


The average earning per share of Mahalaxmi Finance Limited is Rs. 26.786. The company limited has maintained its average earning per share only in fiscal year 2006/07 and 2010/11. The company could not maintained average EPS in fiscal year 2007/08, 2008/09 and 2009/10. The highest earnings per share during the five year period are in 2006/07 and lower earning per share is 2007/08. According to the table the earning per share is fluctuating during the five year period.

Om Finance Limited (Bittiya Sanstha)

The average earning per share of Om Finance Company Limited is Rs.27.672. The company has maintained average earning per share only during the fiscal year 2006/07. The higher earning per share is in fiscal year 2006/07 and lower earning per share is fiscal year 2008/09. In fiscal year 2009/10 earning per share is very near to average. We can feel that after the downfall of EPS in fiscal year 2008/09; company is improving its earning per share gradually. The following figure represents the earning per share of Om Finance Company Limited.

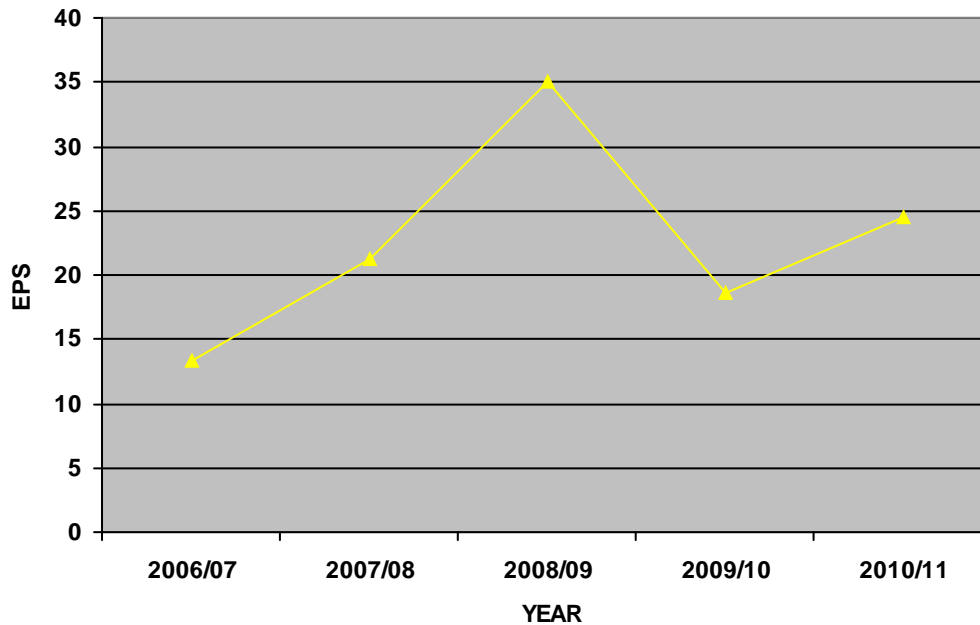
Figure 4.2
EPS of Om Finance Limited



United Finance Limited (Bittiya Sanstha)

In above table we see the average earning per share of United Finance Limited is Rs. is 22.54. The company has maintained average earning per share only during fiscal year 2008/09 and 2010/11. The higher earning per share is the fiscal year 2008/09 and lower earning per share is 2006/07. According to the above table we feel that earning per share of United Finance Limited is showing the mixed trend i.e; both rising and falling. The following figure represents of earning per share of United Finance Limited.

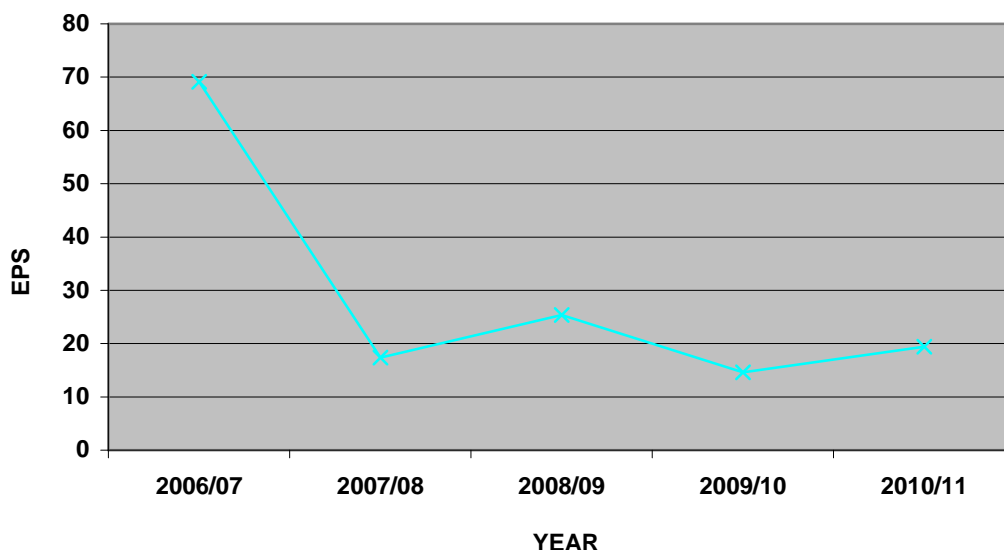
Figure 4.3
EPS of United Finance Limited



National Finance Limited (Bittiya Sanstha)

Average earning per share of National Finance Limited is Rs 29.182. The company has maintained average earning per share only in fiscal year 2006/07. In all other fiscal years, earning per share of the company has less than average earning per share. The highest earning per share is in fiscal year 2006/07 and lower earning per share is in fiscal year 2009/10. In above table; we see that earning per share of National Finance Limited is fluctuating in every year. The following figure represents EPS of National Finance Limited.

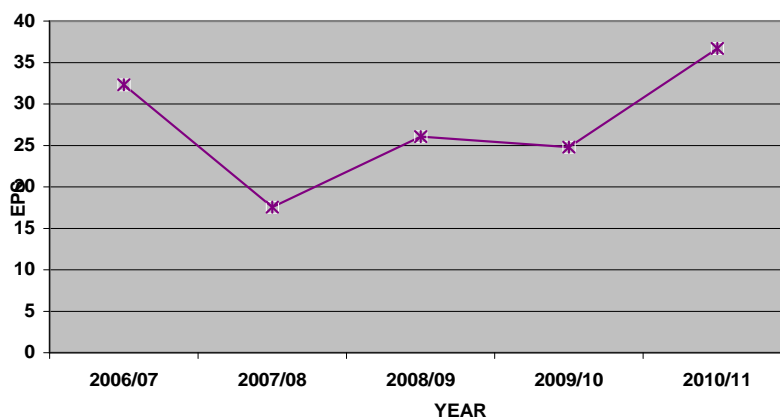
Figure 4.4
EPS of National Finance Limited



Siddhartha Finance Limited

The average earning per share of Siddhartha Finance Limited is Rs. 27.478. The company has maintained average earning per share in only fiscal year 2006/07 and 2010/10. The lowest EPS is in fiscal year 2007/08 and the highest in the fiscal year 2006/07. We feel that the company is improving its earning per share smoothly.

Figure 4.5
EPS of Siddhartha Finance Limited

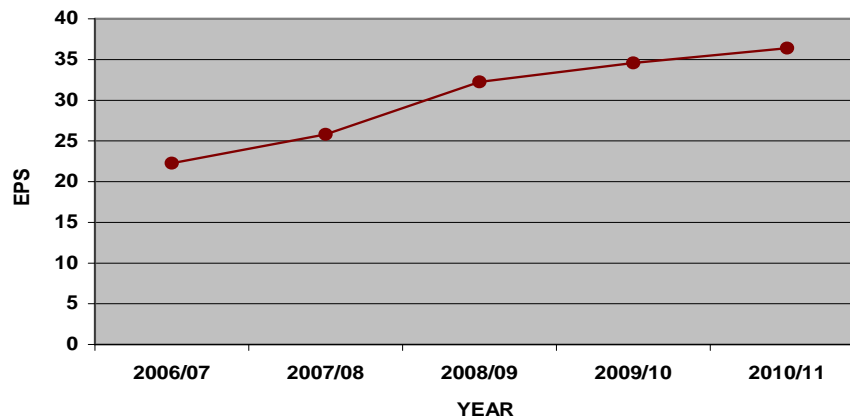


World Merchant Banking & Finance Limited (WMB&FL)

In above table we see that the average earning per share of World Merchant Banking and Finance Limited is Rs. 30.312. The company has maintained average earning per share in only fiscal year 2008/09, 2009/10 and 2010/11. The company could not maintain average earning per share in fiscal year 2006/07 and 2007/08. The higher earning per share is in fiscal year 2010/11 and lower earning per share is in fiscal year 2006/07. The following figure represents EPS of WMB&FL.

