

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Nepal is one of the countries in the world in terms of rich and unique in natural resources and attributes like it's bio-diversity, socio-cultural, cultural heritage, manifested in its architecture, temples, sculptures, monuments etc. Actually slow pace of developing of Nepal is due to illiteracy, lack, of finance, landlocked position, poor resources mobilization and its utilization, weak infrastructure development, institutional weaknesses, poor economic policy and unstable eco-political environment. For this to overcome, the process of capital accumulation among other perquisites should be enhanced. The economic development of nation is on initial stage. Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector.

Banks and other various financial institutions are playing vital role in the economic development of the country. Banks and financial intuitions have increased the industrial development as well as educational development. Actually, they regulate different policy so that the economic standard of the country automatically uplifted. So, if there is insufficiency of banking and financial facilities, the growth of the economic development automatically becomes slow. Earning more and more profit in every transaction period by proper mobilizing the resources available in particular productive use after collecting them from scattered sources is the basic objective of the commercial banks. It is fairly safe that banks are not the outcome of the economic development but are the courses for it.

Commercial banks are major financial institution, which collects the scatter deposits from the people and disburse loan for the different sector like trade, commerce, industry and agriculture for the development. In the beginning, function of commercial banks was limited to accepting deposits and giving loans. But in present, it has wide worldwide activities. When the economy is in boom, commercial banks increase interest rate, which reduces probability to inflation and in the depression, they reduce interest rate so the people are interested in investment. It is fairly safe to say that banks provide different facilities to the economic development but the causes for it. Especially commercial banks provide different facilities to the people engaged in trade, commerce and industry. That is why they are being the mean for the upliftment of society.

Most of the public enterprises, in our country are operating in loss that is either due to inefficiency in proper management or of having suffered from over corruption. In such enterprises, the problems are not distribution of dividend rather minimization of losses thought better utilization of capital.

In context of Nepalese company only few company that pay dividend. But after establishment of Joint Venture Companies, there is new trend for distributing dividend that has brought new hopes for productive mobilization of funds. So, major decisions of the firm are its dividend policy, the percentage of earning it pays in cash to its shareholders. Dividend payout, actually, reduces the total amount of internal financing. By a dividend policy we mean some kind of consistent approach to the distribution versus retention decision, rather than making the decision on the purely ad-hoc basis from period to period. So what and how much it is desirable to pay dividend is always controversial topic because shareholders always expect higher dividend, but the firm ensures towards setting aside funds for maximizing the shareholders wealth.

In the decades since Modigliani and Miller proclaimed that corporate dividend policy was a more detail in the context of there analysis, the air has been filled with debate on the importance of dividends.

There are again corporate laws that bind limitations on the distribution of dividends, as corporation has to keep reserves for the protection of creditors overall interest with that of corporate growth from internally generated funds. The return on shareholders should be better paid as dividends since shareholders have invested opportunities to employ elsewhere. Financial management is therefore concerned with the activities of corporation that affect the well being of shareholders. That well being can be partially measured by the dividends received, but a more accurate measured is the market value of stock.

There is conceptual conflict about the dividend payout policy i.e. whether it should pay in cash or retain in company for the purpose of long term financing i.e. internal financing. Each of these alternatives has own impact while deciding dividend policy. If the investor couldn't get cash dividend, they would think their investment worthless. Similarly, on the other hand, management desires to retain all the earning for internal financing which is essential for corporate growth. Company feels so because of having lower flotation cost about retaining the earning in the company rather paying it out to the shareholders. The dividend will affects long term financing, net profit, market price per share, book value per share and earning per share.

Concerning to our country, the government is unable to receive dividends from the public enterprises as documented in past several year's budget speech and economic survey published by HMG's ministry of finance. According to the study made by management consultants and company, it is found that the government never received a dividend more than 1.07 percent aggregate net worth. So, neither the corporation of Nepal is capable of generating sufficient earning for dividend

payout nor the government expects dividends since it has been observed that dividend payment is practically a crucial problem of the corporation. When we see the fact that the corporation cannot pay dividend, the corporation is unable to generate earning due to numbers of causes beyond their control. Decision regarding the dividend is very crucial factor for every corporation. Corporation like Bansbari Leather and Shoes Factory (before privatizing it), RNAC, Nepal Electricity Corporation have been unable to pay dividend because that they always suffer with maximum losses. Their problem is about the recovery of the past losses and they won't always want to distribute the dividend from their earning. They have to minimize the losses through better utilization of capital. Major problem of having maximum loss is due to the bureaucratic policy, which always leads the company towards maximum corruption. But Janakpur Cigarette factory, NIDC etc are the enterprises which are following balanced dividend declaration and profit retention. On the other hand, the corporation that could afford to dividend out of accumulated profit of the past could not do so due to the necessity of compensating current losses that shaked their financial reputation.

In Nepal we can find very small number of corporation that are paying regular dividends and the other corporations are not stable in the payment of dividends in their historical background. We find that most of the Joint Venture Banks have practiced in paying dividend. They all like to pay more attention for paying appropriate dividend to the shareholders. But the appreciations in the market value of share of these Joint Venture Banks have, without any doubt, provided adequate sense of protection to shareholders.

This research work will look into all relevant factors of dividend regarding dividend policy of Nabil Bank Ltd and Everest Bank Ltd. These banks are selected to show the differences in policy adopted by them considering size of the profit and dividend. The study shows overall implication of dividend of commercial

Banks. It is also more specific in application of dividend policy in commercial Banks.

### **1.1.1 Origin of Bank in Nepal**

The words BANK was initiated from Latin words Bancus, French words Banque and Italian words Banca, which means refer that a Bench where sitting over there invest, exchange and keep record of money and cash. History tells us that initiation of bank in eastern side of world was mentioned in economics of Kautilya and Manusmirti. Likely in west banking system was started from 'Bank of Venice, 1157 Bank of Barcelona. Actually banking system was inaugurated after established of Bank of England.

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuable treasures under such arrangement the depositors would leave their gold for safekeeping and given a receipt by the goldsmith. Whenever, the receipt was presented the depositors would get back their gold and valuable treasures after paying a small amount as fee for safekeeping and saving.

The Banking system in Nepal was developed gradually from the past. The history states that King Gunakamadev had received loans from the public in the 8<sup>th</sup> century to renovate "Kathmandu City". The foundation of banking system in Nepal was established by a businessperson named Shankhadhar Shakha in 10<sup>th</sup> century. He had paid back all the loans taken from the public and since then Nepal Sambat had started in our country. This tells us that the system of lending money and paying back started long time back in our country. Later on in the 14<sup>th</sup> century, King Jayasthiti Malla divided the people into 64 castes according to their occupation, amongst them 'Tankadhari' one is that dealt with the lending of money to the public. Main objective of the 'Tankadhari' was to earn profit by providing money as a loan to people and taking certain interest rate. Prime Minister

Ranadeep Singh established 'TEJARATH ADDA' in the 1933<sup>th</sup> B.S. In order to protect people from higher interest rate, The 'TEJARATH ADDA' was responsible for providing loans to the people working in the government offices based on the security and the public based on the collateral they deposited in the 'TEJARATH ADDA' was not to earn profit, it charged its creditors with a low interest rate of 5% per annum. It was only subjected to lend but did not accept deposits, hence it could not be counted as a bank. However, it can be said that 'TEJARATH ADDA' was the main financial institution that led to the development of modern banking system into the country.

The actual banking system of Nepal starts from the establishment of Nepal Bank Limited (NBL) as the first modern bank in our country Nepal in B.S. 1994 Kartik 30<sup>th</sup> according to the Nepal Bank Act 1993. NBL was the first bank to be established in Nepal and prior to this, there was no such organized banking system in the country. Therefore year B.S. 1994 is said to be the Golden year for modern banking system in Nepal.

After two decades Nepal Rastra Bank established in 14<sup>th</sup> Baisakh, 2013 BS as a being central bank of Nepal under “Nepal Rastra Bank Act 2012” to perform the function of the central banking in Nepal. It established to promote, control, direct, supervision and manages banking activities and to in the country under the provision of Brussels International monetary conference (IMC). Main objective of Nepal Rastra Bank was to make economic assistance, issue and exchange of Nepalese note and currency, good govern of banking system etc. and use of own Nepalese note in whole country Nepal.

Nepal Industrial Development Corporation (NIDC) was established In 2016 BS under NIDC act 2016. it established for promote industrialization in Nepal. Main objective of NIDC was to provide technical and financial assistant for industry and

commerce. Subsequently another fully state owned commercial bank “Rastriya Banijya Bank” was established on 10<sup>th</sup> Magh, 2022 BS under Rastriya Banijya Bank act 2021 which was the second commercial bank of Nepal. With the establishment of RBB, a noticeable progress could be seen in banking industry of Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other countries. Both the banks have majority of shares owned by the government of Nepal. Rastriya Banijya Bank is fully owned by the government. In 2024 magh 7<sup>th</sup> BS Agriculture Development Bank (ADB) was established under Agricultural Development Bank act 2024. ADB was established combined merge of cooperative bank and Bhumisudhar Bachat Corporation.

Nepal adopted the free economic policy privatization, liberalization and globalization. Liberal free economic policy allowed establishing Joint venture bank under collaboration with foreign bank as well as on private sector. In 2041 Ashad 29 Nepal Arab Bank limited was first joint venture bank established in Nepal which is known as NABIL Bank in today. After that investment bank (Nepal Indoswis bank), standard charter bank (Greenland bank), Himalayan bank, SBI bank etc instigate accordingly. As the time passed, a need for the more commercial banks arose. At the present time various commercial bank established and some are in process for operation. Today there are altogether 31 commercial banks, 78 Development Banks, 79 Finance Companies, 16 Micro Credit Development Banks and various cooperative firm are functioning in the our country in Nepal. Still many other commercial banks are in the process of opening in the market. Today Nepal can take legitimate pride in remarkable growth and progress in the banking industry. In this way we know origin and development of commercial bank in Nepal.

## **1.1.2 Profile of Sample Bank**

### **A. Nabil Bank Limited.**

Nabil Bank Limited, the first foreign joint venture commercial bank of Nepal, started operations in July, 1984. It was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, the bank provides a full range of commercial banking services through its 27 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil Bank Ltd, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Highly qualified and experienced team of the bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele-banking system. NABIL Bank Limited is providing full-fledged commercial banking services to its clients.

From its inception period in 1984 as the first joint venture bank, to commence operations in the Kingdom of Nepal, the bank have been a leader in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the Bank of 1st Choice to all of its stakeholders and customers. For the customers, it want to be the first choice in meeting all of the financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of a model bank, it want to be an outstanding corporate citizen in all the communities, it work in and finally, it want to be the first choice as an employer with whom to

build a career. To achieve this mission, it has a core set of values by which we live. The values are C.R.I.S.P., i.e. Customer Focused, Result Oriented, Innovative, Synergistic and Professional. They are committed to live our values everyday in everything we do, for it is, these values that make us uniquely NABIL Bank Limited.

The bank is a full services bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire gamut of financial requirements that is why it prides us in being 'Your Bank at Your Service'

**Table: 1.1**

**Capital Structure of Nabil Bank Limited**

<b>Capital as at 2010/11</b>	<b>Amount in Rs. '00'</b>
Authorized Capital	21,000,000
Issued Capital	20,297,694
Paid up Capital	20,297,694

**B. Everest Bank Limited**

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. Currently 80% of share is owned by Nepalese investors, 15 % of share by Other Licensed Institution, 15% by Insurance Companies, 50 % by other investors and 20% share by general public. Punjab National Bank (PNB), joint venture partner of the bank (holding 20% equity in the bank) is the largest nationalized bank in India having 113 years of banking history. The bank has

been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London. The bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector. Recognizing the value of offerings a complete range of services, the bank have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.

**Table: 1.2**

**Capital Structure of Everest Bank Limited**

<b>Capital as at 2010/11</b>	<b>Amount in Rs. '00'</b>
Authorized Capital	20,000,000
Issued Capital	12,814,065
Paid up Capital	12,796,095

**1.2 Statement of the problem**

Dividend, the most inspiring factor for the investment on shares of the company is thus desirable from the stockholder’s point of view. But, Nepalese commercial bank has no satisfactory result about dividend decision. It is partly due to various government rules of regulations acting and reacting in the banking operations. But there is no limit to the identification of the problem about dividend policy that is visible in Nepalese commercial banks. While keeping this in mind selected

problems of commercial banks with regard to dividend policy that can be quantified are taken.

As mentioned above, following are the major problems that have been identified for the purpose of the study.

- ) What are the prevailing practices of the banks regarding their dividend policies?
- ) What are the relationship of the dividend with earnings per share, market price of share, book value of share, net profit and net worth per share?
- ) Are these commercial Banks having uniformity in dividend distribution?
- ) Do the Companies paying larger dividend have a good financial position?
- ) Is it possible to increase the value of stock by changing dividend policy or payout ratio?

### **1.3 Objective of the study**

The main objectives of the dividend policy should be the maximum return on shareholders' equity so that value of investment is maximized. The aim of the study is basically to analyze and evaluate the application of dividend decision in the selected banks and study focus on the prevalent dividend policies and to suggest the direction of future endeavor or share market in Nepal. Besides that the overall objectives of the study are briefly enumerated below.

- ) To find out dividend policy applied by NABIL and EBL Banks.
- ) To compare the various aspects of dividend policy of the NABIL and EBL Banks.
- ) To analyze the dividend policy and its effect on stock price changes.
- ) To find out the relationship between the dividends with earnings, stock price and net worth.
- ) To provide appropriate Suggestions

## **1.4 Significance of the Study**

Dividend decision is one of the important decision areas of any business concerns. Now a day people are concerned in attracted return. So dividend policy is an effective way to attract new investors to keep present investor happy and to maintain goodwill of the company and the desire controlling position of the firm.

While investing in shares the investors gains the opportunity of income that they could have earned in the capital market, the return can be earned in two ways 1. by means of dividend 2. by capital gains i.e. increase in shares prices. Due to lack of enough knowledge, people are investing hit or miss shares. It is necessary that results from investing in securities. In our country, most of the companies are not adopting the appropriate dividend policy, and so it seems very important for our perspective.

The main significance of the study are it is be very helpful for the further researcher to find more details on the same topic. It may be useful to government for policy making, controlling, supervision and monitoring. It will be very useful to the concerned people like shareholders, management and policy makers. It covers the partial fulfillment of requirement of MBS.

## **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. Here the study interprets and analyzes the dividend distribution practices relationship with different variables like EPS, MVPS, BVPS, NWPS etc. Numbers of limitations should be faced during the study period. So some assumption should be created to fulfill the study. The study will be limited by the following factors.

) Only those factors will be considered which are related to dividend.

- ) The study period covers only five years beginning from 2006/07 to 2010/11.
- ) Only the secondary data will be collected, analyzed to interpret result so the result depends on the reliability of the data.
- ) The related data are considered only cash dividend and excluded the bonus or stock dividend.
- ) This study done only for the requirement of partial fulfillment of MBS.

## **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 - I, Introduction**

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- II, Conceptual framework & review of Literature**

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 - III, Research Methodology**

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

## **Chapter - IV, Presentation and Analysis of Data**

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 - V, Summary, Conclusions and Recommendations**

Chapter five deals with, summary, conclusions and recommendations of the study and it states suggestive framework of the study.

## **CHAPTER – II**

### **CONCEPTUAL FRAMEWORK & REVIEW OF LITERATURE**

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researcher can be conducted or done. Here, focus has been made on the conceptual framework and the review of literature that is relevant to the dividend policy of commercial bank. Review of literature is based on available literature in the field of research. Every possible effort has been made to grasp knowledge and information that is available from libraries; document collection center helps to take adequate feed back to broaden the information to study. The first part of the chapter includes the conceptual framework and the second part includes the review of various related studies.

- i) Conceptual Framework
- ii) Review of Related Studies

### **2.1 Conceptual Framework**

#### **2.1.1 Meaning of Dividend**

Once a company makes a profit, it must decide on what to do with those profits. There are two options, which the company has while utilizing its profit earned after tax: either distribute the profit to the shareholders or plow back the same by retaining it with the company. But in practice, companies do not go for the extreme options stated i.e. they neither retain the whole of profit earned with the company nor pay the whole profit fully to its shareholders but distribute a certain percentage of the profit as dividend. Thus dividend is the portion of earnings, which is distributed among the shareholders. More specifically, any direct payment by the corporation to the shareholders or stockholders may be considered

as Dividend. The term dividend refers to the distributed earnings either in cash or bonus shares to stockholders of the corporate firms in return to their stock investment. "Dividend refers to that portion of the firm's net earnings, which are paid out to the shareholders" (Khan and Jain,1992: 543).

The term dividend refers to distribution of earnings to the stockholders of the firm in return to their investment. In other words, dividend is a periodic payment made to the stockholders to compensate them for the use of and risk to their investment. Dividend refers to that portion of a firm's net earning, which are paid out to the shareholders. "Return consists of two components, Dividend and Capital gains. Dividend policy has direct influences on these components of return. The impact of dividend policy on future capital gain is however complex capital gain, it occurs in distant future, and therefore, these are uncertain . Normally, it is said that the low payout policy accelerates earnings growth; investors of growth companies will realize their return mostly in the form of capital gains. But, it is not certain that low payout policy will lead to higher prices in reality. It is quite difficult to clearly identify the effect of payout on share price. Share price is a reflection of so many factors that the long-run effect to payout is quite difficult to isolate. Determining the part of earnings to be distributed as dividends is a key decision that affects the value of the firm's common stock in the market place" (Paudel, et al, 2010: 294).

Dividend may be paid in cash, stock or merchandise. Generally, it is viewed as cash dividend. Therefore it reduces cash balance of the company as well as the amount of retained earning. Retained earnings are the earnings of a corporation, which are retained in the business for meeting the financial need of the company for its growth, expansion and development. Retained earnings are one of the most important sources of internal funds. A higher dividend rate means less retained earnings, and vice versa. High dividend rate means increased cash flows to

investors, which is good for them, but it leads to lower future growth for firms, which is bad. Thus how much of dividend is to be paid to the stockholders is the controversial and unresolved problem. "Theoretically it is not a thing of value of the shareholders unless cash dividend per share remains unchanged or are increased. Stock dividend may serve to keep the market price per share in a popular trading range. A more effective device for reducing market price per share is stock split. But stock dividend and stock split appear to how informational or signaling affects. When other things are held constant share price tends to rise around the time of announcement, consistent with the positive signal" (Horn, 2000: 328).