Figure 4.6

EPS of World Merchant Banking & Finance Limited



4.1.2 Dividend per Share

The net profits after taxes belong to shareholders. But the income which they really receive in the amount of earnings distributed as cash dividends. Therefore, a large number of present and potential investors may be interested in DPS, rather than EPS. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

Table 4.2
Dividend per share

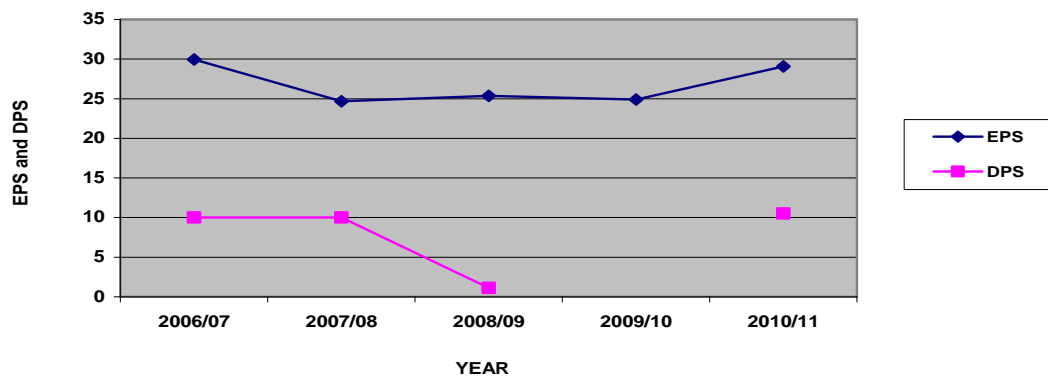
Year	2006/07	2007/08	2008/09	2009/10	2010/11	Average
Company						
MFL	10.00	10.00	1.12	-	10.52	6.328
Om FCL		2.11	2.10	1.58	-	1.158
UFL	7.50	10.00	11.84	1.05	0.66	6.21
NFL	0.53	0.53	5.00	16.00	13.68	7.148
SFL	10.00	1.58	10.00	1.58	1.47	4.926
WMB&FL	10.00	12.00	1.05	1.05	11.58	7.136

Source: Financial Indicators of Bank and Financial Institutions by Rabindra Bhattarai(2011).

Mahalaxmi Finance Limited

Mahalaxmi Finance Company has not distributed regular dividends. Average dividend per share of the company is Rs. 6.328. The company has been distributed more than average dividend per share in fiscal year 2006/07, 2007/08 and 2010/11. Rest years the company has able to pay less than average dividend per share. The following figure represents EPS and DPS of Mahalaxmi Finance:

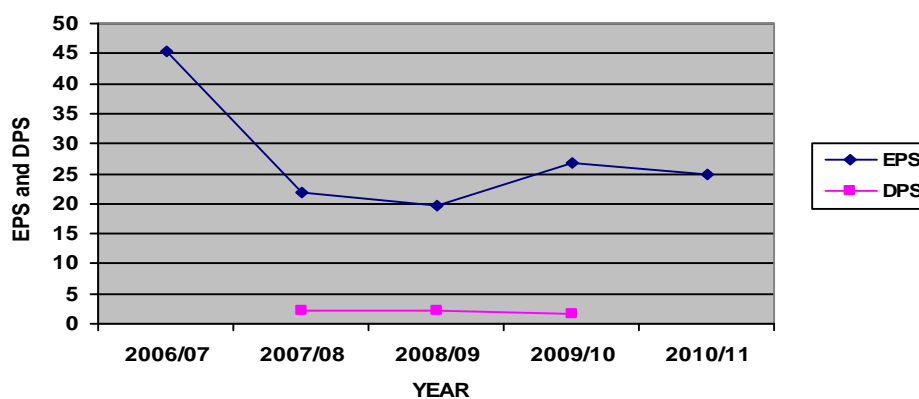
Figure 4.7
EPS and DPS of Mahalaxmi Finance



OM Finance Company Limited

Om Finance has not distributed regular dividend. The company has not paid any dividend in fiscal year 2006/07 and 2010/11. Average dividend per share of Om finance company is Rs. 1.158. In fiscal year 2007/08, 2008/09 and 2009/10 the company has paid more than average dividend but in rest of the years has paid any dividend. The following figure represents EPS and DPS of Om Finance Company.

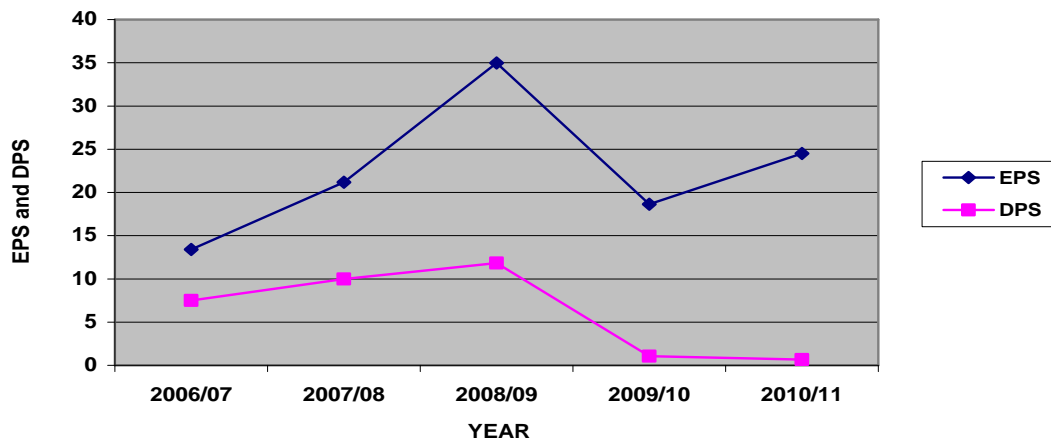
Figure 4.8
EPS and DPS of Om Finance Company



United Finance Limited

The trend of dividend payments of United Finance company was increasing till the fiscal year 2008/09 and after that it has gone down tremendously in the fiscal year 2010/11. In the above table we see dividend per share of united finance company is in increasing condition and later falls down very straight. Average dividend per share of the company is Rs. 6.21. The Company has maintained average dividend per share till the year 2008/09. In fiscal year 2008/09 the company has paid highest dividend and in the fiscal year 2010/11 company has paid the lowest dividend. The following figure represents EPS and DPS of United Finance.

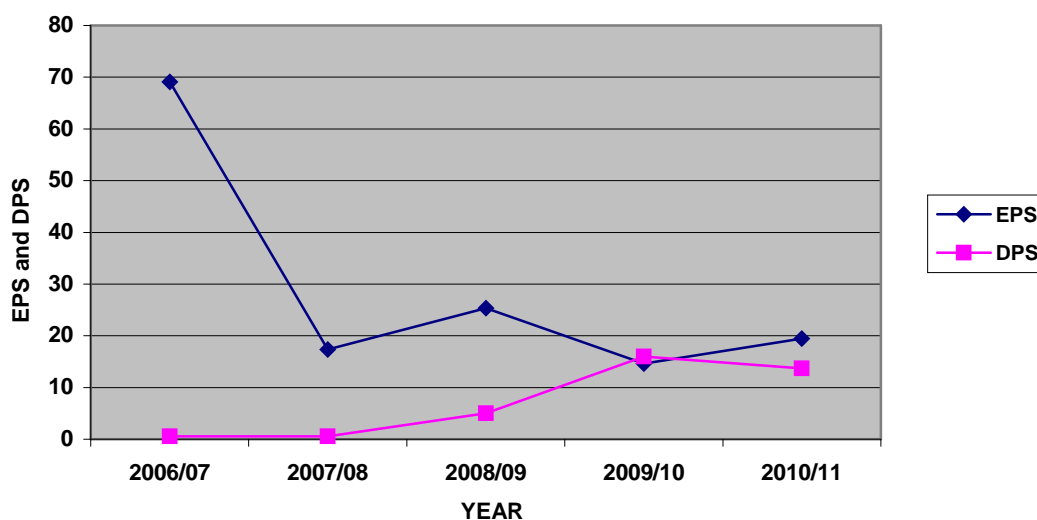
Figure 4.9
EPS and DPS of United Finance



National Finance Limited

In above table, National Finance Limited is paying fluctuated dividend within five years. The average dividend per share is Rs. 7.1480. The company could maintained average dividend per share in fiscal years 2009/10 and 2010/11.

Figure 4.10
EPS and DPS of National Finance Limited

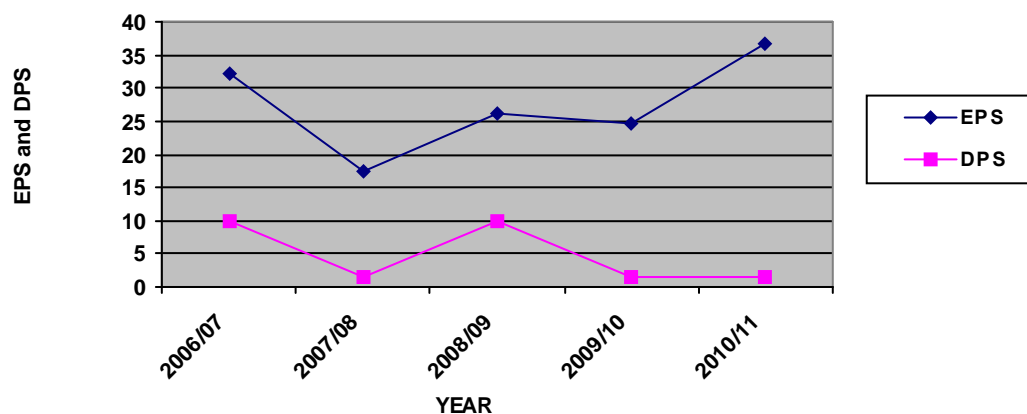


Siddhartha Finance Limited

Siddhartha Finance limited has distributed regular dividend since 2006/07 to 2010/11. The average dividend per share is Rs. 4.926. The company has maintained average dividend per share excluding fiscal year 2007/08, 2009/10 and 2010/11. We see that dividend payments is in decreasing trend since the fiscal year 2008/09. The following figure represents EPS and DPS of Siddhartha Finance Limited.