The payment of corporate dividend is at the discretion of the board of directors. Before dividend is paid to common stockholders the claims of creditors, the government and preferred stockholders must be satisfied. Stockholders wealth includes not only market price of stocks quoted in stock market but also current dividends. Thus dividends are more than just a means of distributing unused funds. "Dividend policy involves the decision to pay out earning versus retaining them for reinvestment in the firm. Any change in dividend policy has both favorable and unfavorable effects of the firm's stock price. Higher the dividend means higher the immediate cash flows to investor which is good. In the other hand lower future growth. The dividend policy should be balanced opposing forces and maximize price" (Thapa and Gautam, 2004: 1).

### **2.1.2 Meaning and Significance of Dividend Policy**

The decision to keep some portion of earnings or pay some portion of earnings as dividend is known as Dividend Policy. It involves the decision to pay out earnings versus retaining them for reinvestment in the firm. The dividend policy includes all aspects related to the payment of dividend. Any change in dividend policy has

both favorable and unfavorable effects on the firm's stock price. The questions which relate to the dividend policy of a firm are

- J What are the preferences of shareholders? Do they want dividend income or capital gains?
- J What are the financial needs of the company?
- J How much should be paid out as dividends? What are the constraints on paying dividends?
- J Should the company follow a stable dividend Policy?
- J What should be the form of dividends?

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 stockholders and the needs of the company.

“There is inverse relationship between cash dividend and amount retained. Dividend Policy determines the division of earnings between payments to 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 flows that accrue to stockholders” (Weston & Copeland, 1990:158). The dividend policy adopted by the firm should be such that it strikes a proper balance between the financing decision and investment decision. The dividend policy should be optimal which balances the opposing forces and maximizes stock price.

Dividend policy determines the division of earnings between payment to stockholders and reinvestment in the firm. Dividend refers to that portion of a firm's net earnings, which are paid out to the shareholders of the firm in

return to their investment. The dividend payout ratio determines the amount of earning retained in the firm and must be evaluated in the light of objective of maximizing shareholder wealth. There is a reciprocal relationship between retained earnings and cash dividend. If dividend policy is kept more by company, less will be the retained rearing. In managerial finance, making of decision in dividend is the major. In other words, the firm has to choose in between distributing profits to shareholders paying them back into business. "The dividend decision of company includes the percentage of earnings paid to stock holders in cash dividends, the stability of obsolete dividends about a trend, stock dividends and splits, and repurchase of stock. Management should try to maintain regular dividend. For regular dividend, the firm will have sufficient earnings. Management will set a lower regular dividend rate than firm with the same average earnings but less volatility. Management may also declared extra dividends in years when earnings are high and funds are available." (Gautam et al, 2011: 334).

Dividend Policy may have a critical influence on the value of the firm. If the value of the firm is a function of its dividend payment ratio, the dividend policy will directly affect the firm's cost of capital. A company which wants to pay dividends and also needs funds to finance its investment opportunities will have to depend on external source of finance such as issuing debentures and equity shares. Dividend Policy thus affects both long-term financing and the wealth of stockholders. "The policy of the company on the division of the profits between distribution to shareholders as dividend and retention for its investments is known as dividend policy. All aspects and issues related to payment of dividend are contained in a dividend policy. There is a reciprocal relationship between retain earning and cash dividend. If retain earnings are kept more by the company less will be the cash dividend and vice-versa. Dividend division is one of the three major decisions of managerial finance. It is in that sense, the first has to choose between distribution profits to shareholders and returning them back

into business. The decision depends upon the objectives of the management for wealth maximization. The objective of the dividend policy should be maximized the shareholder's return so that value of his investment is maximized." (Pandey, 1995: 739).

### **2.1.3 Payment Procedure of Dividend**

Firms usually pay dividends on a quarterly basis in accordance with the following payment procedure:

- a. Declaration Date:** This is the date on which the board of directors declares the dividend. At this time they set the amount of the dividend to be paid.
- b. Holder-of record Date:** This is the date the company opens the ownership books to determine who will receive the dividend. The stockholders of record on this date only are entitled to dividend.
- c. Ex-dividend Date:** This date is four days prior to the record date. Share purchased after the ex-dividend date are not entitled to the dividend.
- d. Payment Date:** This is the day when dividend checks are actually mailed to the stockholder of record.

### **2.1.4 Major Forms of Dividend**

The firm can give various type of dividend to the stockholders in the view of the objectives and policies, which they implement. Before adopting any dividend, the firm must ensure the smooth growth of the firm as well satisfy the expectation of the shareholders. Some of the major forms of dividends the firms can pay are discussed below:

- a. Cash Dividend:** Most firms pay dividends in cash. The portion of earning paid in the form of cash to investors in proportion to their share holdings is known as cash dividend. When cash dividend is paid, both the total assets and net worth of the firm decreases and the market price of the share drops in most cases by amount of the cash dividend paid. For the payment of cash

dividend, firm should have adequate balance of cash. In Nepal, cash dividend is the most popular form of dividend and is mostly adopted by many firms.

- b. Stock Dividend and Stock Split:** A stock dividend is the distribution of additional shares of stock to existing shareholders. When a stock dividend is paid, instead of paying cash, a company simply pays additional shares of stock, and it simply involves a book-keeping transfer from retained earnings to the capital stock account. When firms need to retain high percentage of earnings, they issue stock dividend so that the shareholders of the firm are not disgruntled. A stock split is also essentially the same. In stock split, the number of share is increased through a proportional reduction in the par value of the stock. A 10% Stock Dividend means that one share of stock for every ten shares already owned are given to each stockholder. In case of 2 for 1 stock split, each stockholder would be given one additional share of stock for every share already owned by each of the shareholder. The stock split does not involve any cash payment, but only additional certificates representing new shares.
- c. Reverse Split:** It is a method that is used to raise the market price of a firm's stock by exchanging certain number of outstanding share for one new share of stock. The effect of reverse split is a decrease in the number of shares outstanding and an increase in the par value or stated value of the stocks.
- d. Bond Dividend:** Companies can give dividend in the form of bonds also. Bond dividend helps to postpone the payment of cash. These are given when the firms are unable take the burden of interest on loans. In other words, firms declare dividend in the form of its won bond which helps to avoid cash outflow
- e. Scrip Dividend:** A dividend paid in promissory notes is called scrip dividend. When earnings of the firms justify dividend but the company's cash position is temporarily weak and does not permit cash dividend, it may declare dividend in the form of scrip. This type of dividends may bear a

definite maturity date or it may be left to the directors. Such dividends may be interest bearing or non-interest bearing.

- f. Share Re-purchase:** It is a method in which a firm buys back its own stocks in case of some surplus cash. Share re-purchase is often viewed as an alternative to paying dividends. A company can reduce the number of shares by re-purchasing the shares. The stock price must rise after the stock re-purchase if the Price-Earnings ratio remains unchanged. When there is excess cash in the firm and insufficient investment opportunities to justify the use of these funds, then it is wise to distribute the funds either by stock re-purchase or increasing the dividend. Share Price for the re-purchase or the equilibrium price is calculated from the following equation:

$$\text{Re-purchase Price (P}^x\text{)} = \frac{S | Pc}{s Zn}$$

Where,

S = Total number of shares outstanding.

Pc = Current market price per share.

n = Number of shares to be re-purchased.

- g. Interim Dividend:** Generally dividend is declared in the last of financial year. This is called regular dividend. But sometimes directors can declare the dividend before the end of the financial year. This is called interim dividend.
- h. Property Dividend:** Instead of cash, dividend can be given in the form of property. This method of paying dividend is rarely used. This form of dividend may be given whenever there are assets that are no longer necessary in the operation of the business.
- i. Composite Dividend:** If dividend is paid partly in the form of property and partly in the form of cash, then the dividend is said to be composite dividend.

- j. Optional Dividend:** Instead of giving composite dividend, company can give option to its stockholders to take the dividend in cash or in property. It is called optional dividend.
- k. Special Dividend:** When directors of the company do not want to change the dividend separately when the companies have sufficient cash and reserves. This dividend is given with the regular dividend but separately.

### **2.1.5 Dividend Payout Scheme**

Dividend Stability refers to the consistency or lack of variability in stream of dividend. In other words, stability of dividend means regularity in paying dividend even though the amount of dividend may fluctuate from year to year. Stability or regularity of dividends is considered as a desirable policy by management in most of the firms. It refers to the amount of dividend paid out regularly. All other things remaining the same, stable dividend may have a positive effect on the stock price. The major types of dividend policies established under dividend stability are:

- a. Constant Dividend Per Share:** According to this form of divided policy, the fixed amount is paid per share as dividend. The fixed dividend amount would be paid year after year, irrespective of the fluctuation in the earnings. When a company follows such dividend policy it will pay dividends to the stockholders even when it suffers losses. But, the amount of dividend is increased when the firms maintain higher levels of earnings and expects to maintain it.
- b. Constant Payout Ratio:** The ratio of dividend to earnings is known as payout ratio. When fixed percentage of earnings is paid as dividend in every period, the policy is called constant payout ratio. Thus, amount of dividend will fluctuate in direct proportion to earnings and are likely to be highly volatile in the wake of wide fluctuations in the earnings of the company. This policy is related to a company's ability to pay dividends. If the company

incurs losses, no dividends are paid. Internal financing with retained earnings is automatic when this policy is followed. At any given payout ratio, the amount of dividends and the additions to retained earnings will increase with increase in earnings and vice versa. This policy ensures that dividends are paid when profits are earned, and avoided when it incurs losses.

- c. **Stable Rupee Dividend plus Extra Dividend (or Low Regular Dividend plus Extras):** The policy of paying a low regular dividend plus extras is a compromise between a stable dividend and a constant payout ratio. Under this policy, a sum of amount is paid regularly as dividend to the stockholders and in the prosperity period, extra dividend is paid over and above the regular dividend. As soon as normal conditions return, the firm cuts the extra dividend and pays the normal dividend per share.

### **2.1.6 Factors Influencing Dividend Policy**

Many considerations may affect a firm's decision about its dividend policy. Dividend is that decision which is influenced by many internal as well as external factors. Management has to consider both economic and non-economic factors before establishing any dividend policy. Some of them are unique to that company and some are more general considerations. In practice, the financial executives consider the following factors when approaching a dividend decision:

- a. **Desire of the Stockholders:** Stockholders may be interested either in dividend income or capital gains. Wealthy stockholders in a high income tax bracket may be interested in capital gains as against current dividends. A retired and old-aged person may prefer regular dividend.
- b. **Stability of Earnings:** A firm that has a stable earnings trend will generally pay a larger portion of its earnings in dividends. If earnings fluctuate significantly, a larger amount of the profits may be retained to ensure that enough money is available for investment projects when needed. Therefore a

firm, which has a stable earnings more like to pay out a higher earnings ore likely to pay out a higher percentage of its earnings than a firm with fluctuating earnings.

- c. **Liquidity Position:** The cash or liquidity position of the firm influences its ability to pay dividends. A firm may have sufficient retained earnings but if they are invested in fixed assets cash may not be available to make dividend payment. Thus even if a firm has a record of earnings, it may not be able to pay cash dividend because of liquidity position. Therefore, the firm must have adequate cash available as well as retained earnings to pay dividends.
- d. **Past Dividends:** A firm with record of past dividend payments strive to maintain the same in the future. Dividends are habit forming. If the market does not receive its expected dosage, the stock price will suffer.
- e. **Need to Repay Debt:** It decreases cash flow to pay dividend. In such a case also the dividend decision will be affected.
- f. **Profit Rate:** A higher rate of profit on net worth makes it desirable to retain earnings rather than to pay them out if the investors will earn less on them.
- g. **Rate of Asset Expansion:** There is need of more financing if a firm is growing rapidly. A high rate of asset expansion creates a need to retain funds rather than to pay dividends.
- h. **Restrictions in Debt Contracts:** Debt contracts, especially when long-term debt is involved, often confine a firm's ability to pay cash dividends. 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.
- i. **Tax Position of Stockholders:** The tax position of stockholders also affects dividend policy. Corporations owned by large taxpayers in high income tax brackets tend toward lower dividend payout whereas corporations owned by small investors tend toward higher dividend payout.

- j. Access to Capital Market:** A firm's access to capital market will be influenced by the age and size of the firm. A large and well-established firm with a record of profitability and stability of earnings has easy access to capital markets and other forms of external financing. In contrast, a small and new firm's ability to raise equity or debt fund from capital market is restricted. So a small and new firm must retain more earning to finance its operation. Therefore, a well-established firm is likely to have a higher payout ratio than a smaller newer firm.
- k. Concern about Market Price:** If a firm is concerned about maintaining or increasing stock prices, it may choose to pay dividends.
- l. Legal Rules:** The legal rules constrain dividend payment on certain conditions as follows:
- Ñ Capital impairment rule states that dividend should not be paid out of paid-up capital, which causes adverse effect on security of creditors and preference stockholders.
  - Ñ The new profit rule states that dividend must be paid from present profit and or past-retained earnings.
  - Ñ The insolvency rule states that when liabilities exceed assets, no dividend can be paid.
- m. Control:** For many small firms and certain large ones maintaining the controlling vote is very important. These stockholders would prefer the use of debt and retained profits to finance new investments rather than issue new stock. If the current stockholders cannot or do not subscribe the new shares, new stockholders can dilute their controlling interest in the firm. Thus stockholders who are very sensitive to a potential loss of control prefer a low dividend payout policy.
- n. Inflation:** In an indirect way, inflation also plays decisive role in dividend decision. Our accounting system is based on historical cost. Depreciation is charged on the basis of original cost at which assets were acquired. As a

result, when a price rises, funds saved on account of depreciation would not be adequate to replace assets or to maintain the capital intact. Consequently, the company may have to retain high percentage of earning to maintain the capital intact or replace equipment.

- o. Investment Opportunities:** Dividend Policy is greatly influenced by the financial needs of the company. A growing firm gives precedence to the retention of earnings over the payment of dividends in order to finance its expanding activities. Thus investment opportunities of firm also influence dividend policy.
- p. Dividend Policy of Competitive Concerns:** Another important factor, which influences, is the dividend policy of other competitive concerns in the market. If the other competing concerns are paying higher rate of dividend than this concern, the stockholders may prefer to invest their money in those concerns rather than in this concern. Hence, every company will have to decide its dividend policy by keeping in view the dividend policy of other competitive concerns in the market.

### **2.1.7 Dividend Policy and Market Price of Share (MPS)**

MPS or stock price is that value of stock, which can be obtained by a firm from the market. Market value of stock is one of the variables, which is affected by the dividend per share and earning per share of the firm. If the earning per share and dividend per share is high, the market price of stock will also be high. Market values of the share may be high or low than the book values. If the firm is growing concern and its earning power is greater than the cost of capital, the market value of the stock will be higher than the book value. If the firm's earning capacity is lower than the cost of capital, then its MPS will also be lower. MPS is determined by the capital market.

Market Price of the stock is usually influenced by the information. No one can earn more in the inefficient market, and inefficiency is legally prohibited in order to regulate the security market in every country. But the focus of this study is dividend policy and its effect on stock price. On market price of stock, there should be discussion on different models and practices, which have significant effects on MPS or not. So MPS and security valuation are integral parts. Without valuation no one can quote the price and without price there is no chance of trading.

## **2.2 Review of Related Studies**

### **2.2.1 Review of Major International Studies**

This section is devoted to review the major studies in general concerning dividends and stock prices, management views on dividends. Here presented the previous studies conducted in international level by various authors and experts to review them as needed for the study.

#### **Walter's Study**

Walter studied on "*Dividend policy and Common stock price*" in 1966. He advocated that dividend policy affects the stock prices. He has said that dividend policy almost always affects the value of the firm. The relationship between firm's internal rate of return and cost of capital is determining factors to retain earnings or distribute dividend. As long as the internal rate of return is greater than the cost of capital, the stock price will be enhanced by retention and will vary with dividend payout.

According to him, the model contains the following assumptions:

- ) All earnings are either distributed as dividend or reinvested internally immediately.
- ) With additional investments undertaken, the firm's business risk doesn't change. That is 'k' and 'r' is constant.

- ) The firm finances all investment through retained earnings i.e. debt or equity is not issued.
- ) The firm has very long (perpetual) life.
- ) The value of earning per share and dividend per share are assumed to be constant forever.

Considering the above assumptions, this model to determine the market price per share is as follows:

$$P = \frac{D \Gamma r / k f E Z D) A}{K}$$

Where,

P = Theoretical market price per share

D = Dividend per share

E = Earning per share

r = Internal rate of return

K = Cost of capital or market capitalization rate

Walter displays his model with the help of the relationship between 'r' and 'k'. According to him optimum dividend payout ratio on the relationship between 'r' and 'k' can be summarized as follows:

#### Growth Firm ( r > k)

When the internal rate of return is higher than cost of capital, the firm is said to be a growth firm. In this case, the relation between dividends and stock prices is negative; i.e. more dividends lead to low stock prices. Growth firm is a good profitable opportunities. Walter argued that zero dividends would maximize the market price of shares. Since the firm reveal retained earnings at the rate higher than cost of capital, the value per share will be maximum. Such a condition of a firm is benefited to the shareholders as their EPS retained and share value

increases greater than they employ it in the market. When firm is the condition of  $r > k$ , the market value of share increases as pay out ratio declines.

#### Normal firm ( $r = k$ )

If the firm has  $r = k$ , there is not any role of dividend on stock prices fluctuation. In such a condition the payment of dividend or retained them does not affect the share price. It is a condition of indifference. The firm can either enjoy by paying profits as dividend or retained them. It happens because if the dividend is paid and invested by shareholders outside the firm, gets same return as the firm gave them in case of retained since  $r = k$ .

#### Declining Firm ( $r < k$ )

The relation between dividends and stock prices will be positive, i.e. increase in dividend per share yield increase in stock prices if the firm's internal rate of return is less than the cost of capital. This type of firm is said to be a declining firm. There are no profitable investment opportunities to invest the earnings internally. Firm's earning rate would be less than the investor's minimum required rate as in the market. The investors who have invested in such firm like to distribute the earning as dividend at all so that they can invest the fund in such profitable opportunities where they get higher rate of return than the declining firm. Walther argued cent percent dividend payment would maximize the market price of shares for declining firm.

To conclude, according to Walter, dividend policy depends upon the availability of investment opportunities of the firm, which we know the relationship between 'r' and 'k'. When  $r > k$ , firm has availability of profitable investment opportunities and so the firm is to finance investment through retained earnings, when  $r < k$  firm has not availability of profitable investment opportunities and so the firm is to distribute all earnings and in case of  $r = k$ , firm is in the condition of indifference.

In other words, in declining firm, dividends are positively correlated with share price. There is not any relationship between dividends and stock prices in case of normal firm. And, dividend is negatively correlated with stock prices in case of growth firm.

### **Limitations of the Model**

Due to the presence of various assumptions, the study is not fully free from the limitations. Walter has assumed that only retained earnings finance the firm, which would be applicable to those firms, which have financed all by equity capital. Concerning to the Nepalese companies, 'r' and 'k', dividend per share and earning per share may or may not be constant. Rate of return ( $r_0$ ) changes with increase and decrease of investment and cost of capital (k) changes with risk beard by the company. This model also ignores the effect of risk on the value of the firm. This is not the realistic assumption because risk and return are positively correlated i.e. lesser the risk lower the return and higher the risk more the return.

### **Graham and Dodd's Study**

According to the traditional position expounded eloquently by Graham and Dodd, the stock market places considerably more weight on dividends than on retained earnings. According to them: The stock market is overwhelmingly in favor of liberal dividends as against niggardly dividends. In the valuation of stocks the weight attached to dividends is equal to four times the weight attached to retained earnings.

This weight provided by Graham and Dodd are based on their subjective judgments and derived from objective, empirical analysis. Notwithstanding the subjectivity of these weights, the major contention of the traditional position is that a liberal payout policy has a favorable impact on stock price.

## Gordon's Study

Another popular model is developed by Myron J. Gordon (1962) which concluded that dividend policy of a firm affects its value even in a situation where the return on investment and required rate of return are equal. This study explains that investors are not indifferent between current dividend and retention of earnings with the prospects of future dividend and capital gain. The conclusion of the study is that investor gives more emphasis to the present dividend more than future capital gain. According to this study, an increase in dividend pay out ratio leads to increase in the stock price for the reason that the investors consider the dividend yield is less risky than the expected capital gain.

The concerning assumptions adopted in this model are as follows:

No external financing is available in the market.

The firm is an all equity-financing firm. I.e. no debt and preferred stock are issued.

The cost of capital (k) and internal rate of return  $\otimes$  are constant.

The corporate tax rate does not exist.

Cost of equity ( $k_e$ ) must be greater than growth rate 'g' (br).

The retention ratio (b), once decided upon, is constant therefore the growth rate ( $g$ ) = (br) is constant forever.

The firm and its stream of earning are perpetual.

Considering the above assumptions, he has provided the following formula to determine the market value of the share, which is a simplified version of original formula.

$$P = \frac{E \text{ f} Z b) A}{k_e Z b.r.}$$

Where,

P = Market price of a share

b = Retention ratio

b.r. = Growth rate in r, i.e. rate of return on investment of an all equity firm

$E$  = Earning per share

$E(1-b)$  = Dividend per share

$K_e$  = Capitalization rate

$1-b$  = Percentage of earning distributed as dividend

Based on the study, we can get the following fact:

#### In case of Growth Firm

Share price tends to decline in corresponding to the increase in pay out ratio or decrease in retention ratio, i.e., and high dividend corresponding to earnings leads to decrease in share price. So, stock prices and dividends are negatively correlated.

#### In case of Declining Firm

Share prices tend to rise in correspondence with rise in dividend pay out ratio. So, dividend and stock prices are positively correlated with each other.

#### In case of Normal Firm

Share prices remain constant in correspondence to the changes in dividend policies. So, dividend and stock prices are free from each other.

### **Modigliani and Miller's study**

Modigliani and Miller, considering dividend policy, make a comprehensive argument for irrelevancy concept regarding dividend policy. In their article published in 1961, for the first time in the history of finance, advocated that dividend policy does not affect the value of the firm, i.e. dividend policy has no effect on the share prices of the firm. They said that the value of the firm is determined by the earnings power of the firm's assets or its investment policy that the manner in which the earning steam is split between dividend and retained earnings does not affect this value.

Thus, as per MM theory, a firm's value is independent of dividend policy. And, the critical assumptions included in this theory are as follows:

The firm operated in perfect capital market. All the investors in the market are rational for their attitude of investment. Information is available to all free of costs, no transaction cost and securities are infinity divisible.

No investor is large enough to influence the market price of securities; there is no flotation cost. Perfect certainty of future investment and profit of the firm.

There are no taxes. Alternatively, there are no indifferences in tax applicable to capital gain and dividends.

Risk of uncertainty doesn't exist.

Considering the above various critical assumptions, they provided the proof in support of their argument as in the following manner.

Step 1:

The market price of a share of stock at the beginning of a period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period.

Symbolically,

$$P_0 = \frac{D_i \Gamma P_i}{1 \Gamma k}$$

Where,

$P_0$  = Current or beginning market price of stock

$D_i$  = Dividend per share to be received at the end of the period

$k$  = Capitalization rate for firm in the risky class (assume constant)

$P_i$  = Market price of a share at the end of the period

Step 2:

The total capitalized value of the firm, assuming no external financing would be simply the number of shares time price each share;

There, we have:

$$np_0 = \frac{n(D_i \Gamma P_i)}{1 \Gamma k}$$

Where,

n = Number of equity shares at zero period

Step 3:

If the firm's internal source of financing, investment opportunity fall short of the funds required and n is the number of new share issued at the end of the period 1 at price p<sub>i</sub>. Then above equation (Step 2) can be seen as:

$$np_0 = \frac{n D_i \Gamma (n \Gamma \zeta n) p_i Z \zeta n p_i}{K}$$

Where,

n = No. of shares at the beginning

n = No. of equity shares issued at the end of the period

Step 4:

If the firms were to finance all investment proposals, the total amount of new share issued would be given as following equation:

$$n p_i = I - (E - n D_i)$$

$$\text{or, } n p_i = I - E + n D_i$$

Where

n p<sub>i</sub> = Amount came from selling new shares to finance the capital requirement

E = Total earning of the firm during the period

I = The total requirement of budget for capital budget

n D<sub>i</sub> = Total dividend paid during the period

$$(E - nDi) = \text{Total retained earnings}$$

Step 5:

We get the new equation given below by substituting the value of  $nDi$  from equation of step 4 to equation of step 3.

$$np_0 = \frac{nDi\Gamma(n\Gamma\zeta_n)Z\Gamma E ZnDi}{1\Gamma k}$$

$$np_0 = \frac{pi\Gamma(n\Gamma\zeta_n)Z\Gamma E}{1\Gamma k}$$

Step 6. Conclusion:

Dividend does not play any role in the above equation. Thus, Modigliani and Miler argued and concluded that dividend policy does not have any effect to the share price.

Concerning to the Nepalese context, this theory doesn't have any impact though this is very crucial for the financial decision. Critical assumptions significantly deviate when it is applied. In case of Nepal, the assumption of perfect capital market and rational investors faulty assumption. Flotation cost, transaction cost and tax and effect on capital gain is neglected by MM theory, which is not realistic in the practical life. Arbitrage arguments as described by this theory apply only when there are very sensitive investors. This is not possible to our country, Nepal.

### **Van Horne and Donald's Study**

Van Horne and MC Donald had conducted a research and presented an article of journal of finance in 1971. They made a comprehensive study on dividend policy and equity financing. As needed to the study, they collected the required data from 86 electric utility firms undivided on the COMPUSTAT utility data tape and 39

electric firms in the electronics and electronic component industries as listed on the CAMPUSTAT industrial data tape.

They compared the results obtained for firms, by using different models and methodology, which both pay dividends and engage in new equity financing with other firms in an industry sample. They concluded that for electric utility firm in 1968, share value is not adversely affected by new equity financing in the presence of cash dividend, except for those firms in the highest new issue group and it make new equity a more costly form of financing that the retention of earnings, so that the payment of dividend through excessive financing reduce the prices.

For electronics, electronic- component industry, a significant relationship between new equity financing and value was not mentioned.

### **Banartzi, Michally & Thaler's Study**

In journal of finance, in 1997, they studied to investigate whether the changes in dividend do signal the future or the past. Their topic regarding the study was "Do changes in dividends signal the future or the past?" For proper investigation they collected necessary data. the companies that trade on the New York Stock Exchange (NYSE) or from the American Stock Exchange (AMEX) for at least two years during the period 1979-1991. They excluded all foreign companies from the sample. The resulting samples contain 1025 firms and 7186 firms' year observation. That is the main sample they referee.

Many dividend theories, before their study, imply that changes in dividend have information content about the future earnings of the firm. Unlinking many of the previous study, they utilize a large number of firms and events. They found that there is a very strong lagged and compare correlation between dividend changes and earnings (when dividends are increased earnings have gone up) but they are unable to find more evidence of a positive relationship between dividend changes and future earning changes. They also investigated that if dividend charge could

signal something other than the expected value of future earnings growth. Dividend increases are a signal about a permanent shift in earnings, rather than a signal about future earnings growth. To this end theory compare two sets of firms that experience a similar earnings changes in a given year: the first group of firm also changed their dividends and the second did not change, in their findings, firms that increase dividends and the second did not change, in their findings, firms that increase dividend in year 0 have experienced significant earnings increase in year 1 and 0, but show no subsequent expected earnings growth. Also the size of the dividend increase does not predict future earnings. And firm that cut dividend in year 0 have experienced a reduction in earnings in year 1 and but the firms go on to show significant increase in earnings in year 1 and but the firms go on to show significant increase in earnings in year 1. So that the firms that increase dividend are less likely than none changing firm to experience to drop in future earnings.

### **2.2.2 Review of Journal and Articles**

Since very few articles related to dividend policy have been published in Nepal, here review some of them related to my topic, which have been presented as follows:

**Pradhan (1993)** has published an articles on " *Stock Market Behavior in Small Capital Market* " He has attempted to assess some of the cross selection behaviors of the stock market. This examines the relationship of market equity, market value to book value price earning and dividend with liquidity, profitability, leverage, assets turnover and interest coverage. Actual concentration, he has taken, is towards the relationship of dividend with liquidity, interest coverage, profitability and assets turnover.

The main objectives of the study were as follows:

To assess the stock market behavior in Nepal.

To test the relationship of market equity, market value to book value, profitability, leverage, price earnings and dividends with liquidity, assets turnover and interest coverage.

The model for the study was:

$$V = b_0 + b_1 \text{ LIQ} + b_2 \text{ LEV} + b_3 \text{ EARN} + b_4 \text{ TURN} + b_5 \text{ COV} + U_i$$

Where,

V = Chosen for the study were market equity (ME), market value of equity to its book value (MV/BV), price earning ratio (PE), dividend per share to market price per share (DPS/MPS), and dividend per share to earning per share (DPS/EPS).

LIQ = Current ratio (CR), or quick ratio, or acid-test ratio

LEV = Long-term debt to total assets (LTD/TA) or long-term debt to total capitalization (LTD/TC)

EARN = Return on assets i.e. earnings before tax to net worth (EBT/NW)

TURN = Fixed assets turnover, i.e. sales to average fixed assets (S/AF), or total assets turnover, i.e. sales to average total assets (S/TA)

COV = Interest coverage ratio, i.e. earnings before tax to interest

U = Error

Major findings presented in his study were as follows:

The relationship between dividend per share and market price per share is positive.

Higher the earnings on stock larger the ratio of dividend per share to market price per share.

There is positive relationship between the ratio of dividend per share to market price per share and interest coverage.

The relationship between dividend pay out and liquidity is positive.

There is positive relationship between dividend payout and assets turnover ratios.

Dividend Payout and profitability are positively correlated.

Positive relationships between dividend payout and interest coverage.

The negative relationship is notified between dividend pay out ratio and leverage ratio.

The relationship of dividend per share to earning per share with liquidity, as sets turnover and interest coverage is positive and negative with leverage.

In conclusion, his findings are stocks paying higher dividend have higher liquidity, lower leverage, higher earnings, higher interest coverage and higher turnover. However, leverage and liquidity ratios are more variable for the stocks paying lower dividend while earnings assets turnover and interest coverage are more variable for the stocks paying higher dividends.

**Shrestha and Manandhar (1999)** has published an article on “*Bonus Share Issue Practices in Nepalese Corporate Firms*”. The study is concentrated on factual analysis of the prevailing practices among Nepalese corporate firm regarding the issue of bonus shares. Besides issue of bonus share is characterized by aphorism and imperfect and under-developed capital market, the study fulfills the research gap and add inputs to financial literatures relating to this topics.

The period of study extends over ten years from 1988/1989 to 1997/98. The study covers the bonus share issue by the sample of corporate firms which had issued the bonus share at least once during the study period. There are a total of 36 bonus issues amounting to Rs 951.8 million for the period under study.

They used simple statistical tools to analyze and interpret the data. Used statistical tools are percentage frequency distribution and average.

The main objectives of the study are to study and analyze the frequency of bonus share issue and study and analyze the regularity of bonus share issue. Similarly, To identify the most popular bonus share issue ratio. As well as study and analyze the relation of bonus share issue to the size and age of the corporate firms.

The study's selected samples are related to commercial banking, insurance, finance, trading and service sectors. On the basis of analysis of 12 bonuses issuing corporate firms, following findings were observed on the bonus share issue practices in Nepal.

The most popular bonus ratios prevalent in Nepalese corporate practices are 1:2, and 1:1 and 1:5 but 1:2 ratios overwhelmingly dominated.

The number of bonus issue tended to rise from 1992/93 and enthusiastic increase in number of bonus share issue in the fiscal year 1994/95.

There is a trend to raise the additional equity capital by capitalization the reserve and net profit by issuing bonus shares and stocks dividend.

In the later years the importance of 1:2 bonus decreased and importance of other ratio less than 1:2 increased which are 1: 5 and 1:4 The ratio bonus share is considered high as compared to widely prevalent practice in American corporate forms .

The overall average of bonus issue is noticed amount Nepalese corporate practice during the study period.

Nepalese corporate forms are found depend in internal equity rather than external equity for additional capital.

Though capitalizing the retained profit by issuing the bonus share is the prevalent practice. The average growth rate in increase in equity capital between the commercial banking group and non banking group differed widely. The large corporate firms are found to issue bonus shares more times than small size corporate firms.

**Dr. Shrestha (2003)** has studied one of those related to dividend "*Public Enterprises: have they Dividend Paying Ability?*" It gives short glimpse of the dividend performance of some public enterprises of their time in Nepal.

Dr. Shrestha has highlighted following issue in the articles:

The expectation of HMG from the public enterprises are of two things: (1) They should be in a positive of paying minimum dividend (2) Public enterprises should be self-supporting in financial matters in future years to come, but non of these two objectives are achieved by public enterprises.

One reason for excessive government causes this inefficiency interferes in day to day affairs. On the other hand, high-ranking officials of HMG appointed as Directors of Board do nothing but simple show their bureaucratic personalities Bureaucracy has been the enemy of efficiency and so led corporation to face losses. Losing corporations are, therefore, not in a position of paying dividends to government.

Another reason is the lack of self-criticism and self-consciousness. Esman has pointed out that the lack of favorable leadership is one biggest constraint to institutional building. Moreover corporate leadership comes, as managers are not

ready to have self-criticism. In fact, all so-called managers of corporations have not been able to identify themselves regarding what they can contribute as managers of corporation. So, HMG must be in a position to develop a financial target to corporate investment by imposing financial obligations on corporations.

The articles point irony about government biases that government has not allowed to follow an independent dividend policy and HMG is found to pressurize dividend payment in case of Nepal Bank Ltd. regardless of profit. But, it has allowed Rastriya Banijaya Bank to be relieved from dividend obligation in spite of considerable profit.

He has suggested the need of criteria as:

- ) Adopt a criteria guided policy to drain resources from corporation through the medium of dividend payment.
- ) Realization by managers about the cost of equity and dividend obligation.

HMG should follow the following criteria to trap the resources through dividend:

- ) Proper evaluation of public enterprises on capability of paying dividend through corporate co-ordination committee.
- ) Circulating the information to all public enterprises brought the minimum rate of dividend.
- ) Imposition of foxed rates of dividend by government to financially sound public enterprises.
- ) Specifying performance criteria such as profit target in terms of emphasis, priorities, timing and plans and developing a strategic

plan, this is not just a statement of corporation aspiration but must be done to make those aspirations to reality.

- ) Identification objectives in corporation Act, company Act or special charter so as to clarify public enterprise managers regarding their financial obligation to pay dividend

### **2.2.3 Review of Previous Research Works**

This dissertation has been written after studying various books journals article website and previous thesis. I here comprise the some previous thesis review, which are mainly concerned about dividend policy, Right share, Bonus share Initial public, credit management and loan management of various company.

**Thapa (2003)** has conducted a research topic on “*Dividend Policy and Practices, a Comparative Study Between Banks and Insurance Companies in Nepal.*”

#### **His main objectives:**

- ) To study the current practices of dividend policy in joint venture commercial banks and insurance companies.
- ) To examine the relationship between dividend and market price of stock.
- ) To analyze the relationship of financial indicators I.e. DPS, EPS, DPR and P/E ratio.
- ) To analysis the relationship between dividend policies decision of banks and insurance companies. The analysis is done on the basis of different financial tools, simple regression and correlation analysis.

#### **His major findings:**

- ) Among the major decision of finance, then majority of respond and give the first importance in investing decision, second in financing and finally give least importance for dividend decision.

- ) With respect to factors affecting dividend policy of banks and insurance companies of Nepal, most of the respond and give first priority to current earnings, second priority to liquidity and last priority to past dividend.
- ) Not a fixed and single policy is being adopted by the banks and insurance companies. Majority of the company paid the cash dividend.

**His major recommendations:**

- ) Insurance company and Bank should consider the existing conditions and expectations of share holders while distributing dividends so that the distributed dividend should meet the interests or expectations of the share holders as for as possible.
- ) EPS should be considered as a major factor in determining the dividend. It is important to consider earning rather than neglecting it while making dividend decision.