Figure 4.11

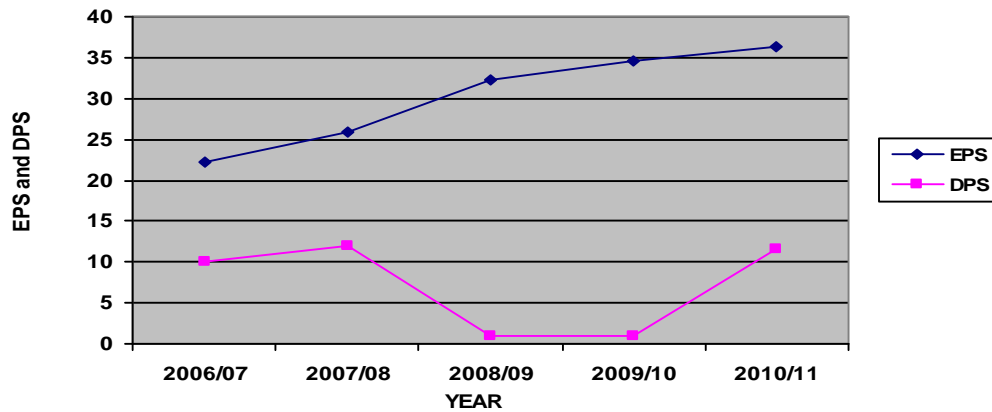
EPS and DPS of Siddhartha Finance Limite



World Merchant Banking & Finance Limited

The company has paid dividend in every year. Dividend per share is increasing order. Average dividend per share is Rs. 7.14. The following figure represents EPS and DPS of WMB&FL.

Figure 4.12
EPS and DPS of WMB&FL



4.1.3 Dividend Payout Ratio

The portion of earning of the finance companies determines the amount to be paid as dividend to the shareholders. So, greater earnings indicate sound performance of the finance companies to pay out dividend to its common stock holders. So this ratio determines the amount of dividend as a percentage of earnings available for common shares after tax of the company. Dividend payout ratio is calculated by dividend per share by earning per share.

Table 4.3

Dividend payout ratio (Percentage)

Year Company	2006/07	2007/08	2008/09	2009/10	2010/11
MFL	33.37	40.55	4.41	-	36.19
OFL	-	9.69	10.74	5.92	-
UFL	56.00	47.21	33.86	5.63	2.70
NFL	0.77	3.05	19.72	109.44	70.37
SFL	30.95	9.00	38.40	6.37	4.01
WMB&FL	44.90	46.48	3.26	3.04	31.80

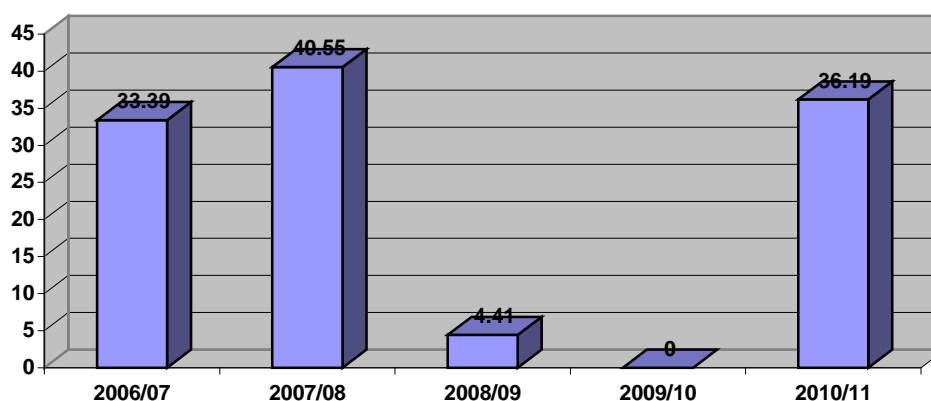
Source: Financial Indicators of Bank and Financial Institutions by Rabindra Bhattarai(2011).

Mahalaxmi Finance Limited

Dividend payout ratio of Mahalaxmi Finance Limited is more fluctuated since start to end. The company has paid regular dividend which shown well performance. The average dividend payout ratio is 22.90%. The company has maintained average dividend payout ratio in fiscal years 2006/07, 2007/08 and 2010/11. The following Figure represent dividend payout ratio of Mahalaxmi Finance Limited.

Figure 4.13

Dividend payout ratio of Mahalaxmi Finance Limited

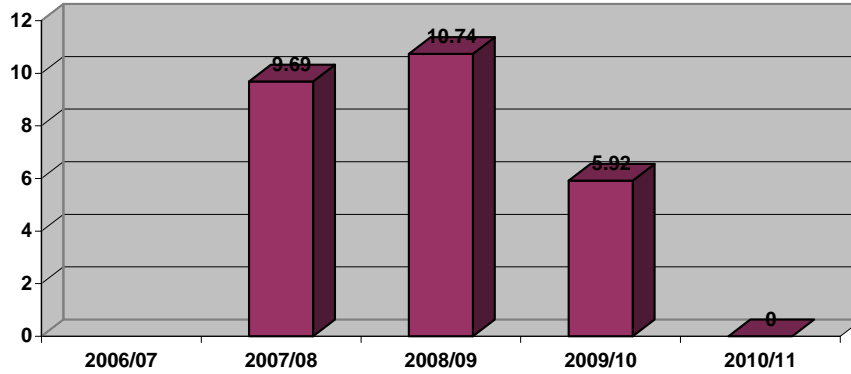


Om Finance Company Limited

Dividend payout ratio of OM Finance Limited is more fluctuated since start to end. In fiscal year 2006/07 and 2010/11 the company could not paid any dividend. In this year company has retained all earning. The average dividend pay out ratio of Om Finance Company is 5.27%. The following figure represents the dividend payout ratio.

Figure 4.14

Dividend payout ratio of Om Finance Company Limited

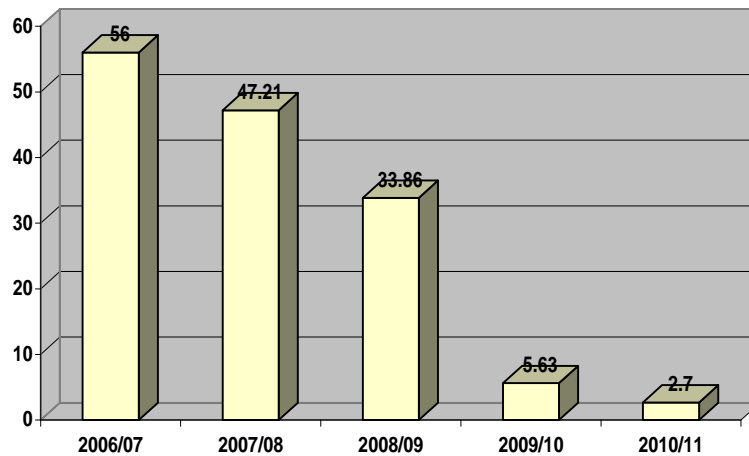


United Finance Limited

The dividend payout ratio of United Finance Limited is regular and fluctuating during the five years period. Average dividend payout ratio is 29.08%. The following figure represents dividend payout ratio of United Finance Limited

Figure 4.15

Dividend payout ratio of United Finance Limited

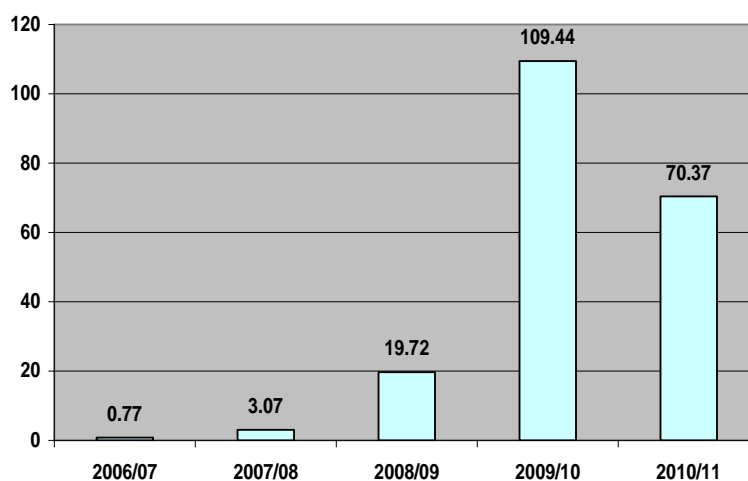


National Finance Limited

The dividend payout ratio of National Finance Limited is regular and fluctuating during the five years period. Dividend payout ratio of National Finance Limited has fluctuated since start to end. In fiscal year 2009/10 the company has paid more than 100% dividend. The average dividend payout ratio is 40.67%. The following figure represents dividend payout ratio of National finance Limited.