**Bhandari (2004)** has conducted a research topic on “*Dividend Policy and practices in Nepalese Joint venture Banks*”

**His main objectives:**

- ) To find out impact on share price.
- ) To study the current practices of dividend policy of joint venture banks.
- ) To examine if there uniformity among DPS, EPS, DPR, of the three sample joint venture bank.

**His major findings:**

- ) There is positive relationship of dividend with stock prices.
- ) There is no uniformity of distribution of DPS among sample banks

**His major recommendations:**

- ) The legal rules and regulation must be in favor of investors to exercise the dividend practice and to protect the shareholders’ rights.

- ) Banks are paying dividend without adopting any appropriate policy. Companies should have their clearly defined dividend policy. Clearly defined dividend policy helps to determine specific. This helps to investors in deciding whether to buy or not the share of particular company. The dividend payment should be stable and consistent because dividend policy is the only mirror of management perspective to shareholders return therefore all banks should have to come up with clear view regarding dividend policy.

**Guragain (2005)** has conducted a research topic on “*A study of Dividend and Its Impact on Stock Price of Nepalese Selected Commercial Bank.*”

**His main objectives:**

- ) To analyze the impact of dividend in banks stock price.
- ) To find out the relationship of dividend with earning and market price of share observing their history over periods along with their degrees and significance.

**His major findings:**

- ) There is high degree positive relationship between DPS and EPS in most of the banks as they are statically significance also.
- ) Relationship between MPS and DPS is found to be low degree positive and most of the banks but these are statistically insignificant.
- ) Level of consistency in dividend policy of the banks is very low. There is higher role of earning per share to change the dividend pre share in most of the banks.

**His major recommendations:**

- ) Shareholder should be given option to choose between stock dividend and cash dividend instead of declaring stock or cash dividend arbitrary. For this

dividend declaration should be proposed to the annual general meeting of shareholders for approval.

- ) Dividend policy will clearly guide the way on how to follow dividend distribution strategy. The policy should determine whether the company is going to adopt stable dividend policy, constant payout ratio or low regular and plus extra dividends.

**Budhathoki (2006)** has conducted a research topic on “*The study of Dividend policy of the commercial banks in Nepal*”

**Her main objectives:**

- ) To highlight the dividend practices of commercial banks.
- ) To compare the dividend policy followed by different commercial banks chosen.
- ) To provide the sample banks with some fruitful suggestion that can be implemented easily and possible guideline to overcome various issues and gaps based on the findings of the analysis.

**Her major findings:**

- ) The average EPS of the banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS.
- ) The average DPS shows that there is no regularity in dividend payment.
- ) The analysis of DPR shows that the DPR of the bank is not stable.
- ) The average market price shows that there is quite high level of fluctuation.

**Her major recommendations:**

- ) Bank should have long term vision regarding earning and dividend payment that helps to cope with challenging competitive situation of present world. Various internal and external factors should be considered before taking decision.

- ) The Bank should study about the strategy to attract the ordinary or small or low level investors. So that the interest or the expectations of share holders

**Kuikel (2007)** has conducted a research topic on “*dividend policy and practices of commercial banks in Nepal*”

**His main objectives:**

- ) To examine dividend policy and practices in Nepalese commercial banks.
- ) To analyze the effect of dividend in share price.

**His major findings:**

- ) The market price of share of all the banks has been fluctuating.
- ) The uncontrolled increase in share price may be due to decrease in bank rate of interest.
- ) The market value per share has positive impact on EPS in case of all selected sample banks.
- ) The dividend distribution is irregular in those banks except Nabil Bank Ltd.

**His major recommendations:**

- ) From the analysis, it has been found that none of the sample banks has followed consistent dividend policy as a result of which a firm’s degree of fluctuation is observed in dividend per share. It may not satisfy minimum expectations of shareholders.
- ) The firms should have well defined dividend policy, which helps to satisfy the investors and to create better position of firm in the capital market. The psychological value of the shareholders is also valued as the assets to the firm.

**Maskey (2008)** has conducted a research topic on “*Dividend Policy of selected Commercial banks in Nepal*”

**His main objectives:**

- ) To access the prevailing dividend policy adopted by the selected banks.
- ) To access the impact of dividend on market price per share of selected banks.

**His major findings:**

- ) The study of impact of cash dividend on MVPS revealed that DPS has strong positive impact on MVPS.
- ) A positive relationship is found between DPS and net profit.
- ) MVPS and DPS revealed that coefficient of dividend have positive impact on MVPS.

**His major recommendations:**

- ) The legal rules and regulation must be in favor of investors to exercise the dividend practice and to protect the shareholders' rights.
- ) The legal rule for the treatment of dividend is most for the smooth growth of any enterprises as well as growth of national economy. The government should act on favor of investors and behind these companies by distinct rules.

**Dhungel (2009)** has conducted a research topic on "*a study on dividend policy of Everest Bank Limited and bank of Katmandu limited.*"

**His main objectives:**

- ) To identify what type of dividend policy is being followed and whether or not followed policy is appropriate in bank of Katmandu and Everest bank limited.
- ) To highlight dividend practices of the bank of Katmandu and Everest bank limited.

- ) To analyze the relationship between dividend per share with various important variables such as earning per share , net profit, net worth and stock prices.
- ) To provide a practical suggestion and possible guidelines to overcome various issues and gapes based on the findings of the analysis.

**His major findings:**

- ) EPS analysis shows that the average EPS of EBL is greater than the average EPS of BOK.
- ) DPS analysis shows that the average DPS of EBL is greater than average DPS of BOK.
- ) The DPR ratios show that BOK provided more than EBL.
- ) In the analysis of DY the shareholders of BOK enjoyed more dividend percent compared to the shareholder s of EBL on the basis of MPS.
- ) In summary EBL remained more successful than BOK in satisfying its shareholders through distributing cash and bonus share dividend.

**His major recommendations:**

- ) EPS should be considered as a major factor in determining the dividend. It is important to consider earning rather than neglecting it while making dividend decision.
- ) It is found that the dividend payout ratio of both banks is not constant. This might cause uncertainty among the stockholders and negatively affect market price of the respective share. So, those companies should create fruitful investment opportunities.

**Bhandari (2009)** has conducted a research topic on “*dividend policy analysis of Commercial banks of Nepal*”.

**Her main objectives:**

- ) To identify what types of dividend policy is being followed and whether or not the followed policy is appropriate.
- ) To highlight the dividend practices of banks.
- ) To analyze the relationship between dividend per share with various important variables such as earning per share, net profit net worth and stock prices.
- ) To provide a practical suggestion and possible guidelines to overcome various issues and gaps based on the findings of the analysis.

**Her major findings:**

- ) From the primary data, it can be concluded that companies distribute dividend to capture the market. The bank should consider mainly the legal consideration while declaring dividend and pay cash dividend to fulfill shareholders expectation.
- ) The bank should pay dividend only after financing in all investment opportunity.
- ) The correlation of DPS of HBL with EPS, MPS is positive but insignificant. Whereas correlation between DPS and BVPS are negative and insignificant. This means that there is no significant relationship of DPS with EPS, MPS, and BVPS of HBL.

**His major recommendations:**

- ) The Bank should consider the existing conditions and expectations of share holders while distributing dividends so that the distributed dividend should meet the investors expectations of the share holders as far as possible.

- ) The Banks are paying dividend without adopting any appropriate policy. Companies should have their clearly defined dividend policy. Clearly defined dividend policy helps to determine specific. This helps to investors in deciding whether to buy or not the share of particular company.

**Khanal, (2010)** has conducted a research topic on *“Impact of Dividend policy on market price of share, with special reference to commercial Banks”*

**His main objectives:**

- ) To examine the relationship between dividend with EPS, MPS and DPR
- ) To see the opinion of shareholders and corporate executives on dividend policy and practice.
- ) To analyze the factors that affecting dividend yield and dividend payout ratio.
- ) To explain the highlight of dividend policy and practice of Nepalese commercial banks.

**His major findings:**

- ) There is lacks of rules and regulations that binds companies to pay dividend every years. It is not only to the companies, governments also have not any clear cut policy towards dividend policy.
- ) The company management does not show the commitment promised in prospectus while raising capital. Promoters lure investor mentioning to pay attractive dividends, when company makes profits. However in reality most of the companies are deviated from their statement as promised in prospectus.
- ) All the firms most accept on major fact that EPS is to be considered for determining dividend amount. The analysis shows condition of not being able to say either significant or insignificant relationship between EPS and DPS in average. It is important to consider earnings rather than neglecting it while making dividend decision.

**His major recommendations:**

- ) The dividend payment should be stable and consistent because dividend policy is the only mirror of management perspective to shareholders return therefore all banks should have to come up with clear view regarding dividend policy.
- ) There are many minority share holders looking for regular dividend for their expenses so banks is recommended to paid more percentage of earning to pay dividend.

**Limbu (2011)** has conducted a research topic on “*Comparative Study on Dividend Policy of Nabil Bank and Himalayan Bank Limited.*”

**His main objectives:**

- ) To find out dividend policy applied by Joint Venture Banks.
- ) To compare the various aspects of dividend policy of the selected commercial banks.
- ) To analyze the dividend policy and its effect on stock price changes.
- ) To find out the relationship between the dividends with earnings, stock price and net worth.

**His major findings:**

- ) For analyzing the dividend payment amount of NABIL and HBL, NABIL has high portion of dividend payment than HBL. The dividend payment ratio of NABIL has higher than of HBL in each and every. Average dividend per share of NABIL is higher than that of HBL.
- ) The dividend payment ratio from its earning is of HBL is higher than NABIL and more consistency
- ) The average market price of NABIL is higher than HBL. It indicates that charms and demand of share of NABIL is higher due to higher return and dividend.

**His major recommendations:**

- ) Stock holder should be given option to choose between stock dividend and cash dividend instead of declaring stock or cash dividend arbitrary. For this dividend declaration should be proposed to the annual general meeting of shareholders for approval.
- ) Bank should have long term vision regarding earning and dividend payment that helps to cope with challenging competitive situation of present world. Various internal and external factors should be considered before taking decision.
- ) Bank should study about the strategy to attract the ordinary or small or low level investors. So that the interest or the expectations of share holders will not be destroyed even the bank.

**2.3 Research Gap**

This study shows the current issue, latest information study on financial indicators, data and real picture of share price of financial institutions. To show latest picture of financial indicators researchers covered data of periods from 2006/2007 to 2010/2011 and collect latest information or changes that occur in these periods. Hence this study fulfills the prevailing research gap about the in depth analysis of the dividend policy which is the major concern of stock holders. This study focuses on informative to perspective investor of secondary market to analysis different. This study also tries to reveal the major developments and changes in the legal aspects and provisions regarding dividend policy the enactment of Companies act 2063. During the review of previous thesis, it is found that no research has been concluded by taking the sample banks, which has been selected in this research. So it is believed that this study will full fill the gap, which had been made by the earlier researcher.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter highlights the methodology adopted in the process of present study. The topic of the study has been selected as “A Study on Dividend Policy of Nabil Bank Limited and Everest Bank Limited. In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

Research Methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objects in view. Research in common parlance refers to a search for knowledge. Anyone can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact research is an art of scientific investigation.

#### **3.2 Research Design**

The research design is a conceptual structure within which a research is conducted. A research design is a plan for the collection and analysis of data. It is purposeful scheme of action proposed to be carried out in a sequence during the process of research. Research design helps researcher to enable him to keep track of action and to know whether he was moving in the right direction to achieve his goal.

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework, of the project is the stipulates what information is to be collected from which sources by what procedure. If it is a good design, it collected by objective and economic procedures.

A research design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variances” (Krelingers F.N; 1983).

### **3.3 Sources of Data**

The study is conducted based on secondary data, which are related to the dividend policy and all are directly obtained from concerned banks. The supplementary information and data regarding to the study are obtained from annual reports of concerned banks. Other information has been concerned with different institutions and regarding authorities like Rastra Bank, Security Exchange Board, Ministry of Finance and National Planning Commission etc.

This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major sources of secondary data are as follows

- ) Annual Report of Concern Bank.
- ) Internet and E-mails and NRB directives.
- ) Economy survey of Government of Nepal and Ministry of finance.
- ) Newspaper, journals, articles and various magazines.
- ) Dissertation of Central Library of T. U. and Library of Campus.

### **3.4 Population and Sample**

Thirty Two Commercial banks are operating currently in Nepal. All the commercial banks that are operating in Nepal are considered as the population. It is not possible the study all the data related with all banks because of the limited

time period and showed also taken in to consideration of the partial fulfillment of the Master's Degree. It is not possible to study all of them regarding the study topic due to the different constraints. Therefore, sampling technique will be used for selecting sample from population. The entire 32 commercial bank are taken as population. Among the 32 commercial banks, two commercial banks Nabil Bank Limited and Everest Bank Limited have been selected as sample for the present study.

### **3.5 Data Analysis Tools**

Presentation and analysis of data is one of the important part of the research work. The collected raw data will first be presented in systematic manner in tabular form and then will be analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these some graph charts and tables will be presented to analyze and interpret the findings of the study. The tools applied are-

1. Financial Tool
2. Statistical method

### **3.6 Analysis of Data**

#### **3.6.1 Financial Tools**

The following financial tools have been used in the preset study:

##### **a. Earning per Share (EPS)**

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholders investment. The earning per share shows the profitability of the banks on a per share basis. The higher earning indicates the better achievements in terms of the profitability of the banks by mobilizing their funds and vice versa. Earning per share is computed to

know the earnings capacity and to make comparison between concerned banks. This ratio can be computed by dividing the earning available to common shareholders by the total number of common stocks outstanding. Thus

$$EPS = \frac{\text{Earning available to common stock holders}}{\text{Number of common stock outstanding}}$$

### **b. Earning Yield (EY)**

Earning yield is the percentage of earning per share to market price per share in the stock market. In other words, it is a financial ratio relating to earning per share to the market value of share. It gives some idea of how much an investor is earning for his money. The share with higher earning yield is informative to compare the market share prices of stocks in the secondary market. It is calculated as:

$$EY \text{ Ratio} = \frac{\text{Earning per share}}{\text{Market price per share}}$$

### **c. Dividend Per Share (DPS)**

Dividend per share indicates the rupee earnings distributed to common stockholders per share held by them. It measures the dividend distribution to each equity shareholders. Dividend per share shows the portion of earning distribution to the shareholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the bank is common stock, which consequently helps to increase the market value of the shares. And it also works as the indicator of better performance of the bank management.

It is calculated by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding. Thus

$$DPS = \frac{\text{Total amount of dividend paid to share holder}}{\text{Number of ordinary shares outstandings}}$$

#### **d. Dividend Payout Ratio (DPR)**

It is the proportion of earning paid in the form of dividend. The dividend pay out ratio is the earning paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. The dividend payout ratio of a bank depends upon the earnings made by the bank. Higher earning enhances the ability to pay more dividends and vice versa

There is an inverse relationship between dividends and retained earnings. The higher the dividend payout ratio, the lower will be the proportion of retained earnings and vice versa. The capacity of internal financing of the firm is checked by the retention ratio

It is calculated as the percentage of the profit that is distributed as dividend. This ratio is calculated by dividing dividend per share by the earning per share. Thus

$$DPR = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

$$\begin{aligned} \text{And, Retention Ratio} &= (1-\text{Dividend Payout Ratio}) \\ &= (1-\text{DPR}) \end{aligned}$$

#### **e. Dividend Yield (DY)**

Dividend yield is a percentage of dividends per share on market price per share. It measures the dividend in relation to market value of share. So, dividend yield is the dividend received by the investors as percentage of market price per share in the stock market.

This ratio highly influences the market price per share because a small change in dividend yields is worth buying effective change in the market value of the share. The share with higher dividend yields is worth buying. Thus the price of higher dividend yield increase sharply in the market. Dividend has important guidance to commit funds for the buying of shares in the secondary market. This ratio is calculated by dividing dividend per share by market price of the stock. Thus

$$DY Ratio = \frac{\text{Dividend Per Share}}{\text{Market Price Per Share}}$$

#### **f. Market Price per Share (MPS) to Book Value Per Share (BVPS)**

This ratio measures the market situation per share in the competitive open market with respect to book value per share of joint venture banks. This ratio indicates the price that the market is paying for the share that is reported from the net worth of the banks.

This is important to compare the market share prices of different stocks on the basis of the book value per share. It shows the market share price of a stock as a percentage of book value per share and the effect of later on the former. The higher ratios represent to conclude that the better performance of joint venture banks in terms of market price per share to book value per share. This ratio can be derived by dividing market price per share by book value per share. Thus

$$MPS \text{ to } BVPS \text{ Ratio} = \frac{\text{Market Price per share}}{\text{Book value per share}}$$

#### **g. Net Worth Per Share**

It is a rupee value per share. It is calculated dividing Book Value of Net Worth (or Net Worth) by total number of shares outstanding. Thus

$$Net \text{ Worth Per Share} = \frac{\text{Net Worth}}{\text{Number of Share}}$$

#### **h. Price-Earnings ratio**

This ratio reflects the market value per share for each rupee of currently reported earning per share. It is calculated by dividing the market value per share (MVPS) by earning per share (EPS).

$$P/E \text{ ratio} = \frac{\text{Market value per share (MVPS)}}{\text{Earning per share (EPS)}}$$

#### **i Net Profit**

The major performance indicator of any firm is profit. The objective of lending and investment is to make good return. Any organization has to desire of earning high or profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc. net profit is profit after deducting all cost and expenses.

### **3.6.2 Statistical Tools**

Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

#### **I. Mean:**

A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

$$\bar{X} = \frac{\sum X}{N}$$

Where,  $\bar{X}$  = Mean of the values  
 $\Sigma X$  = Summation of the values  
 N = No. of Observations

## ii. Standard Deviation ( $\sigma$ )

Karl Pearson first introduced the concept of standard deviation in 1895. “It is the most usual measure of dispersion and it represents the square root of the variance of group of numbers, i.e. the square root of the sum of the squared differences between a group of numbers and their arithmetic mean” Standard deviation is the positive square root of the arithmetic average of the squares of all the deviations measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution. The greater the amount of dispersion the greater the standard deviation. i.e. greater will be the magnitude of the deviations of the values from their mean, A small standard deviation means denoted by Greek letter “ $\sigma$ ” (sigma) and is calculated as follows:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

N= Number of items in the series

$(\bar{X})$  = Mean

X = Variable

## iii. Coefficient of Variation (C.V)

It is the measurement of the relative dispersion developed by Karl Pearson. It is used to compare the variability of two or more series. The series with higher coefficient of variation is said to be more variable, less consistent, less uniform, less stable and less homogenous. On the contrary, the series with less coefficient of variation is said to be less variable, more consistent, more uniform, more stable

and more homogenous. It is denoted by C.V and is obtained by dividing the standard deviation by arithmetic mean. Thus,

$$\text{Coefficient of Variation (C.V)} = \frac{S.D}{\text{Mean}} \times 100 = \frac{\dagger}{\bar{X}} \times 100$$

Where,

† = Standard Deviation

$\bar{X}$  = Mean

#### **iv. Coefficient of Correlation (r)**

Correlation analysis is the statistical tools that we can used to describe the degree to which are variable, is linearly related to another. The correlation analysis is the technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables, It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two variables are related with each other and to what extent variations in one leads to the variations in the other. The value of coefficient of correlation always lies between +1 to -1 indicates a perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means the variables are uncorrelated. The closer r is to +1 or -1, the closer the relationship between the variables and closer r is to zero (0), the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the coefficient is concerned with the strength, or closeness of the relationship between two variable, Thus, in this study, the degree of relationship between market price and other relevant financial indicators such as dividend per share, earning per share, dividend payout ratio etc is measured by the correlation coefficient. The correlation coefficient can be calculated as:

$$r = \frac{Cov(XY)}{\dagger_x \dagger_y}$$

or,

$$r = \frac{(X Z \bar{X})(Y Z \bar{Y})}{(N) \dagger_x \dagger_y}$$

#### v. Coefficient of Determination ( $r^2$ )

The coefficient of determination is the primary way to measure the extent, or strength, of the association that exists between two variables, x and y “Coefficient of determination measures only the strength of a linear relationship between two variables”. It refers to a measure of the total variance in dependent variable that is explained by its linear relationship to an independent variable, the coefficient of determination is denoted by ( $R^2$ ) and the value lies between zero and unity. The closer to unity, the greater the explanatory.

#### vi. Probable Error:

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$P.E. = 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

Here,  $r$  = Correlation coefficient

$N$  = Number of pairs of observations

If the value of ‘ $r$ ’ is less than the probable error, there is no evidence of correlation, i.e., the value of ‘ $r$ ’ is not at all significant. Then, if the value of ‘ $r$ ’ is

more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of 'r' is significant.

**vii. Trend Analysis:**

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trends, line following formula can be used:

$$y = a + bx$$

Where,

y = Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

## **CHAPTER – IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

In this chapter, to achieve the objectives, which are set in introduction chapter, the relevant data and information on dividend policy and its effect on stock price of commercial banks are presented. Presentation and analysis of data is the major part of this research study. So, we analyze the data using the various financial variables and statistical tools discussed in Research Methodology. Data presentation and analysis has been done according to research methodology. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed dividend policy of Nabil Bank Limited and Everest Bank Limited.

#### **4.2 Presentation of Financial Analysis**

In this part various financial ratios related dividend policy of commercial Banks i.e. NABIL and EBL. Some important financial ratios are only calculated in the point of view of dividend policy. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. The financial ratios of dividend policy are presented as follows.

##### **4.2.1 Analysis of Dividend Payment Ratio**

The dividend is the portion of earnings, which is distributed among the shareholders. More specifically, any direct payment by the corporation to the shareholders or stockholders may be considered as Dividend. The term dividend refers to distribution of earnings to the stockholders of the firm in return to their investment. In other words, dividend is a periodic payment made to the stockholders to compensate them for the use of and risk to their investment.

Dividend refers to that portion of a firm's net earning, which are paid out to the shareholders.

Dividend may be paid in form of cash or stock or both merchandise. Generally, it is viewed as cash dividend. Therefore it reduces cash balance of the company as well as the amount of retained earnings. Retained earnings are the earnings of a corporation, which are retained in the business for meeting the financial need of the company for its growth, expansion and development. Retained earnings are one of the most important sources of internal funds. A higher dividend rate means less retained earnings, and vice versa. High dividend rate means increased cash flows to investors, which is good for them, but it leads to lower future growth for firms, which is bad. Thus how much of dividend is to be paid to the stockholders is depend on condition and policy of bank. The dividend payment ratio practice of NABIL and EBL are presented following table.

**Table: 4.1**  
**Analysis of Dividend payment ratio**

(In percent)

Fiscal Year	NABIL			EBL		
	Cash Dividend	Stock Dividend	Total Dividend	Cash Dividend	Stock Dividend	Total Dividend
2006/07	100	40	140	10	30	40
2007/08	60	40	100	20	30	50
2008/09	35	50	85	30	30	60
2009/10	30	40	70	30	30	60
2010/11	30	0	30	50	10	60
<b>Mean</b>			<b>85</b>			<b>54</b>
<b>S.D</b>			<b>40.31</b>			<b>8.94</b>
<b>C.V</b>			<b>47.42</b>			<b>16.56</b>

*Sources: Appendix - 1*

The above table shows the dividend payment of NABIL and EBL. The portion of cash and stock dividend provided by NABIL and EBL are presented. NABIL has high portion of dividend payment than EBL. The highest dividend 140 percent where 100% cash and 40 percent in form of stock dividend given by NABIL in F/Y 2006/07 and lowest dividend payment is 30 percent where 30% cash dividend only in F/Y 2010/11. Similarly EBL provided highest dividend 60 percent in last three year where 30% cash and 30% stock divided in Fiscal year 2008/09, 2009/10 and 50% cash and 10% stock 2010/11. Lowest dividend payment is 40 percent where 10% cash and 30% stock dividend in 2008/09. It is seem to be dividend payment ratio of NABIL has higher than of EBL. Average dividend per share of NABIL is 85 percent and EBL is 54 percent. The S.D and C.V. of NABIL is higher than EBL and lower indicate more consistency in ratio. NABIL has higher ratio than EBL. It can be concluded both banks have adopted the policy of paying high amount in the form of cash and stock dividends whereas NABIL is giving highly. The shareholder of NABIL has getting more dividend than EBL.

#### **4.2.2 Analysis of Earning Per Share**

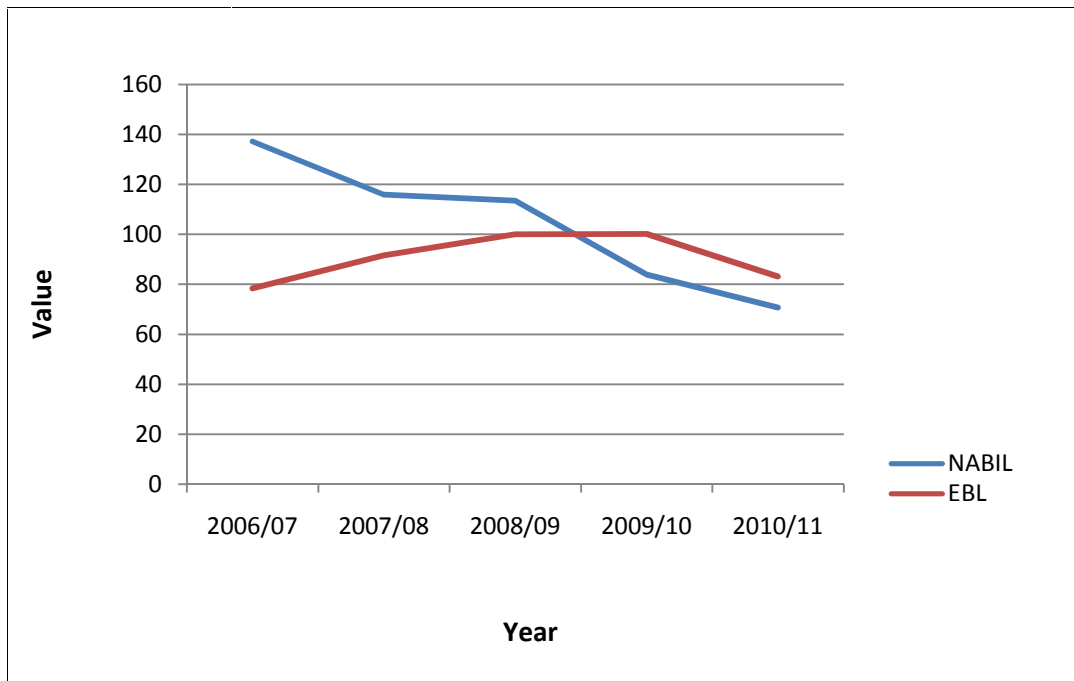
It measures the profit available to equity shareholders on per share basis i.e. the amount they can get each share held. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it doesn't reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period. This ratio is commutated by dividing the net profit after preference dividend by the number of equity. The earnings per share of the banks under study are tabulated as follows.

**Table: 4.2**  
**Analysis of Earnings per share (EPS)**  
(In rupees)

<b>Fiscal Year</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	137.08	78.42
2007/08	115.86	91.62
2008/09	113.44	99.99
2009/10	83.81	100.16
2010/11	70.67	83.18
<b>Mean</b>	<b>104.17</b>	<b>90.67</b>
<b>S. d.</b>	<b>26.66</b>	<b>9.798</b>
<b>C.V.</b>	<b>25.59</b>	<b>10.81</b>

*Sources: Appendix - 2*

**Figure: 4.1**  
**Analysis of Earnings per share (EPS)**



Above table shows that earning price per share of NABIL and EBL. NABIL is decreasing trend of EPS beside F/Y 2007/08 and EBL is fluctuating trend of EPS. While observing their ratios in overall NABIL is better mobilizing it resources to get more earning per share (EPS). The highest EPS of NABIL is 137.08 in F/Y 2006/07 and EBL is 100.16 in F/Y 2009/10. The average mean ratio of NABIL is 104.17 and EBL is 90.67. The higher ratio indicates quite successful by generating higher EPS in each year. It is quite satisfying to state that NABIL has been able to maximizing shareholder wealth from the view point of EPS. The S.D and C.V. of NABIL is higher than EBL and lower indicate more consistency in ratio. Anyway EPS of NABIL is better than EBL. Following figure presents earnings per share of NABIL and EBL. From the above figure analysis, it can be say that the EPS of NABIL is the higher and that of EBL is the lower under the study period. NABIL are decreasing its EPS after F/Y 2007/08 and whereas EBL are fluctuating trend of EPS which clearly represent by above figure. The average EPS of NABIL has higher than EBL during the study period.

#### **4.2.3 Analysis Earning Yield (EY)**

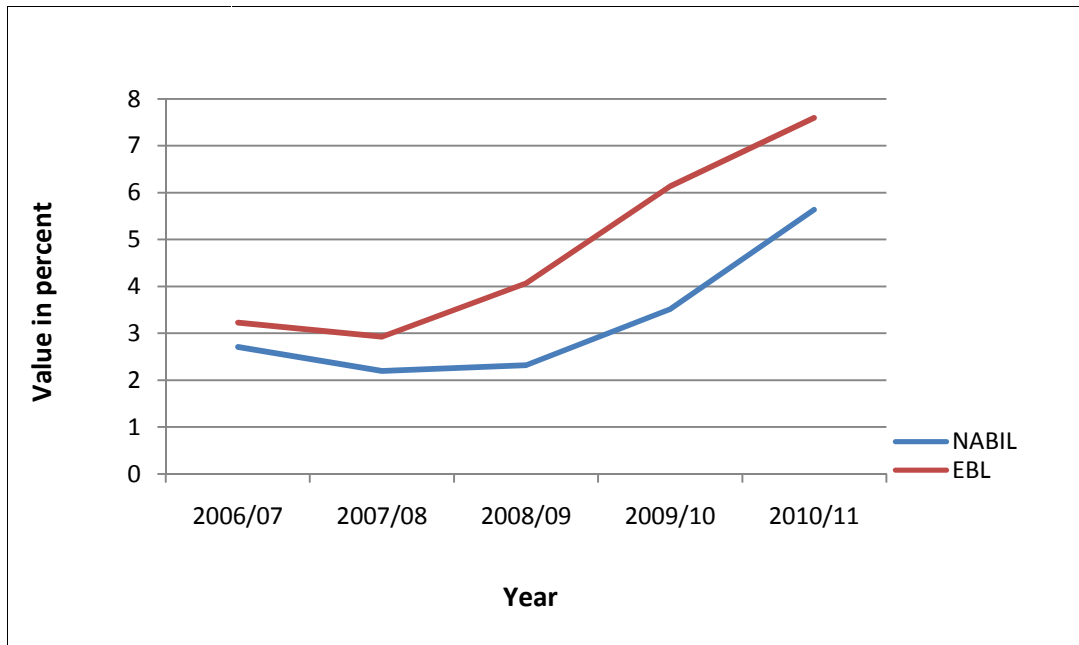
Earning yield is the percentage of earning per share to market price per share in the stock market. In other words, it is a financial ratio relating to earning per share to the market value of share. It gives some idea of how much an investor is earning for his money. The share with higher earning yield is informative to compare the market share prices of stocks in the secondary market.

**Table: 4.3**  
**Analysis of Earnings Yield (E/Yield)**  
(In percent)

<b>Fiscal Year</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	2.71	3.23
2007/08	2.20	2.93
2008/09	2.32	4.07
2009/10	3.52	6.14
2010/11	5.64	7.60
<b>Mean</b>	<b>3.28</b>	<b>4.79</b>
<b>S. d.</b>	<b>1.42</b>	<b>2.01</b>
<b>C.V.</b>	<b>43.29</b>	<b>41.96</b>

Sources: Appendix - 3

**Figure: 4.2**  
**Analysis of Earnings Yield (E/Yield)**



Above table shows that earning yield of NABIL and EBL. The earning yield of NABIL are decreasing till 2007/08 and increasing thereafter in the same way EBL are also decreasing till in 2007/08 and increasing thereafter. While observing their

ratios in overall EBL is higher every year. The highest earning yield of NABIL is 5.64 in F/Y 2010/11 and EBL is 7.60 percent in F/Y 2010/11. The average mean ratio of NABIL is 3.28 and EBL is 4.79 percent. The higher ratio indicates higher in earning yield. The average earning yield of EBL is higher earning yield than NABIL. The S.D of EBL is higher than NABIL which indicate riskier. The C.V of NABIL is Higher it indicated inconsistency than EBL because the earning yield of EBL is more fluctuating than NABIL. It concluded that earning yield of EBL is better than NABIL.

#### **4.2.4 Analysis of Dividend Per Share**

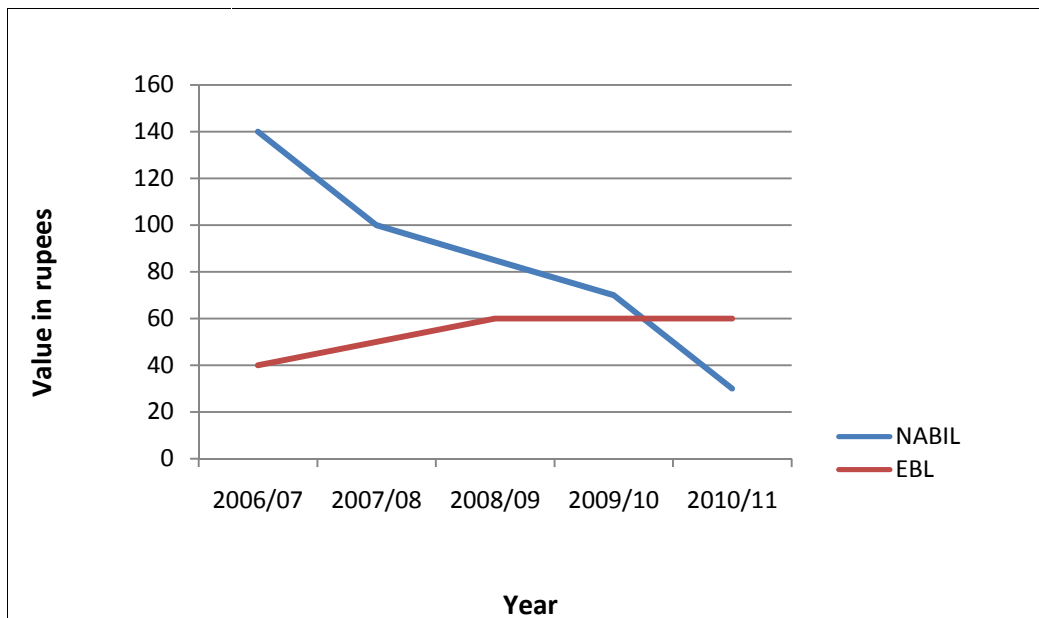
Shareholders want to receive dividend from their investment. A firm wants to distribute dividend to its shareholder if a firm suppose the insufficient investment opportunities and sector. Sometimes, it does not distribute dividend and sometime issues bonus shares. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, divisible profit or proposed dividend or declared dividend. So, each firm must announce the total dividend and dividend per share which show the position of the firm. The dividend per share of the sample banks under study are tabulated as under:

**Table: 4.4**  
**Analysis of Dividend per Share (DPS)**  
(In rupees)

<b>Fiscal Year</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	140	40
2007/08	100	50
2008/09	85	60
2009/10	70	60
2010/11	30	60
<b>Mean</b>	<b>85</b>	<b>54</b>
<b>S. d.</b>	<b>40.31</b>	<b>8.94</b>
<b>C.V.</b>	<b>47.42</b>	<b>16.56</b>

*Sources: Appendix - 4*

**Figure: 4.3**  
**Analysis of Dividend per Share (DPS)**



The above table shows the dividend per share of NABIL and EBL. Here total both cash and stock dividend included in above table. NABIL is high portion of dividend payment. The highest dividend 140 percent given by NABIL in F/Y

2006/07 and lowest dividend payment is 30 percent in F/Y 2010/11. Similarly EBL provided highest dividend 60 percent in Fiscal year 2008/09 to 2010/11 and lowest dividend payment is 40 percent in 2006/07. It is seen to be dividend payment ratio of NABIL has higher than of EBL. Average dividend per share of NABIL is 85 and 54 of EBL. The S.D. and C.V of NABIL is higher than EBL so it indicates high volatile and inconsistency in dividends of NABIL than EBL during the study period. It can be concluded both banks have adopted the policy of paying high amount in the form of cash and stock dividends whereas NABIL has been giving highly dividend to its shareholders. The above figure show condition of dividend payment of NABIL and EBL. The figure shows the dividend per share of NABIL and EBL.