Figure 4.16

Dividend payout ratio of National finance Limited

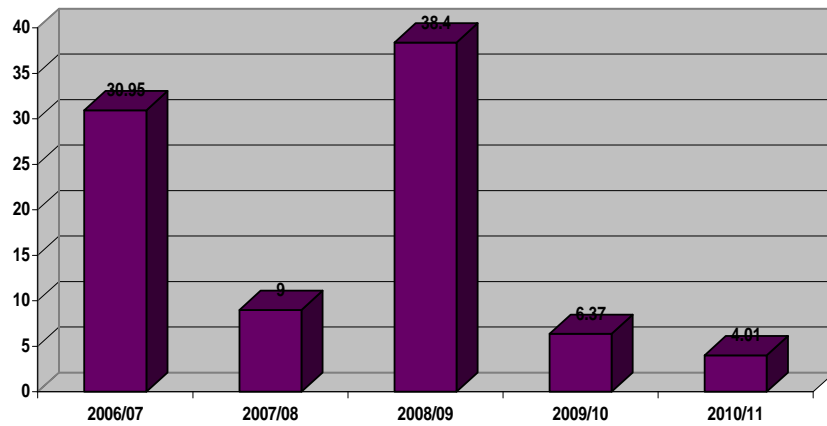


Siddhartha Finance Limited

The dividend payout ratio of National Finance Limited is regular and fluctuating during the five years period. Average dividend payout ratio of Siddhartha Finance Limited is 17.75%. The company has paid the highest Dividend payout ratio in the fiscal year 2008/09 and the lowest in fiscal year 2010/11. The following figure represents dividend payout ratio of Siddhartha Finance Limited.

Figure 4.17

Dividend payout ratio of Siddhartha Finance Limited

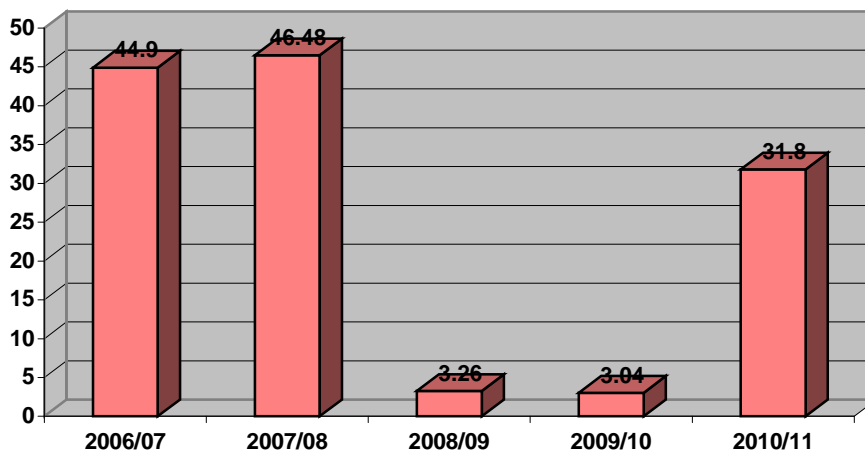


World Merchant Banking & Finance Limited

The dividend payout ratio of World Merchant Banking and Finance Limited is regular and fluctuating during the five years period. Average dividend payout ratio of it is 25.90%. The highest DPR of the company is 46.48% in fiscal year 2007/08 and the lowest is in fiscal year 2009/10. The following figure represents dividend payout ratio of Word Merchant Banking & Finance Limited.

Figure 4.18

Dividend payout ratio of Word Merchant Banking & Finance Limited



4.1.4 Earning effect on MPS

Market Price per share evaluates the net present value of shares in the market.

Table 4.4
Market Price per share

Year Company	2006/07	2007/08	2008/09	2009/10	2010/11
MFL	264.00	260.00	372.00	1191	-
OFL	250.00	204.00	345.00	500.00	600.00
UFL	125.00	154.00	416.00	935.00	814.00
NFL	295.00	263.00	460.00	1050.00	1050.00
SFL	120.00	158.00	158.00	242.00	1360.00
WMB&FL	122.27	125.82	300.00	1300.00	710.00

Source: Financial Indicators of Bank and Financial Institutions by Rabindra Bhattarai (2011).

Mahalaxmi Finance Limited

Market price per share of Mahalaxmi Finance Limited has been increasing since year 2007/08 except in fiscal year 2010/11. During the fiscal year 2009/10, the market price per share is higher than other periods. The average market price per share is Rs 417.4.

Om Finance Limited

Since the fiscal year 2007/08 the market price per share of Om Finance Limited is increasing till date. The average MPS of the company is Rs 379.8. During the fiscal year 2010/11 the market price of the company is the highest and the lowest is in the fiscal year 2006/07.

United Finance Limited

Market price per share of United Finance limited has been increasing since 2006/07 to 2009/10. During the fiscal year 2010/11 the market price per share has decreased. The average MPS of the company is Rs488.8. In fiscal year

2009/10 market price per share is higher than other period and in fiscal year 2006/07 the market price per share is lower than other periods.

National Finance Limited

In above table we see that the market price per share of National Finance Limited has been increasing from 2007/08. The average MPS of the company is Rs 623.60. The market price per share of the company is the highest in the fiscal year 2009/10 and 2010/11.

Siddhartha Finance Limited

The market price per share of Siddhartha Finance Limited is fluctuated during the five year period. The average MPS of the company is Rs 407.6. In fiscal year 2010/11 the market price per share is the highest.

World Merchant Banking & Finance Limited

Market price per share of World Merchant Banking and Finance Limited is fluctuating. The average MPS of the company is Rs 511.62. During the fiscal year 2009/10 the market price per share is higher than other periods and in fiscal year 2006/07 the market price per share is lower than other periods.

4.1.5 Price earnings ratio

The price earnings ratio is widely used by the security analysts to value the firm's performance as expected by investors. It indicates investors 'judgment or expectations about the firm' performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the price earnings ratio declines. Price earnings ratio is calculated market price per share dividing by earning per share.

Table 4.5
Price earnings ratio (Ratio)

Year Company	2006/07	2007/08	2008/09	2009/10	2010/11
MFL	9.00	11.00	15.00	39.00	0.00
OFL	5.51	9.38	19.65	18.72	24.05
UFL	9.33	7.27	11.89	50.15	33.22
NFL	4.27	15.14	18.14	71.83	54.03
SFL	3.71	9.01	6.07	9.76	37.07
WMB&FL	5.49	4.87	9.31	37.58	19.50

Source: Financial Indicators of Bank and Financial Institutions by Rabindra Bhattarai(2011).

Mahalaxmi Finance Limited

P/E ratio of Mahalaxmi Finance Limited is fluctuating. The average price earnings ratio of the company is 14.8 times. In fiscal year 2009/10 the price earnings ratio is higher than other fiscal years.

Om Finance Limited

The price earnings ratio of Om Finance Limited was fluctuated since start to end. The average price earnings ratio is 15.46 times. The highest price earnings ratio is in fiscal year 2010/11.

United Finance Limited

P/E ratio of United Finance Limited is fluctuating fiscal year. The average P/E ratio of the company is 22.37 times. The highest price earnings ratio is in fiscal year 2009/10.

National Finance Limited

The average price earnings ratio of National Finance Limited is 32.68 times. The highest price earnings ratio is in fiscal year 2010/11. The lowest price earning ratio was in fiscal year 2006/07.

Siddhartha Finance Limited

The average price earnings ratio of Siddhartha Finance Limited is 13.12times. The highest price earnings ratio is in fiscal year 2010/11 and lowest price earnings ratio is in fiscal year 2006/07.

World Merchant Banking & Finance Limited

The price earnings ratio is regular during the five year. The average price earnings ratio was 15.40 times. The highest price earnings ratio is in fiscal year 2009/10 and lowest price earnings ratio is in fiscal year 2007/08.

4.1.6 Dividend Yield

Market value per share is affected by dividend per share. Due to this reason dividend yield ratio highly influences with the market value per share.

Table 4.6
Dividend Yield Ratio (%)

Year Company	2006/07	2007/08	2008/09	2009/10	2010/11
MFL	3.79	3.85	0.30	-	-
OFL		1.33	0.62	0.32	
UFL	6.00	6.49	2.84	0.11	0.08
NFL	0.18	0.20	1.09	1.58	1.30
SFL	8.33	1.00	6.33	0.65	0.12
WMB&FL	8.17	9.54	0.35	0.08	1.63

Source: Financial Indicators of Bank and Financial Intuitions by Rabindra Bhattarai(2011).

Mahalaxmi Finance Limited

The average dividend yield ratio of the company is 1.59%. The company has maintained average dividend yield fiscal year 2006/07 and 2007/08 and remaining years the dividend yield ratio is less than average dividend yield.

Om Finance Limited

The average dividend yield of the Om Finance Limited is 0.454%. In fiscal year 2007/08 and 2008/09 the dividend yield is greater than average dividend yield and remaining fiscal year dividend yield is less than average dividend yield.