#### **4.2.5 Analysis of Dividend Payout Ratio (DPR)**

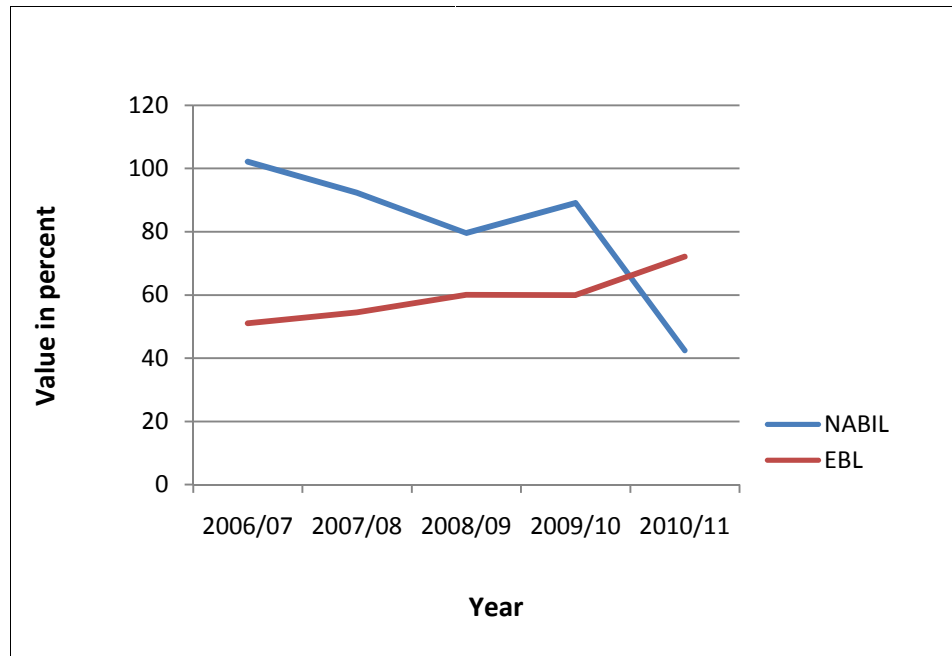
It is the proportion of earning paid in the form of dividend. The dividend pay out ratio is the earning paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. The dividend payout ratio of a bank depends upon the earnings made by the bank. Higher earning enhances the ability to pay more dividends and vice versa. There is an inverse relationship between dividends and retained earnings. The higher the dividend payout ratio, the lower will be the proportion of retained earnings and vice versa. The capacity of internal financing of the firm is checked by the retention ratio. It is calculated as the percentage of the profit that is distributed as dividend. This ratio is calculated by dividing dividend per share by the earning per share. Thus dividend payout ratios of the sample banks are presented below:

**Table: 4.5**  
**Analysis of Dividend Payout Ratio (DPR)**  
(In percent)

<b>Fiscal Year</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	102.13	51.01
2007/08	92.33	54.45
2008/09	79.62	60.01
2009/10	89.05	59.90
2010/11	42.45	72.13
<b>Mean</b>	<b>81.12</b>	<b>59.50</b>
<b>S. d.</b>	<b>23.06</b>	<b>8.02</b>
<b>C.V.</b>	<b>28.43</b>	<b>13.48</b>

*Sources: Appendix - 5*

**Figure: 4.4**  
**Analysis of Dividend Payout Ratio (DPR)**



The above table shows the dividend payout ratio of NABIL and EBL. The both banks NABIL and EBL is fluctuating trend of dividend payout. The highest dividend payout ratio of NABIL is 102.13 in F/Y 2006/07 and lowest DPR is

42.45 in F/Y 2010/11. The average dividend payout ratio of NABIL is 81.12. The highest dividend payout ratio of EBL is 72.13 in F/Y 2010/11 and lowest dividend payout ratio is 51.01 in F/Y 2006/07. The average dividend payout ratio of EBL is 59.50. It is seem fluctuating condition of dividend payout ratio of NABIL and EBL. Average dividend payout ratio of NABIL is higher than EBL. Its indicate dividend payment ratio from its earning of NABIL is higher than EBL. The S.D and C.V. of NABIL is higher than EBL indicates more risky and inconsistency in dividends payout ratio of NABIL during the study period. It can be concluded both banks have adopted the policy of paying high portion of dividend payment form it's earning. The dividend payout ratio of NABIL is aggressive and highly from it's earning. The above figure shows condition of dividend payout of NABIL and EBL.

#### **4.2.6 Analysis of Dividend Yield (D.Y)**

Dividend yield is a percentage of dividends per share on market price per share. It measures the dividend in relation to market value of share. So, dividend yield is the dividend received by the investors as percentage of market price per share in the stock market.

This ratio highly influences the market price per share because a small change in dividend yields is worth buying effective change in the market value of the share. The share with higher dividend yields is worth buying. Thus the price of higher dividend yield increase sharply in the market. Dividend is important guidance to commit funds for the buying of shares in the secondary market. This ratio is calculated by dividing dividend per share by market price of the stock.

**Table: 4.6**

**Analysis of Dividend Yield (D.Y)**

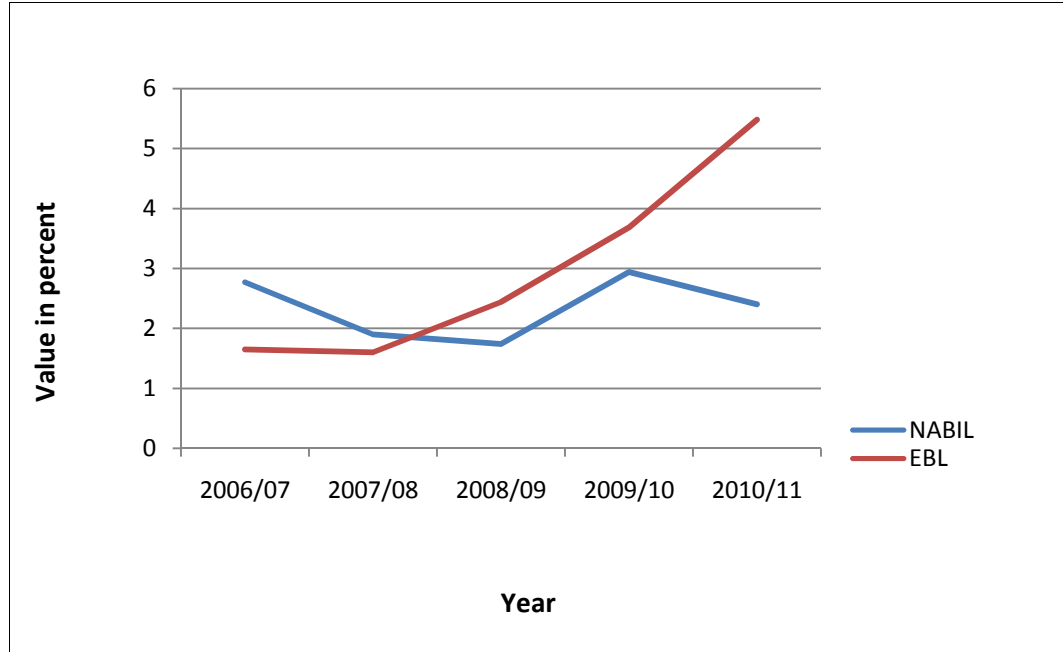
(In percent)

<b>Fiscal Year</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	2.77	1.65
2007/08	1.90	1.60
2008/09	1.74	2.44
2009/10	2.94	3.68
2010/11	2.40	5.48
<b>Mean</b>	<b>2.35</b>	<b>2.97</b>
<b>S. d.</b>	<b>0.52</b>	<b>1.64</b>
<b>C.V.</b>	<b>22.13</b>	<b>55.22</b>

Sources: Appendix - 6

**Figure: 4.5**

**Analysis of Dividend Yield (D.Y)**



Above table shows that dividend yield of NABIL and EBL. During the study NABIL is fluctuating trend of dividend yield. EBL is decreasing trend till second year 2007/08 and increasing trend thereafter of dividend yield. While observing

average ratios in overall study period EBL is higher than NABIL. It indicates EBL is higher dividend yield. The average mean ratio of NABIL is 2.35 and EBL is 2.97 percent. The highest dividend yield of NABIL is 2.94 in F/Y 2009/10 and EBL is 5.48 percent in F/Y 2010/11. Similarly lower ratio of NABIL and EBL are 1.74 percent and 1.60 in 2008/09 and 2007/08 respectively. So dividend yield of EBL seems higher due to trading its share in lower price in market. The S.D and C.V. of EBL is higher than NABIL. Which indicate riskier and inconsistency than NABIL because increasing rate of EBL is higher than NABIL. It conclude that at the end of study period dividend yield of EBL is better than NABIL. Above figure presents the dividend yield of NABIL and EBL.

#### **4.2.7 Analysis of Market Price of Share (Stock Price)**

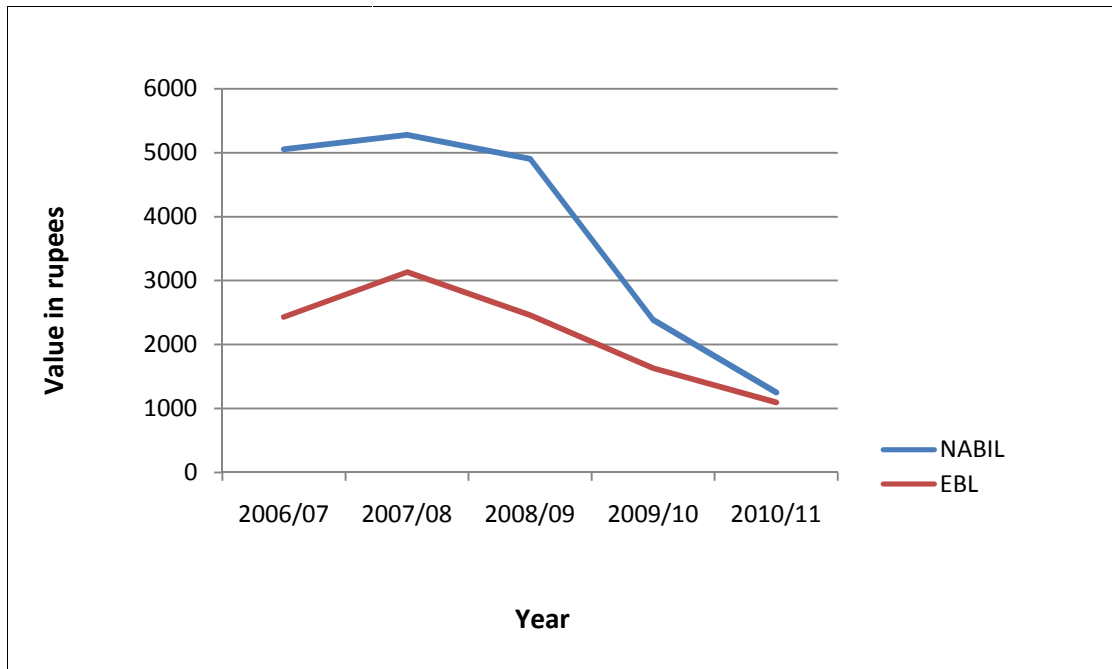
Market price per share is the price at which shares are traded in the stock market. MPS is the price of stock on which stocks are treated in the secondary market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors. The closing stock price of the banks under study is presented in table as follows:

**Table: 4.7**  
**Analysis of Market Price of Share (MPS)**  
(In rupees)

<b>Fiscal Year</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	5050	2430
2007/08	5275	3132
2008/09	4899	2455
2009/10	2384	1630
2010/11	1252	1094
<b>Mean</b>	<b>3772</b>	<b>2148.20</b>
<b>S. d.</b>	<b>1833</b>	<b>793.92</b>
<b>C.V.</b>	<b>48.59</b>	<b>36.96</b>

*Sources: Appendix -*

**Figure: 4.6**  
**Analysis of Market Price of Share (MPS)**



Above Table shows market price of the share of NABIL and EBL. Both bank NABIL and EBL are increasing trend of Market price of share at beginning and decreasing at last. Market price of both increases till fiscal year 2007/08, then after decreases. It indicates demand of share price decrease after fiscal year 2007/08 or performance and demand of company decrease. The highest share price of NABIL and EBL are Rs 5275 and Rs 3132 in F/Y 2007/08. Similarly lowest market share price of NABIL and EBL are Rs 1252 and Rs 1094 in F/Y 2010/11 respectively. Average mean market price of NABIL is higher than EBL i.e. 3772 > 2148.20. It indicates that charms and demand of share of NABIL is higher due to higher return and dividend. So shareholder of NABIL are getting higher price. The S.D and C.V. of NABIL higher than EBL. Which indicate higher volatility and inconsistency in share price of NABIL. The above figure shows the condition of market price of NABIL and EBL traded in market during the study period.

#### 4.2.8 Analysis of Price-Earning Ratio (P/E)

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

$$\text{Price earnings ratio (P/E ratio)} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

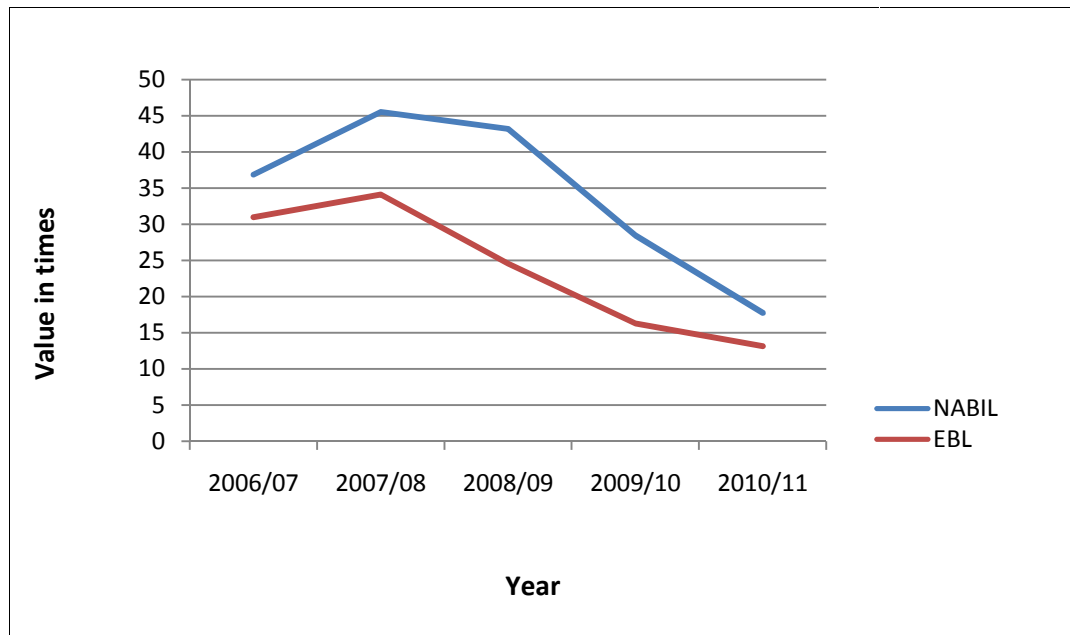
The price-earning ratios of the banks under study are presented in the table as follows:

**Table: 4.8**  
**Analysis of Price-Earning Ratio (P/E)**  
(In times)

<b>Fiscal Year</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	36.84	30.99
2007/08	45.53	34.11
2008/09	43.19	24.55
2009/10	28.45	16.27
2010/11	17.72	13.15
<b>Mean</b>	<b>34.35</b>	<b>23.81</b>
<b>S. d.</b>	<b>11.41</b>	<b>9.07</b>
<b>C.V.</b>	<b>33.22</b>	<b>38.09</b>

*Sources: Appendix - 8*

**Figure: 4.7**  
**Analysis of Price-Earning Ratio (P/E)**



Above table shows that price earning ratio earning of NABIL and EBL. Both NABIL and EBL banks are increasing trend at first and decreasing there after at the study period. The ratios are increasing till fiscal year 2007/08 and there after decreasing trend. The average mean ratio of the NABIL and EBL are 34.35 and 23.81 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 34.35 of NABIL and Rs 23.81 of EBL. NABIL has aggressively increasing in price earning ratio. Looking the mean ratio we conclude that investor of NABIL are getting better profitability because the share of NABIL trading higher price in market. The S.D of NABIL is higher than the EBL so its little higher risk to invest in NABIL rather than the EBL and the C.V. of EBL is higher than NABIL so it indicates inconsistency in ratio. In the point of view of price earning ratio its recommended to sale the share of NABIL due to higher price earning and purchase of share of EBL. The above figure shows the price earning ratios of the NABIL and EBL banks.

#### 4.2.9 Analysis of Net Worth Per Share

Net worth is the actual value of the company. Its also called book value of company. It is a rupee value per share. It is calculated dividing Book Value of Net Worth (or Net Worth) by total number of shares outstanding. Thus The Net worth per share of the banks under study is stated in the table as follows:

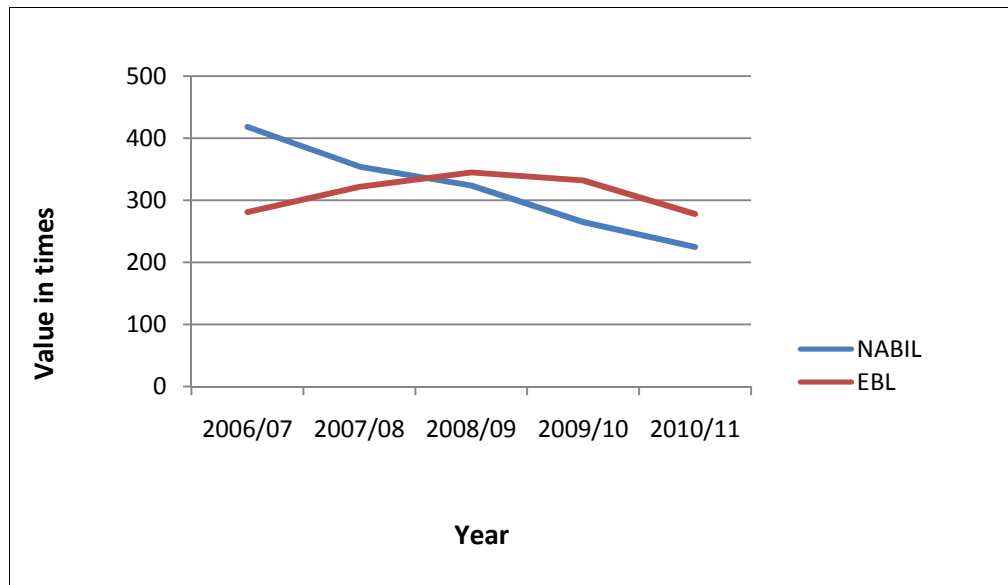
**Table: 4.9**  
**Analysis of Net worth per share (NWPS)**  
(In times)

<b>Fiscal Year</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	418	281
2007/08	354	322
2008/09	324	345
2009/10	265	332
2010/11	225	278
<b>Mean</b>	<b>317.20</b>	<b>311.60</b>
<b>S. d.</b>	<b>75.48</b>	<b>30.44</b>
<b>C.V.</b>	<b>23.80</b>	<b>9.76</b>

*Source: Appendix - 9*

**Figure: 4.8**

**Analysis of Net worth per share (NWPS)**



Above table shows that net worth per share of NABIL and EBL. Net worth per share of NABIL has decreasing and EBL is fluctuating trend of net worth per share. While observing their ratios in overall NABIL has better in its net worth. The highest NWPS of NABIL is 418 in F/Y 2006/07 and EBL is 345 in F/Y 2008/09. Lowest net worth per share of NABIL is 225 in F/Y 2010/11 and EBL is 278 in F/Y 2010/11. The average net worth per share of NABIL is 317.20 and EBL is 311.60 times. The higher net worth per share indicates more value of company. It is quite satisfying to state that NABIL has been able to maximizing shareholder wealth due to have more net worth per share. The S.D and C.V. of NABIL is higher than EBL. Which indicate inconsistency in the value. The lower C.V. of EBL which indicate more consistency in net worth. In this way net worth of EBL is better than NABIL. The above figure presents net worth per share of NABIL and EBL.

#### 4.2.10 Analysis of Net Profit

The major performance indicator of any firm is profit. The objective of lending and investment is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc. net profit is profit after deducting all cost and expenses.

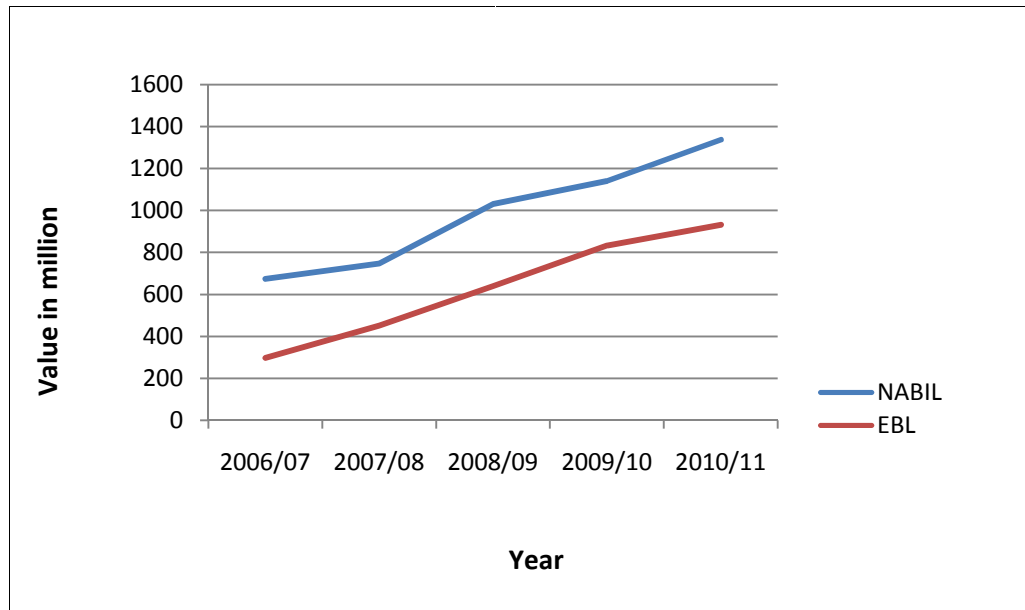
**Table: 4.10**  
**Analysis of Net Profit**

(In millions)

<b>Fiscal Year</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	673.96	296.40
2007/08	746.47	451.20
2008/09	1031.05	638.70
2009/10	1141.05	831.80
2010/11	1337.75	931.30
<b>Mean</b>	<b>986.06</b>	<b>629.88</b>
<b>S. d.</b>	<b>275.93</b>	<b>262.13</b>
<b>C.V.</b>	<b>27.98</b>	<b>41.62</b>

*Sources: Appendix - 10*

**Figure: 4.9**  
**Analysis of Net Profit**



The above table shows Net profit of NABIL and EBL. Above table shows that NABIL and EBL is in increasing trend. Net profit of NABIL is higher than EBL in every year. Its indicate NABIL generating higher profit by utilizing its resource. The highest net profit of NABIL is 1337.75 million in fiscal year 2010/11 and lowest 673.96 in F/Y 2006/07. Highest net profit of EBL is 931.30 million in fiscal year 2010/111 and lowest amount 296.40 million in fiscal year 2006/07. Average mean net profit of NABIL is higher than that of EBL i.e.  $986.06 > 629.88$ . The S.D. of NABIL is higher than EBL so it indicates high volatile. C.V of EBL is higher than NABIL so it indicates inconsistency in earning in net profit of EBL. In this way NABIL is generating higher net profit in comparison with EBL. In brief, it signifies that the shareholders of NABIL are possibility to getting higher return and dividend than EBL due to higher return. It can be concluded that NABIL has better utilized the resource for the profit generation. The above figure shows the net profit of NABIL and EBL.

### 4.3 Statistical Analysis

For the third objective of the study stoical tools is analyzed. Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is convenient statistical tools are used in this thesis study.

#### 4.3.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between EPS and DPS, DPS and MPS net profit and DPS of NABIL and EBL using Karl Persons coefficient of correlation, value of coefficient of determination ( $R^2$ ) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

#### A. Correlation Coefficient between EPS and DPS

Earning plays Vitol role in dividend decision of commercial banks. As much as earning grow that much possibility to provide higher dividend. Co-efficient of correlation between EPS and DPS measures the degree of relationship between these two variables. In this analysis, EPS is independent variable (X) and DPS are dependent variable (Y). The main objectives of computing 'r' between these two variables are to justify whether EPS are distributed as Dividend in proper way or not. ]**Table: 4.11**

**Correlation between EPS and DPS**

Name of Banks	Evaluation Criteria			
	R	$R^2$	P.Er.	6 P.Er.
NABIL	0.962	0.925	0.023	0.136
EBL	0.305	0.093	0.274	1.64

*Source: Through SPSS Data Editor*

From the above table, it is found that coefficient of correlation between EPS and DPS of NABIL and EBL is 0.962 and 0.305. It is shows that both have the positive relationship between these two variables. It refers that EPS and DPS of NABIL and EBL move together but NABIL have in high proportion and EBL not proportionately. Moreover, the coefficient of determination of NABIL is 0.925. It means 92.50 percent of contribution in DPS has been explained by EPS. Similarly, value of coefficient of determination of EBL is 0.093. It refers that 9.30 percent of contribution in DPS has been explained by EPS. The correlation coefficient of NABIL is significant because the correlation coefficient is Higher than the relative value of 6 P.Er. EBL is insignificant because the correlation coefficient is lower than the relative value of 6 P.Er. In other words, there is insignificant relationship between EPS and DPS of EBL.

### **B. Coefficient of Correlation between EPS and MPS**

The coefficient of correlation between EPS and MPS measures the degree of relationship between these two variables. In correlation analysis, here EPS is independent variable (X) and MPS is dependent variable (Y).

The following Table shows the coefficient correlation between EPS and MPS i.e. r, P.Er., 6 P. Er. and coefficient of determination (R<sup>2</sup>) of NABIL and EBL during the study period.

**Table: 4.12**  
**Correlation between EPS and MPS**

Name of Banks	Evaluation Criterions			
	R	R <sup>2</sup>	P.Er.	6 P.Er.
NABIL	0.935	0.874	0.038	0.228
EBL	0.405	0.164	0.252	1.513

*Source: Through SPSS Data Editor*

From the above table, it is found that the coefficient of correlation between EPS and MPS of NABIL is 0.935. It shows the high degree positive correlation. In addition, coefficient of determination of NABIL is 0.874 It means 87.40 percent of MPS is determined by EPS. Least is determined by other factor. The correlation coefficient is significant because the correlation coefficient is higher than 6 P.Er. It refers that there is significant relationship between EPS and MPS of NABIL.

Similarly, the correlation coefficient between EPS and MPS of EBL is positive by 0.405. The value of coefficient of determination is found 0.164 this refers that 16.40 percent of MPS is determined by EPS. Least is determined by other factor. The correlation coefficient is insignificant because the correlation coefficient is lower than 6 P.Er. It refers that there is insignificant relationship between EPS and MPS of EBL. From the above analysis, the conclusion can be drawn in the case of NABIL and EBL that both have positive correlation between EPS and MPS but not proportionately.

### **C. Co-efficient of Correlation between NWPS and MPS**

Co-efficient of correlation between net worth per share and market price per share is used to measure the degree of relationship between two variables i.e. NWPS and MPS of NABIL and EBL during the study period. Where NWPS is independent variable (X) and MPS is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the MPS is significantly correlated or not. The following table shows the 'r',  $R^2$ , P.Er. and 6 P. Er. between those variables of NABIL and EBL for the study period.

**Table: 4.13**  
**Correlation between NWPS and MPS**

Name of Banks	Evaluation Criteria			
	R	R <sup>2</sup>	P.Er.	6 P.Er.
NABIL	0.897	0.805	0.059	0.354
EBL	0.681	0.464	0.162	0.972

*Source: Through SPSS Data Editor*

Above table shows correlation coefficient between, net worth per share and market price per share is 0.897 of NABIL. It refers that there is positive correlation between these two variables. The coefficient of determination is 0.805 It means 80.50 percent of MPS is determined by Net worth. Moreover, this relationship is significant because the coefficient of correlation is higher than 6 P.Er.

Likewise EBL also has positive correlation between MPS and NWPS by 0.681. The coefficient of determination R is 0.464, which indicates that 46.40 percent of MPS is determined by NWPS. Least are determines by other factor. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P.Er. i.e.  $0.681 < 0.972$ . It refers that there is insignificant relationship between MPS and NWPS of EBL. In conclusion, both banks have positive correlation. NABIL is significant relationship between MPS and NWPS and EBL is insignificant relationship.

#### **D. Coefficient of Correlation between Net Profit and Market price per share**

Coefficient of correlation between market price per share and net profit measures the degree of their relationship. In the, correlation analysis, net profit is independent variable and market price is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er. during the fiscal year 2006/07 to 2010/11.

**Table: 4.14**  
**Correlation between Market price per share and Net Profit**

Name of Banks	Evaluation Criteria			
	R	R <sup>2</sup>	P.Er.	6 P.Er.
NABIL	-0.895	0.801	0.060	0.360
EBL	-0.837	0.701	0.090	0.541

*Source: Through SPSS Data Editor*

Above table shows correlation coefficient between market price per share and net profit of NABIL is -0.895 which implies there is negative correlation between MPS and net profit. In addition, coefficient of determination of NABIL is 0.801. It means 80.10 percent of MPS is determined by net profit. Least are determined by other factor. This correlation is insignificant at all due to coefficient of correlation is lower than 6 P. Error.

In the same way EBL has also negative correlation between MPS and net profit i.e. -0.837. The coefficient of determination of EBL is 0.701. It means 70.10 percent of market price is determined by net profit, but this relationship is insignificant as its correlation is negative. Which indicate net profit of NABIL and EBL doesn't effect on its market price of share. So market price of company and net profit of company doesn't move in same direction.

**E. Coefficient of correlation of Earning per share between NABIL and EBL**

Coefficient of correlation of earning per share between NABIL and EBL and shows their linear relationship.

**Table: 4.15**  
**Correlation of Earning per share between NABIL and EBL**

Evaluation Criteria			
R	R <sup>2</sup>	P.Er.	6 P.Er.
0.367	0.135	0.261	1.566

*Source: Through SPSS Data Editor*

This table shows relationship of earning per share between NABIL and EBL. There is 0.367 positive correlations between these two banks in this regard. Its means positive relation of EPS between NABIL and EBL. The correlation coefficient is insignificant because the correlation coefficient is lower than 6 P.Er. As the 0.135 of coefficient of determination, this shows the 13.50 percent of the degree of relationship.

**F. Coefficient of correlation of dividend per share between NABIL and EBL**

The coefficient of correlation of dividend per share between selected commercial banks is shown as follow:

**Table: 4.16**  
**Correlation between dividend per share of NABIL and EBL**

<b>Evaluation Criteria</b>			
<b>R</b>	<b>R<sup>2</sup></b>	<b>P.Er.</b>	<b>6 P.Er.</b>
-0.451	0.203	0.240	1.442

*Source: Through SPSS Data Editor*

The above table shows that there is negative degree of correlation between NABIL and EBL in case of dividend per share i.e. -0.451. It implies that the dividend payment of NABIL and EBL move in the opposite direction but not proportionately. Here R is lowers than 6 P.Er. Therefore, correlation coefficient is not significant. This can be said that both NABIL and EBL of DPS moves as Opposite direction. The coefficient of determination is 0.203, which shows the only 20.30 percent of the degree of relationship.

### **G. Coefficient of Correlation of Market price per share between NABIL and EBL**

The coefficient of correlation of market price per share between NABIL and EBL has been given below.

**Table: 4.17**  
**Correlation between Market price per share of NABIL and EBL**

<b>Evaluation Criteria</b>			
<b>R</b>	<b>R<sup>2</sup></b>	<b>P.Er.</b>	<b>6 P.Er.</b>
0.899	0.808	0.058	0.347

*Source: Through SPSS Data Editor*

Above table shows that there is high degree positive correlation between the market price of share of NABIL and EBL i.e. 0.899. The correlation coefficient between two banks is 0.808. It means MPS of these two banks moves in the same direction in high proportion. This correlation coefficient is significant in order to show the relationship between MPS of these two banks because correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.808. which shows the 80.80 percent of the degree of relationship.

### **H. Coefficient of Correlation of Net Profit between NABIL and EBL**

The coefficient of net profit between the selected commercial banks shows the relationship between the banks.

**Table: 4.18**  
**Correlation between Net Profit of NABIL and EBL**

<b>Evaluation Criteria</b>			
<b>R</b>	<b>R<sup>2</sup></b>	<b>P.Er.</b>	<b>6 P.Er.</b>
0.925	0.856	0.043	0.261

*Source: Through SPSS Data Editor*

Above statistics shows that there is high degree of positive correlation between net profits of NABIL and EBL, which is indicated by correlation coefficient of 0.925, This relationship is significant because its correlation coefficient is higher than 6 P.Er. The coefficient of determination is 0.856 which shows the 85.60 percent of the degree of relationship.

**4.3.2 Time Series Analysis (Trend Analysis)**

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms. Here trend analysis done three variable DPS, EPS and Net profit of NABIL and EBL.

**A. Trend Analysis of Dividend per share:**

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of total deposit of NABIL and EBL for further five year

$$Y = a + bx$$

Where, Y= dependent variable

a =Y-intercept

b =slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

Where as

$$Y_c = 85 - 25 * X \text{ of NABIL}$$

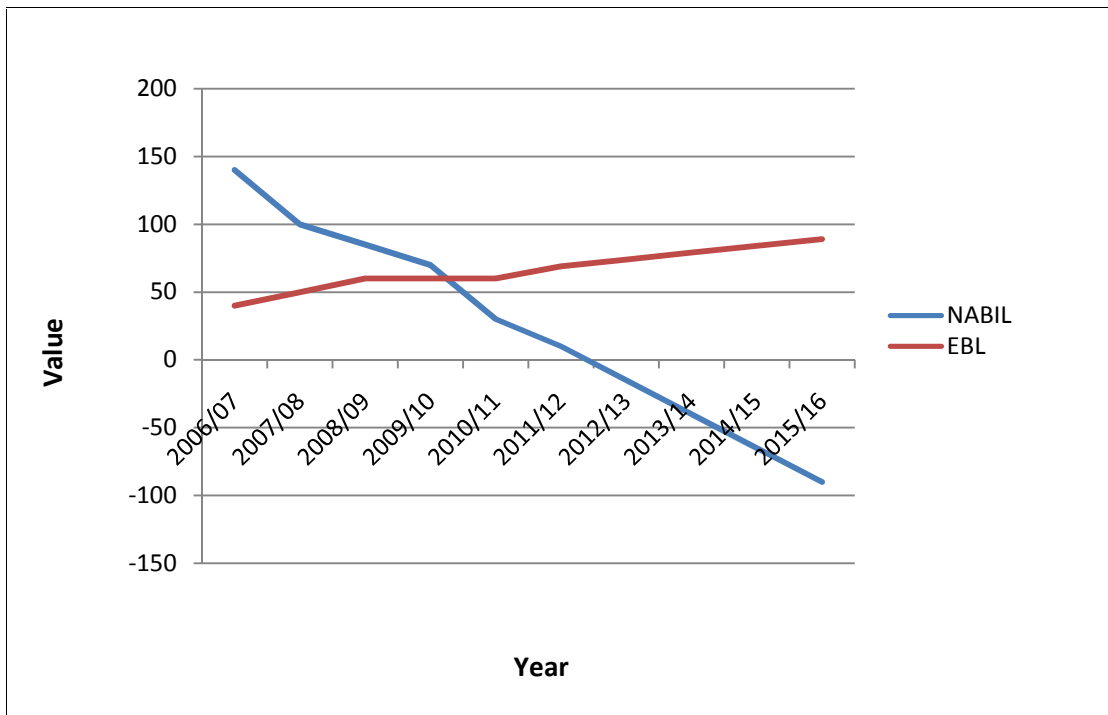
$$Y_c = 54 + 5 * X \text{ of EBL}$$

**Table: 4.19**  
**Trend line of Dividend per share**

Year(x)	NABIL	EBL
2006/07	140	40
2007/08	100	50
2008/09	85	60
2009/10	70	60
2010/11	30	60
2011/12	10	69
2012/13	-15	74
2013/14	-40	79
2014/15	-65	84
2015/16	-90	89

*Source: Appendix - 11*

**Figure: 4.10**  
**Trend Line of Dividend per share**



Above table and figure shows that dividend per share of NABIL and EBL. The trend line show NABIL is in decreasing trend and EBL is in fluctuating decreasing trend. The portion of dividend payment of NABIL is decreasing and EBL is fluctuating so forecasted trend of NABIL is decreasing trend and EBL is in increasing trend. The rate of decline of DPS for NABIL seems to be higher than that of increasing trend of EBL. The trend forecast that EBL can't provide dividend after F/Y 2011/12. The trend analysis has projected deposit amount in FY 20011/12 to FY 2015/16.