United Finance Limited

The average dividend yield is 3.10. In fiscal year 2006/07 and 2007/08 dividend yield is more than average dividend yield. It means the company has maintained average dividend yield.

National Finance Limited

The average dividend yield ratio of the National Finance Limited is 0.87%. This ratio shows less than one due to the company would not pay more dividend.

Siddhartha Finance Limited

The average dividend yield ratio is 3.286%. In fiscal year 2006/07 and 2008/09 the dividend yield is more than average dividend yield. In fiscal year 2007/08, 2009/10 and 2010/11 the dividend yield is less than average dividend yield.

World Merchant Banking & Finance Limited

The average dividend yield ratio of World Merchant Banking & Finance Limited is 3.95% the highest dividend yield ratio is 9.54% in fiscal year and the lowest dividend yield is 0.08% in the fiscal year 2009/10.

4.1.7 Return on Net Worth

Return on Equity indicates how well the firm has used the resources of owners. In fact, this ratio is one of the most important relationships in financial analysis. The earning of a satisfactory return is the most desirable objectives of a firm. The ratio of net profit to owner' equity reflects the extent to which this objective has been accomplished. This ratio is thus, of greater interest to the present as well as the prospective shareholders and also of great concern to management, which has the responsibility of maximizing the owners' welfare.

Table 4.7
Return on Net Equity (Percentage)

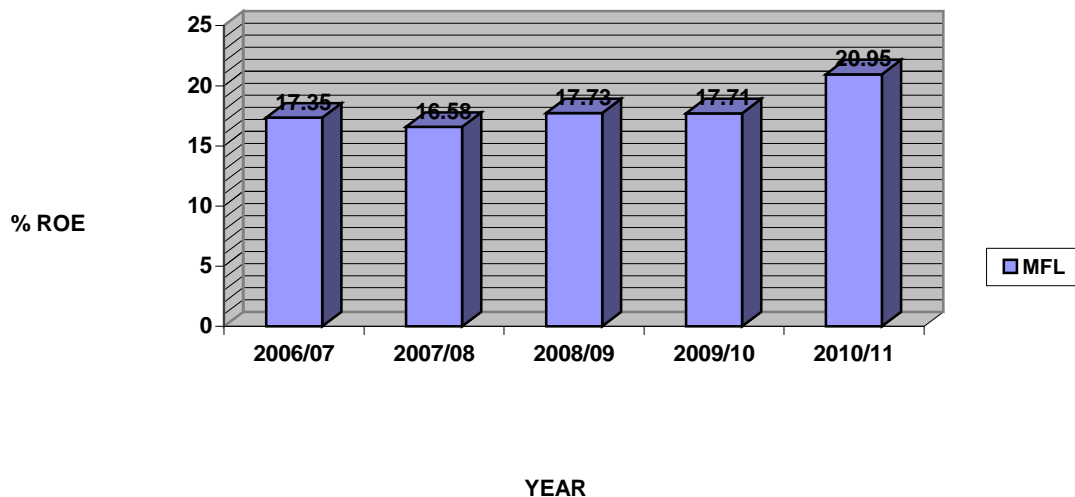
Year	2006/07	2007/08	2008/09	2009/10	2010/11
MFL	17.35	16.58	17.73	17.71	20.95
OFL	23.89	13.60	13.86	16.08	17.33
UFL	11.70	16.85	23.50	13.90	17.74
NFL	25.42	9.41	12.71	10.75	14.76
SFL	27.04	14.41	19.61	15.89	23.65
WMB&FL	9.19	17.56	23.30	20.78	20.12

Source: Financial Indicators of Bank and Financial Institutions by Rabindra Bhattarai(2011).

Mahalaxmi Finance Limited

The average return on equity of Mahalaxmi Finance Limited is 18.064%. During the fiscal year 2010/11 the company has maintained the average return on equity. It couldn't maintain its average in any other fiscal years. The following graph represent of ROE of MFL

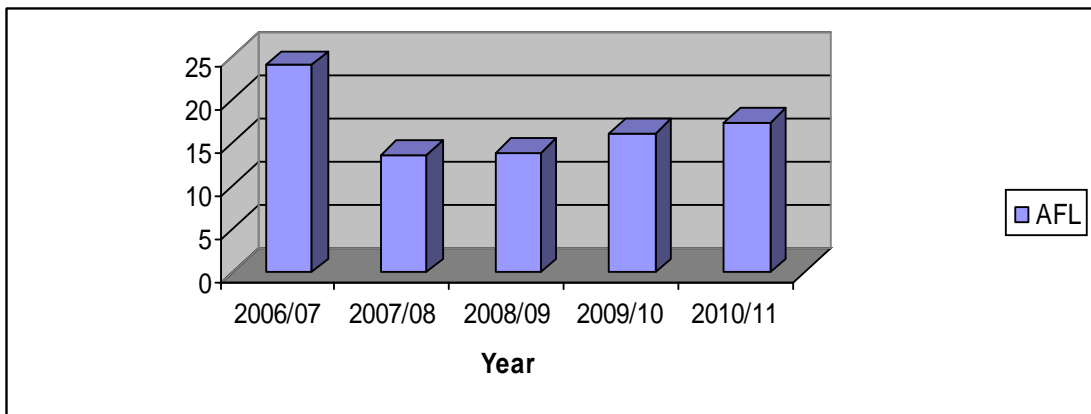
Figure 4.19
ROE of Mahalaxmi Finance Limited



Om Finance Limited

The average return on equity of Om Finance Limited is 16.952. The company has maintained average return on equity in only fiscal year 2006/07 and 2010/11. The highest return on equity was in fiscal year 2006/07 and lowest return on equity was shown in fiscal year 2007/08. The following figure represents return on equity of OFL.

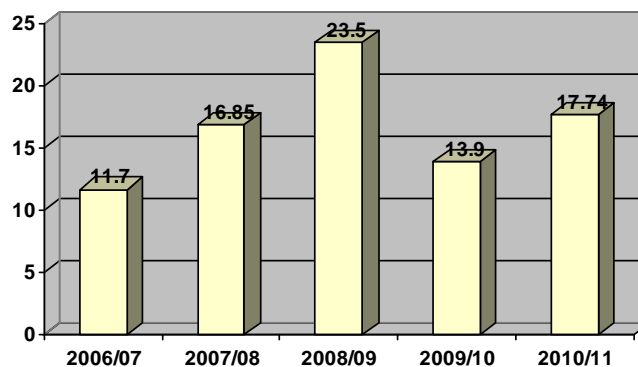
Figure 4.20
Return on equity of OFL



United Finance Limited

Return on equity of United Finance Limited fluctuating. We can see that the company is improving the return on equity. The average return on equity of the company 16.738%. The following figure represents ROE of UFL

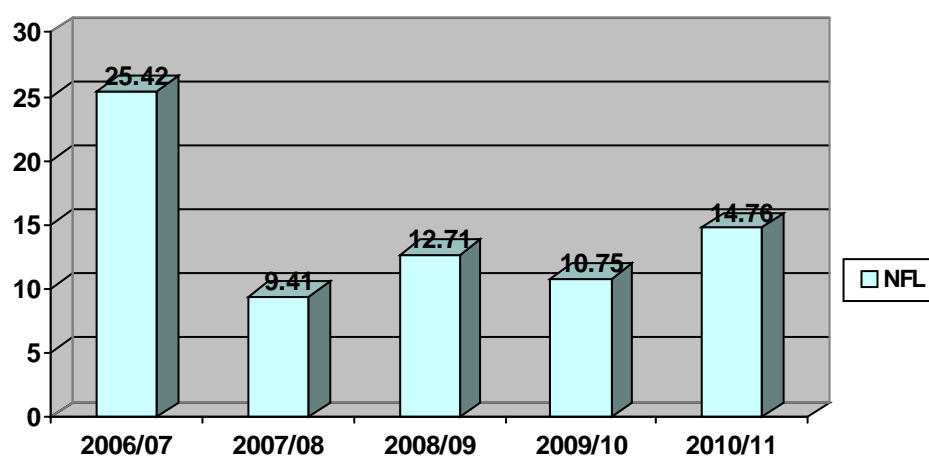
Figure 4.21 ROE of UFL



National finance Limited

The average return on equity is 14.61%. During the fiscal year 2006/07 and 2010/11 the return on equity is higher than average return on equity. In other fiscal years the return on equity is less than average return on equity. The following figure represents ROE of NFL.

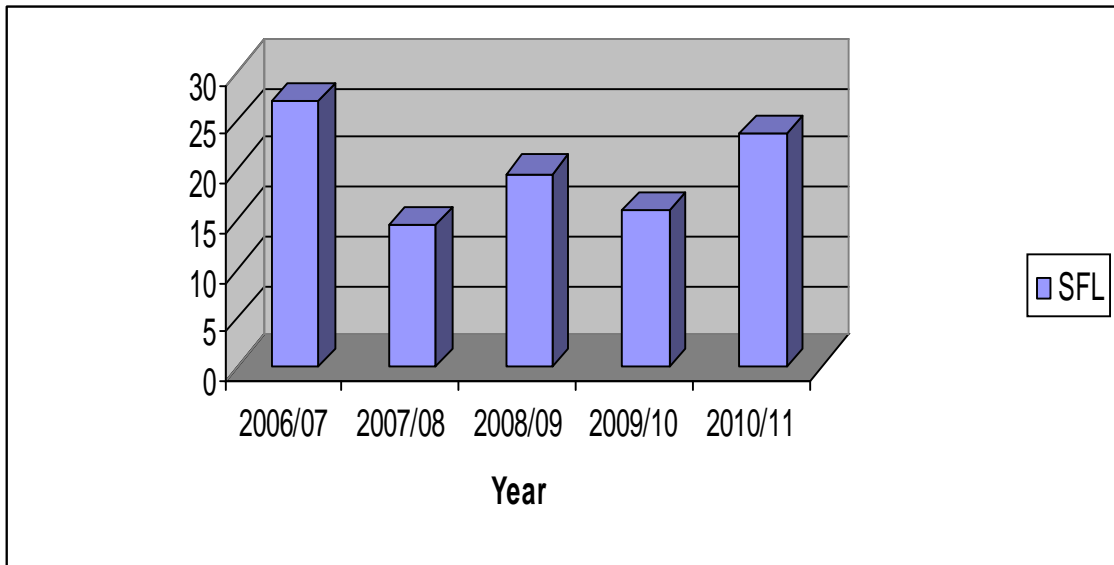
Figure 4.22
ROE of NFL



Siddhartha Finance Limited

The average return on equity of Siddhartha Finance Limited is 20.12%. The company has maintained average return on equity in fiscal year 2006/07 and 2010/11. In remaining years the average return on equity is less than that of average return. The following figure represents ROE of SFL.

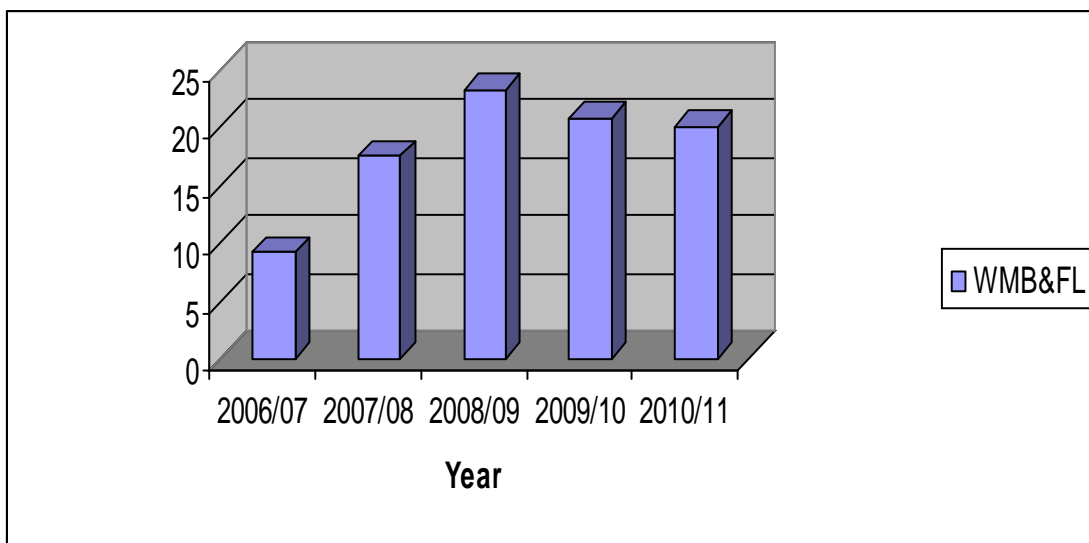
Figure 4.23
ROE of SFL



World Merchant Banking & Finance Limited

The average return on equity of the company is 19.39%. During the fiscal year 2009/10 and 2010/11 the company has maintained average return on equity. The following figure represents the ROE of WMB&FL. The following figure represents the ROE of WMB & FL.

Figure: 4.24
ROE of WMB&FL



4.2 Statistical Tools

4.2.1 Correlation Coefficient

Table 4.8
Correlation Coefficient of Dividend per share with other variables of Mahalaxmi Finance Limited.

Variables	Correlation of Coefficient
DPS and EPS	-0.55
DPS and MPS	-0.787
DPS and PER	0.996
DPS and DY	-0.324
DPS and RONW	-0.368

Source: Table 4.1- 4.7

Among the variables, DPS of MFL is negatively correlated with all variables except with PER. Out of them DPS and MPS have high degree of negative correlation and the relationship between DPS and PER is high degree of positive correlation.

Table 4.9
Correlation Coefficient of dividend per share with other variables of Om Finance Limited.

Variables	Correlation of Coefficient
DPS and EPS	-0.246
DPS and MPS	-0.352
DPS and PER	0.872
DPS and DY	-0.586
DPS and RONW	-0.081

Source: Table 4.1-4.7.

The correlation coefficient of Om Finance Limited between DPS and other variables is negatively correlated except PER. There is high degree of positive

correlation between DPS and PER. DPS and RONW has very low degree of negative correlation.

Table 4.10
Correlation Coefficient of Dividend per share with other variables of United Finance Limited.

Variables	Correlation of Coefficient
DPS and EPS	0.148
DPS and MPS	-0.819
DPS and PER	0.951
DPS and DY	-0.977
DPS and RONW	0.054

Source: Table 4.1-4.7.

The correlation coefficient of United Finance Limited between DPS and other variables is positively correlated except MPS and DY. The relationship between DPS and DY is very high degree of negative correlation. The relationship between DPS and PER is high degree of positive correlation.

Table 4.11
Correlation Coefficient of Dividend per share with other variables of National Finance Limited.

Variables	Correlation of Coefficient
DPS and EPS	-0.518
DPS and MPS	0.991
DPS and PER	0.960
DPS and DY	0.899
DPS and RONW	-0.292

Source: Table 4.1-4.7.

The correlation coefficient of National Finance Limited between DPS and other variables is positively correlated except EPS and RONW. Out of them the

relationship between DPS and MPS is high degree of positive correlation. There is negative correlation between DPS with other variables likewise EPS and RONW.

Table 4.12
Correlation Coefficient of Dividend per share with other variables of Siddhartha Finance Limited.

Variables	Correlation of Coefficient
DPS and EPS	0.679
DPS and MPS	-0.468
DPS and PER	0.993
DPS and DY	-0.523
DPS and RONW	0.322

Source: Table 4.1-4.7.

The relationship between DPS and PER is high degree of positive correlation. The relationship between DPS and MPS is low degree of negative correlation and the relationship between DPS and DY is high degree of negative correlation.

Table 4.13
Correlation Coefficient of Dividend per share with other variables of World Merchant Banking & Finance Limited.

Variables	Correlation of Coefficient
DPS and EPS	0.751
DPS and MPS	-0.500
DPS and PER	0.998
DPS and DY	-0.719
DPS and RONW	0.264

Source: Table 4.1-4.7.

There is highly degree of positive correlation between DPS with PER and EPS. The relationship between DPS and RONW is low degree of positively correlation and the relationship between DPS and DY is high degree of negative correlation.

4.2.2 Mean, Standard Deviation and Coefficient of Variance (appendix 1-6)

Average earning per share of World Merchant Banking & Finance Limited is more than of other companies. Coefficient of variation of Mahalaxmi Finance Limited is lower than other companies. Mean dividend per share of National Finance Limited is greater than other Finance limited but mean Dividend payout ratio of National Finance Limited is more than other Finance Limited. C.V of dividend payout ratio of World Merchant Banking & Finance Limited is greater than that of others. C.V. of DPS of Mahalaxmi Finance Limited is greater than others whereas C.V. of PER of National finance company is the highest than others. Return on net worth of National Finance Limited is greater than other companies. Average price earnings ratio of National Finance Limited is better than other companies.

4.3 Major Findings

-) There are positive relation between dividend per share and earning per share of United Finance limited (0.679), Siddhartha Finance Limited (0.679), World Merchant Banking and Finance Limited (0.751). and negative co-relation between DPS and EPS of Mahalaxmi Finance Limited (-0.55), Om Finance Limited (-0.246) and National Finance Limited (-0.518).
-) There are position relation between dividend per share and market per share of National Finance Limited (0.991). and negative relation between DPS and MPS of Mahalaxmi Finance Limited (-0.787), Om Finance Limited (-0.352), Siddhartha Finance Limited (-0.468), World Merchant Banking Limited (-0.500) and United Finance Limited (-0.819).

- J There are positive relation between dividend per share and price earning ratio of Mahalaxmi Finance Limited (0.996), Om Finance Limited (0.872), Siddhartha Finance limited (0.993), World Merchant Banking and Finance Limited (0.998), United Finance Limited (0.951) and National Finance Limited (0.960). There is no negative relation between DPS and PER in any finance company.
- J There are positive relation between dividend per share and dividend yield of National Finance Limited (0.899). and negative relation of Mahalaxmi Finance Limited (-0.324), Om Finance Limited (-0.586), United Finance Limited (-0.977), Siddhartha Finance Limited (-0.523) and World Merchant Banking and Finance Limited (-0.719).
- J There are positive relation between dividend per share and return on net worth of United Finance Limited (0.054), Siddhartha Finance Limited (0.322) and World Merchant Banking and Finance Limited (0.234). and negative relation of Mahalaxmi Finance Limited (-0.368), Om Finance Limited (-0.081) and National Finance Limited (-0.292).
- J The EPS of National Finance Limited and United Finance Limited has effect on MPS where the average EPS Rs. 29.18, average DPS Rs. 17.15 and MPS Rs.32.16 was highest of United Finance Limited. Likewise, in United Finance Limited average EPS Rs.22.54, average DPS Rs. 6.21 and average MPS Rs. 22.37. In other finance companies average EPS has not effect the average MPS.
- J Average earning per share of World Merchant Banking & Finance Limited (Rs. 30.27) is the highest than other selected companies.
- J Average dividend per share of National Finance Limited (Rs.7.15) is the highest than the other selected companies and coefficient of variation of dividend per share of World Merchant Banking & Finance limited is lowest than other selected companies. It means that dividend per share is more consistent.
- J Dividend payout ratio of National Finance Limited (Rs.623.6) is higher than other companies.

-) Market price per share of National Finance Limited (Rs. 32.68) is higher than other companies.
-) Average price earnings ratio of National Finance Limited (40.67%) is higher than other companies and coefficient of variance is also greater than one.
-) Average return on net worth of World Merchant Banking and Finance Limited (19.39 %) is greater than other companies.
-) C.V. of dividend payout ratio of World Merchant Banking & Finance Limited (0.98) is higher than other companies. It represents higher risk. The result drawn from dividend per share indicates that the policies of dividend payout ratio and dividend yield are same which are explained above.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMENDATIONS

5.1 Summary

Dividend refers to that portion of a firm's net earnings, which are distributed to the shareholders according to corporate plans and policies. Dividend policy of financial companies is regarded as tools to determine the appropriate allocation of profits between dividend payments and retained earnings in the firms. Dividend policy of a company on division of its profits between dividend and retention is known as dividend policy. The dividend, which is distributed to shareholders, may be in cash, share and securities or a combination of these. Dividend policy has effect in two parts, one is retained earning and the other is dividend. The retained earning provides funds to finance the firm's investment.

The major objectives of the study are:

1. To analyze dividend per share and other variables regarding dividends and their impacts on the market price per share.
2. To analyze relations of dividend per share with other variables such as earning per share, dividend payout ratio, price earning ratio, market price per share, dividend yield and return on net worth.
3. To identify financial performance of the listed finance companies regarding dividends.

This study mainly covers almost all listed finance companies of Nepal, which has paid dividends. The study is based on secondary data collected from secondary sources. The study covers the period form 2006/07 to 2010/11 of selected companies. The companies selected as sample for the study are Mahalaxmi Finance Limited, Om Finance Limited, United Finance Limited, National Finance Limited, Siddhartha Finance Limited and World Merchant Banking & Finance Limited. This study has analyzed EPS, DPS, DPR, PER, MPS, DY and RONW with the help of correlation coefficient, mean, Standard deviation and coefficient of variation.

5.2 Conclusions

-) A strong role is played by earning per share, market price per share and return on net worth to determine the dividend per share of Mahalaxmi Finance Limited. Dividend per share of Mahalaxmi Finance Limited in fluctuating condition. There is positive relation between dividend per share with earning per share and negative correlation among other variables.
-) The relation of dividend per share with price earning ratio is positively and market price per share, dividend yield, earnings per share and return on net worth is negative in Om Finance Limited.
-) The dividend per share effect to earning per share therefore dividend per share is positively related to earning per share, price earnings ratio and return on net worth .correlation of DPS with DY and MPS is negatively correlated. It means market price per share has not increased as earnings. Company might have retained its earnings for profitable future business opportunities instead of paying dividends.
-) In National finance Limited, price earnings ratio, dividend yield and market price per share have positive roles to determine the dividend per share.
-) The relation dividend per share with all variables (MPS, PER and DY) are positively correlated except EPS and RONW of National Finance Limited.
-) Among the variables of Siddhartha Finance Limited, the earnings per share, price earnings ratio and return of net worth are positively correlated with dividend per share while market price per share and dividend yield per share have negative correlation with dividend per share.
-) In World Merchant Banking & Finance Limited, earning per share, price earnings ratio and return on equity are positively correlated with dividend but the correlation with market price per share and with dividend yield is negative with dividend per share.

-) Average earning per share of World Merchant Banking & Finance Limited is the highest than other selected companies.
-) Average dividend per share of National Finance Limited is the highest than the other selected companies and coefficient of variation of dividend per share of World Merchant Banking & Finance limited is lowest than other selected companies. It means that dividend per share is more consistent.
-) Dividend payout ratio of National Finance Limited is higher than other companies.
-) Market price per share of National Finance Limited is higher than other companies.
-) Average price earnings ratio of National Finance Limited is higher than other companies and coefficient of variance is also greater than one.
-) Average return on net worth of National Finance Limited is greater than other companies.
-) C.V. of dividend payout ratio of World Merchant Banking & Finance Limited is higher than other companies. It represents higher risk. The result drawn from dividend per share indicates that the policies of dividend payout ratio and dividend yield are same which are explained above.
-) Return on net worth of these selected companies is regular. This means the policy of the company about return on net worth is good.
-) Among the selected companies, no one is able to keep the perfect relationship, regarding dividend between variables.
-) Generally, dividend has distributed to shareholders as per earning, but in this study could not find the distributed of dividend as per earnings.
-) Comparatively, good financial position companies are paying large dividend than other poor financial companies.

5.3 Recommendations

1. Among the Finance Company, Mahalaxmi Finance Company should try to minimize the dividend payout ratio and dividend yield in order to determine dividend per share.
2. The DPS of Om Finance Limited with market price per share, dividend payout ratio, earning per share, dividend yield, and return on net worth are negative and price earnings ratio is positive. So company should try to minimize the negative value and maximize the positive value.
3. United Finance Limited should try to improve the earning per share, and return on net worth. It should try to maximize the value of per share.
4. The impact in dividend per share with other variables like market price per share, dividend payout ratio and price earnings ratio of National Finance Limited is positive. The company should try to improve the relation of DPS with EPS and with RONW. The correlation of DPS with MPS shows that with the increase in dividend per share, market price per share has also increased in the same proportion.
5. The result of Siddhartha Finance Limited with market price per share and dividend yield is negative and earnings per share, price earnings ratio and return on net worth is positive. So the company should try to minimize the negative value and maximize the positive value.
6. World Merchant Banking & Finance Limited should try to improve the value of market per share and dividend yield.
7. Finance company should clearly define dividend policy. Without adopting any appropriate policy should not declare dividend because it effect to investor's evaluation about the company.
8. Earning per share, dividend per share and price earning ratio have positive impact in the market capitalization. Thus, this sort of parameters should maintain regularly to reduce negative in market value of the company.
9. Dividend payment practices of the existing companies are inconsistent and irregular. There is no any company under our analysis is adopting a

particular dividend policy. So company should clear define the dividend policy and should adopt any appropriate policy.

10. Finance companies are showing high standard deviation and coefficient of variance because there is not uniformity in dividend. So the finance company should try to minimize the standard deviation and coefficient of variance.
11. No any company is able to keep the perfect relationship between the variables. It indicates that the performance in relationship variables of the finance company is not good. So finance company should try to improve the relationship between the variables.
12. The investor who prefers short term investment opportunities are profit oriented investors. In stock market, the demand of share has increase by regularity in dividend, higher earning, distribution of bonus share etc. So companies should timely announced dividend, short term reward, right share to attract short term profit oriented investors.
13. The management should improve regularities in operation, monitoring in stock market, professionalism in management, timely update the rules and regulation etc.
14. It seems to be very necessary that existing laws and regulations should be revised to rationalize and simplify the regulatory system, which ultimately pay in increasing a sound capital market. So if there a genuine wishes to have clear cut rule and regulation within which the financial sector can work for a liberalized and open market development.
15. To promote the competition among market practitioners on level of paying field, transparent regulation and timely dissemination of market information seem the primary requisite along with ensuring high professional standards from market participants, the market may be quite dynamic by a large participating of investors and higher liquidity.

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APPENDIXES

Appendix -I

Mean, Standard Deviation and Coefficient of Variance of Mahalaxmi Finance Limited.

Variables	Mean	S.D.	C.V.
EPS	26.96	2.74	0.10
DPS	5.28	5.47	1.04
DPR	521.75	449.17	0.86
MPS	18.50	13.89	0.75
PER	19.58	20.36	1.04
DY	1.99	2.12	1.07
RONW	17.34	0.54	0.03

Source: Table 4.1-4.7.

Appendix II

Mean, Standard Deviation and Coefficient of Variance of Om Finance Limited.

Variables	Mean	S.D.	C.V.
EPS	27.67	10.29	0.37
DPS	1.16	1.08	0.93
DPR	379.80	167.26	0.44
MPS	15.46	7.71	0.50
PER	5.27	5.13	0.97
DY	0.45	0.55	1.22
RONW	16.95	4.18	0.25

Source: Table 4.1-4.7.

Appendix III

Mean, Standard Deviation and Coefficient of Variance of United Finance Limited.

Variables	Mean	S.D.	C.V.
EPS	22.54	8.04	0.36
DPS	6.21	5.13	0.83
DPR	488.80	372.35	0.76
MPS	22.37	18.69	0.84
PER	29.08	24.09	0.83
DY	3.10	3.08	0.99
RONW	16.74	4.48	0.27

Source: Table 4.1-4.7.

Appendix – IV

Mean, Standard Deviation and Coefficient of Variance of National Finance Limited.

Variables	Mean	S.D.	C.V.
EPS	29.18	22.67	0.78
DPS	7.15	7.30	1.02
DPR	623.60	396.36	0.64
MPS	32.68	28.79	0.88
PER	40.67	47.59	1.17
DY	0.87	0.64	0.74
RONW	14.61	6.37	0.44

Source: Table 4.1-4.7.

Appendix - V
Mean, Standard Deviation and Coefficient of Variance of Siddhartha
Finance Limited.

Variables	Mean	S.D.	C.V.
EPS	27.47	7.35	0.27
DPS	4.93	4.63	0.94
DPR	407.60	534.28	1.31
MPS	13.12	13.60	1.04
PER	17.75	15.78	0.89
DY	3.29	3.77	1.15
RONW	20.12	5.27	0.26

Source: Table 4.1-4.7.

Appendix – VI
Mean, Standard Deviation and Coefficient of Variance of World Merchant
Banking & Finance Limited.

Variables	Mean	S.D	C.V
EPS	30.27	6.00	0.20
DPS	7.14	5.61	0.79
DPR	511.62	501.53	0.98
MPS	15.40	13.85	0.90
PER	25.90	21.53	0.83
DY	3.90	4.54	1.15
RONW	19.39	7.21	0.37

Source: Table 4.1- 4.7.

Appendix – VII
Listed Finance Company

S.No	Names	Operation Date (A.D.)	Head Office
1	Nepal Housing Development Finance Co.Ltd.	1992/03/08	Bijulibazar, Kathmandu
2	Nepal Finance Ltd.	1993/01/06	Kamaladi, Kathmandu
3	NIDC Capital Markets Ltd.	1993/03/11	Kamalpokhari, Kathmandu
4	Narayani National Finance Ltd.	2009/11/01	Kalikasthan, Kathmandu
5	Annapurna Finance Co.Ltd.	1993/09/30	Pokhara, Kaski
6	Nepal Share Markets and Finance Ltd.	1993/10/19	Ramshahapath, Kathmandu
7	Peoples Finance Ltd.	1993/04/15	Mahabauddha, Kathmandu
8	Mercantile Finance Co. Ltd.	1994/11/10	Birgunj, Parsa
9	Kathmandu Finance Ltd.	1994/11/10	Dillibazar, Kathmandu
10	Himalaya Finance Ltd.	1993/11/11	Sundhara, Kathmandu
11	Union Finance Ltd.	12/12/1995	Kamaladi, Kathmandu
12	Gorkha Finance Ltd.	1995/03/12	Hattisar, Kathmandu
13	Paschhimanchal Finance Co.Ltd.	1995/04/09	Butawal, Rupandehi
14	Nepal Housing & Merchant Finance Ltd.	1995/04/11	Dillibazar, Kathmandu
15	Universal Finance Ltd.	1995/04/27	Kantipath, Kathmandu
16	Samjhana Finance Co. Ltd.	1995/05/03	Banepa, Kavre
17	Goodwill Finance Ltd.	1995/05/16	Dillibazaar, Kathmandu
18	Siddhartha Finance Ltd.	1995/05/25	Siddarthanagar, Rupandehi
19	Shree Investment & Finance Co. Ltd.	1995/06/01	Dillibazar, Kathmandu
20	Lumbini Finance & Leasing Co. Ltd.	1995/06/26	Thamel, Kathmandu
21	Inbesta Finance Ltd.	1995/07/17	Birgunj, Parsa
22	Yeti Finance Ltd.	1995/07/23	Hetauda, Makawanpur
23	Standard Finance Ltd.	1995/07/23	Narayanchaur, Kathmandu
24	International Leasing & Finance Co. Ltd.	1995/10/31	Naya Baneshwor, Kathmandu
25	Mahalaxmi Finance Ltd.	1995/11/26	Putalisadak, Kathmandu
26	Lalitpur Finance Co. Ltd.	1995/12/12	Lagankhel, Lalitpur
27	Bhajuratna Finance & Saving Co. Ltd.	1996/01/09	Kantipath, Kathmandu
28	United Finance Co. Ltd.	1996/1/25	Durbarmarg, Kathmandu
29	General Finance Ltd.	1996/02/02	Chabahil, Kathmandu
30	Merchant Finance Co. Ltd.	1996/01/02	Newroad, Kathmandu
31	Alpic Everest Finance Ltd.	1996/07/16	Kathmandu Mall, Kathmandu
32	Nava Durga Finance Co.Ltd.	1997/02/09	Itachhe, Bhaktapur
33	Janaki Finance Co. Ltd.	1997/03/07	Janakpurdham, Dhanusha
34	Pokhara Finance Ltd.	1997/03/16	Pokhara, Kaski
35	Central Finance Ltd.	1997/04/14	Kupondole, Lalitpur
36	Premier Finance Co. Ltd.	1997/05/08	Kumaripati, Lalitpur
37	Arun Finance Ltd.	1997/08/17	Dharan, Sunsari
38	Multipurpose Finance Co. Ltd	1998/3/25	Rajbiraj, Saptari
39	Butwal Finance Ltd.	1998/06/21	Butawal, Rupandehi
40	Shrijana Finance Ltd.	1999/12/14	Biratnagar, Morang

41	Om Finance Ltd.	2000/09/17	Pokhara, Kaski
42	CMB Finance Ltd.	2000/11/20	Kamalashhi, Kathmandu
43	World Merchant Banking & Finance Ltd.	2001/08/10	Hetauda, Makawanpur
44	Capital Merchant Banking & Finance Co. Ltd.	2002/02/01	Battisputali, Kathmandu
45	Crystal Finance Ltd.	2002/02/13	Thapathali, Kathmandu
46	Royal Merchant Banking & Finance Ltd.	2002/02/14	Durbarmarg, Kathmandu
47	Guheshworil Merchant Banking & Finance Ltd.	2002/06/13	Pulchowk, Lalitpur
48	Patan Finance Co. Ltd.	6/23/2002	Pulchowk, Lalitpur
49	Fewa Finance Ltd.	2003/04/30	Pokhara, Kaski
50	Everest Finance Ltd.	2003/07/02	Siddharthanagar, Rupandehi
51	Prudential Finance Company Ltd	2003/06/06	Dillibazar, Kathmandu
52	ICFC Finance Ltd.	2003/06/15	Bhatbhateni, Kathmandu
53	IME Financial Institution Ltd.	2005/08/01	Panipokhari, Kathmandu
54	Sagarmatha Merchant Banking and Finance Ltd	2005/08/29	Maanvawan, Lalitpur
55	Shikhar Finance Ltd.	2005/09/15	Thapathali, Kathmandu
56	Civil Merchant Bittiya Sanstha Ltd.	2005/09/18	Kuleshwor, Kathmandu
57	Prabhu Finance Co. Ltd.	2006/02/16	Lainchur, Kathmandu
58	Imperial Finance Ltd.	2006/03/08	Thapathali, Kathmandu
59	Kuber Merchant Finance Ltd.	2006/03/24	Kamalpokhari, Kathmandu
60	Nepal Express Finance Ltd.	2006/05/04	Sundhara, Kathmandu
61	Valley Finance Ltd.	2006/05/11	Maharajgunj, Kathmandu
62	Seti Bittiya Sanstha Ltd.	2006/06/07	Tikapur, Kailali
63	Hama Merchant & Finance Ltd.	2006/06/16	Tripureshwor, Kathmandu
64	Reliable Finance Ltd.	2006/09/06	Sundhara, Kathmandu
65	Loard Buddha Finance Ltd.	2006/11/19	Fasikeb, Kathmandu
66	Api Finance Ltd.	4/25/2007	Pokhara, Kaski
67	Nameste Bitiya Sanstha Ltd..	2007/07/07	Ghorai, Dang
68	Kaski Finance Ltd.	2007/07/30	Pokhara, Kaski
69	Suryadarshan Finance Co. Ltd.	2007/07/30	New Baneshor, Kathmandu
70	Zenith Finance Ltd.	2007/10/08	Newroad, Kathmandu
71	Unique Financial Institution Ltd.	2007/10/12	Putalisadak, Kathmandu
72	Manjushree Financial Institution Ltd.	2007/10/15	New Baneshor, Kathmandu
73	Swostik Merchant Finance Company Ltd.	2007/10/16	Kichapokhari, Kathmandu
74	Subhalaxmi Finance Ltd.	2007/11/11	Naxal, Kathmandu
75	Jebil`s Finance Ltd.	2009/10/28	New Road, Kathmandu
76	Reliance Finance Ltd.	2009/12/03	Pradarsani Marg, Kathmandu
77	Lotus Investment Finance Ltd.	2010/04/11	Newroad, Kathmandu
78	Baibhab Finance Ltd.	2011/01/24	Naya Baneshwor , Kathmandu
79	Bhaktapur Finance Ltd.	2011/02/08	Chyamsing ,Bhaktapur