**B. Trend Analysis of Earning Price per Share**

Here, the trend values of earning price per share Between NABIL and EBL have been calculated for further five year. The following Table shows the actual and trend values of NABIL and EBL.

$Y = a + bx$

Where,

Y= dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x \dots\dots\dots (I)$

Where  $x = X - \text{Middle year}$

Where as

$Y_c = 104.172 - 16.487 * X \text{ of NABIL}$

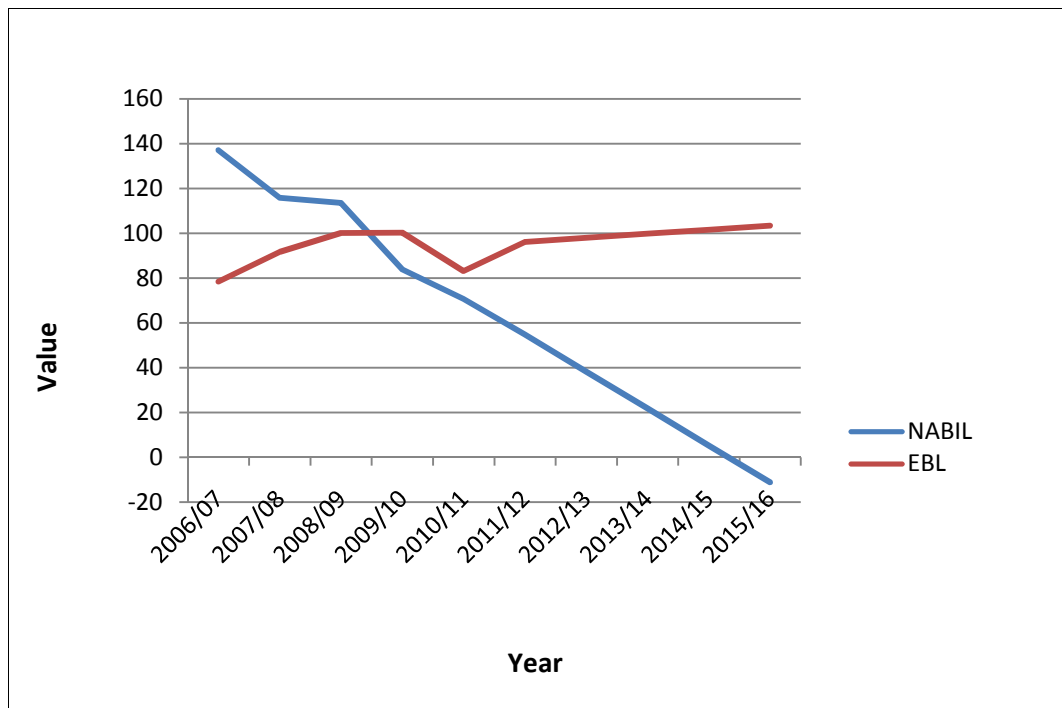
$Y_c = 90.674 + 1.806 * X \text{ of EBL}$

**Table: 4.20**  
**Trend line of Earning Per Share**

<b>Year(x)</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	137.08	78.42
2007/08	115.86	91.62
2008/09	113.44	99.99
2009/10	83.81	100.16
2010/11	70.67	83.18
2011/12	54.711	96.092
2012/13	38.224	97.898
2013/14	21.737	99.704
2014/15	5.25	101.51
2015/16	-11.237	103.316

*Source: Appendix -12*

**Figure: 4.11**  
**Trend line of Earning per Share**



Above table depicts that earning price per share of NABIL and EBL. The EPS of NABIL is decreasing and EBL is fluctuating. So, forecasted trend of EPS of NABIL have been decreasing and EBL have been increasing trend. The decreasing trend of NABIL aggressive than increasing trend of EBL. The EPS of EBL is quite fluctuating in study period. The trend projected for further five year F/Y 20011/12 to FY 2015/16. From the above analysis, it is forecasted that EPS of NABIL is decreasing and EBL is increasing trend.

### **C. Trend Analysis of Net Profit**

Here, the trend values of net profit of NABIL and EBL have been calculated for five years F/Y 2006/07 to F/Y 2010/11 and forecasting of the same for next five year F/Y 20015/16

$$Y = a + bx$$

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots \dots \dots (I)$$

Where  $x = X - \text{Middle year}$

Where as

$$Y_c = 986.056 + 172.216 * X \text{ of NABIL}$$

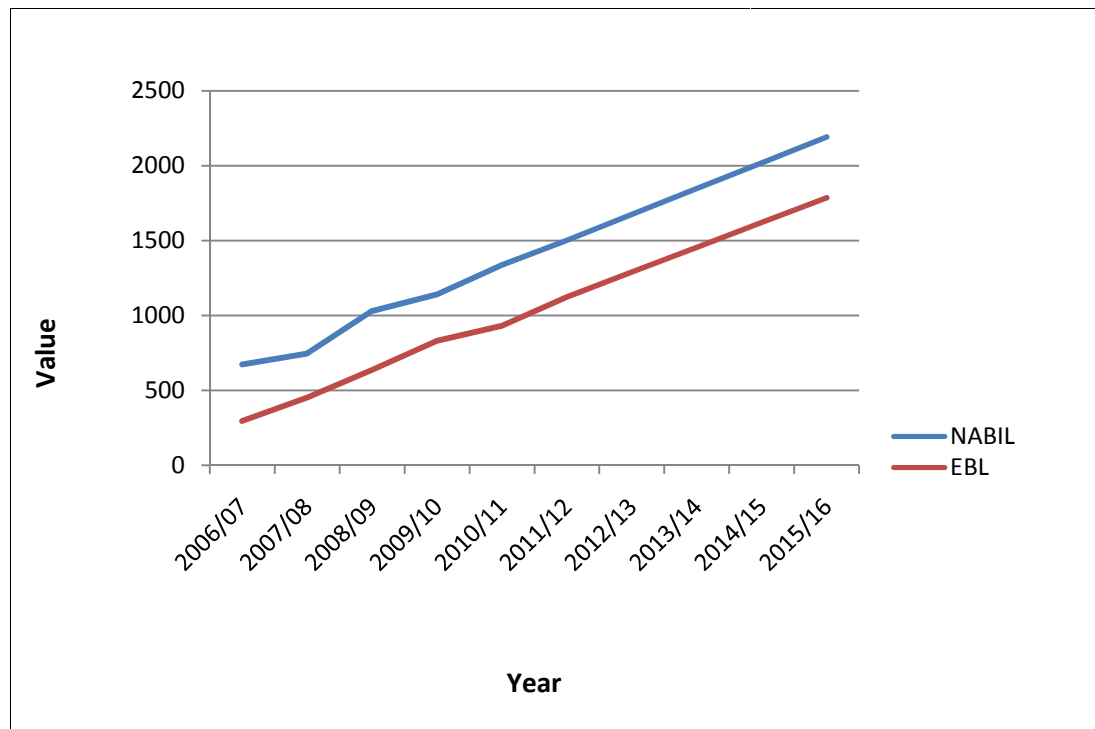
$$Y_c = 629.88 + 165.04 * X \text{ of EBL}$$

**Table: 4.21**  
**Trend line of Net Profit**

<b>Year(x)</b>	<b>NABIL</b>	<b>EBL</b>
2006/07	673.96	296.40
2007/08	746.47	451.20
2008/09	1031.05	638.70
2009/10	1141.05	831.80
2010/11	1337.75	931.30
2011/12	1502.70	1125.00
2012/13	1674.92	1290.04
2013/14	1847.14	1455.08
2014/15	2019.35	1620.12
2015/16	2191.57	1785.16

*Source: Appendix - 13*

**Figure: 4.12**  
**Trend Line of Net Profit**



The above table and figure shows the trend of Net profit of NABIL and EBL. Net profit of both bank NABIL and EBL forecasted in increasing trend. The trend of

increasing value of net profit of NABIL is higher than EBL exceed. It indicate that earning of NABIL is aggressive than EBL. The net profit of NABIL and EBL has been increasing every year. The trend of Net profit projected to FY 2015/16 i.e. further five year. Above statistics, shows that both the banks have consistent net profit throughout the study period. In conclusion, EBL is aggressive in order to generate net profit during the projected study period, thus both NABIL and EBL have increasing trend.

#### **4.4 Major Findings of the Study**

From the above research study, following findings are drawn on the dividend policy of the selected commercial banks. The study covers five fiscal year from 2006/07 to 2010/11. The reliability of the conclusions of this study is dependent upon the accuracy of data. The major findings of this study can be summarized as follows:

- ) For analyzing the dividend payment amount of NABIL and EBL, NABIL has high portion of dividend payment than EBL. The highest dividend 140 percent where EBL 60% as form of cash and stock dividend. It is seem to be dividend payment ratio of NABIL has higher than of EBL. Average dividend per share of NABIL is higher than that of EBL (i.e. 85 > 54. The shareholder of NABIL has getting more dividend than EBL.
- ) The earning price per share of NABIL has decreasing trend where as EBL has fluctuating position of EPS. NABIL is better mobilizing it resources to get more earning per share (EPS). The average mean ratio of NABIL is 104.17 and EBL is 90.67. The higher ratio indicates quite successful by generating higher EPS in each year. The C.V. of EBL is lower than NABIL which indicate more consistency in ratio.

) For analyzing earning yield of NABIL and EBL, The earning yield of NABIL are decreasing till 2007/08 and increasing thereafter in the same way EBL are also decreasing till in 2007/08 and increasing thereafter. The average mean ratio of NABIL is 3.28 and EBL is 4.79 percent. The higher ratio of EBL indicates higher in earning yield. The S.D of EBL is higher than NABIL which indicate riskier. The C.V of NABIL is Higher it indicated inconsistency than EBL because the earning yield of EBL is more fluctuating than NABIL.

) NABIL has high portion of dividend payment. The highest dividend payment of NABIL is 140 percent and lowest dividend payment is 30 percent. Similarly highest dividend payment of EBL is 60 percent and lowest dividend payment is 40 percent. It is seem to be dividend payment ratio of NABIL has higher than of EBL. Average dividend per share of NABIL is higher than that of EBL. The higher C.V. of NABIL indicates more inconsistency in dividends payment. NABIL has been giving highly dividend to its shareholders than EBL.

) The dividend payout ratio of both banks NABIL and EBL have fluctuating trend. The highest dividend payout ratio of NABIL is 102.13. Similarly highest dividend payout ratio of EBL is 72.13. Average dividend payout ratio of NABIL and EBL are 81.12 and 59.50. Its indicate dividend payment ratio from its earning is of NABIL is higher than EBL. The S.D and C.V. of NABIL is higher than EBL indicates more risky and inconsistency in dividends payout ratio of NABIL.

) For the study of dividend yield of the NABIL and EBL, NABIL is fluctuating trend of dividend yield. EBL is decreasing trend till second year 2007/08 and increasing trend thereafter of dividend yield. While observing average ratios in overall study period EBL has aggressive than NABIL. It

indicates EBL has highly fluctuating dividend yield. The average mean ratio of NABIL is 2.35 and EBL is 2.97 percent. So EBL has higher dividend yield. EBL seems riskier and inconsistency than NABIL due higher C.V. anyway dividend yield of EBL is better than NABIL

- J The market price of the share of NABIL and EBL are fluctuating, both banks have increasing trend of Market price of share at beginning and decreasing at last. The highest MPS of NABIL and EBL are Rs 5275 and Rs 3132 and lowest MPS are Rs 1252 and Rs 1094 respectively. The average market price of NABIL is higher than EBL. It indicates that charms and demand of share of NABIL is higher due to higher return and dividend. So shareholder of NABIL are getting higher price. Higher C.V of NABIL indicates higher inconsistency in share price than EBL.
- J Both NABIL and EBL banks are increasing and decreasing trend of price earning ratio over the study period. The ratios are increasing till fiscal year 2007/08 and thereafter decreasing trend. Average ratio of the NABIL and EBL are 34.35 and 23.81 times. It indicates that for getting Rs 1 as earning, one should invest Rs 34.35 of NABIL and Rs 23.81 of EBL. Therefore investors of NABIL are getting better profitability because they are selling their shares in high price. EBL has inconsistency in ratio due to high C.V.
- J Net worth per share of NABIL is decreasing trend and EBL has fluctuating trend. While observing their ratios in overall NABIL has better in its net worth. The average net worth per share of NABIL is 317.20 and EBL is 311.60. The higher net worth per share indicates more value of company. It is quite satisfying to state that NABIL has been able to maximizing shareholder wealth due to have more net worth per share. Higher S.D and

C. V of NABIL indicates risky and inconsistency in the value. In this way net worth of NABIL is better than EBL.

- ) Net profit of NABIL and EBL are increasing trend. Net profit of NABIL is higher than EBL in every year. Its indicate NABIL seems to be aggressive in earning. Average mean net profit of NABIL is higher than that of EBL i.e.  $986.06 > 629.88$ . The C.V. of EBL is higher than NABIL, so it indicate inconsistency in earning in net profit of EBL. In this way NABIL is increasing net profit smoothly.
- ) The correlation between EPS and DPS of NABIL and EBL is 0.962 and 0.305. It is shows that NABIL is highly positive relationship between these two variables, and EBL is low positive relationship between these two variables. It refers that EPS and DPS of NABIL and EBL move together but NABIL have in high proportion and EBL not proportionately. 92.50 percent and 9.30 percent of contribution in DPS has been explained by EPS of NABIL and EBL respectively. The relation of NABIL is significant and EBL is insignificant.
- ) The coefficient of correlation between EPS and MPS of NABIL and EBL are 0.935 and 0.405. It shows the high degree positive correlation of NABIL and low degree positive correlation of EBL. The coefficient of determination of NABIL is 0.874 It means only 87.40 percent of MPS is determined by EPS. The coefficient of determination of EBL is 0.164 this refers that 16.40 percent of the MPS is determined by EPS. The conclusion can be drawn in the case of NABIL have high degree positive correlation and EBL have low degree positive correlation.

- ) The positive correlation coefficient between net worth per share and market price per share are 0.897 and 0.681 of NABIL and EBL. Here, 80.50 percent of MPS is determined by NWPS of NABIL and 46.40 percent of MPS is determined by NWPS of EBL. The relationship is significant of NABIL and insignificant of EBL due to lower  $r$  than 6 P Err. The analysis reflects NABIL and EBL have positive correlation between MPS of NWPS.
- ) The correlation coefficient between market price per share and net profit of NABIL and EBL are negative. The coefficient of determination of NABIL is explained by 80.10 percent of MPS by net profit and 70.10 percent of EBL determined MPS by net profit. The correlation is insignificant at all due to coefficient of correlation is lower than 6P.Error. So the degree of relationship between MPS and net profit of NABIL and EBL are negative. In other words net profit and MPS opposite correlated.
- ) The correlation coefficient between earning per share of NABIL and EBL is 0.135. There is low positive correlation between these two banks. The relation is insignificant because the correlation coefficient is lower than 6 P.Er. Its means relationship of EPS between NABIL and EBL is insignificant.
- ) There is negative correlation between NABIL and EBL in case of dividend per share i.e. -0.451 It implies that the dividend payment of NABIL and EBL move in the opposite direction but not proportionately. The correlation coefficient is not significant due  $r < 6$  P.Er.
- ) There is highly positive correlation between the market price of share of NABIL and EBL. The correlation coefficient between two banks is 0.899. It means MPS of these two banks moves in the same direction. This

correlation coefficient is significant because correlation coefficient is greater than 6 P Er. The coefficient of determination is 0.808, which shows the 80.80 percent of the degree of relationship.

- ) The correlation between profits of NABIL and EBL is high positive. The correlation between net profits of NABIL and EBL is 0.925. This relationship is significant because its correlation coefficient is higher than 6 P.Err. The coefficient of determination is 0.856 which shows the 85.60 percent of the degree of relationship between NABIL and EBL
- ) The trend line shows that DPS of Both Banks. NABIL is in decreasing trend and EBL is in fluctuating trend. The portion of dividend payment of NABIL is decreasing and forecasted trend of NABIL is also decreasing trend. EBL is fluctuating trend but forecasted trend of EBL is increasing trend.
- ) The earning price per share of NABIL is decreasing and EBL is fluctuating situation. So, forecasted trend of EPS of NABIL banks have been decreasing and EBL have been increasing trend. The decreasing trend of NABIL is higher and aggressive than increasing trend of EBL. The EPS of EBL is quite fluctuating in study period. The trend projected for further five year FY 2011/12 to FY 2015/16. From the above analysis, it is forecasted that EPS both NABIL and EBL are decreasing.
- ) The trend line of net profit of NABIL and EBL are forecasted increasing trend. The trend of increasing value of net profit of NABIL is higher than EBL. It indicate that earning of NABIL is aggressive than EBL. Both banks have consistent increasing net profit throughout the study period.

# **CHAPTER -V**

## **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Summary**

In this chapter, summary conclusion and recommendation are presented. All the summary and conclusion are made according to obtained data from analysis. Recommendation has made which would be beneficial for all concerned person, management of the bank and other stakeholder. This research has been undertaken to evaluate the dividend policy of commercial banks. Two banks have been selected as sample of the study and five year financial statements of respective banks have been used for the study. The study has been divided into five chapters which include introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendation of study.

The researcher has identified that research problem and set objectives to solve research problems about dividend policy of selected commercial banks as described in introduction chapter. This research conducted on A Study on Dividend Policy of Nabil Bank Limited and Everest Bank Limited). The main objective of the study is to analyze the Dividend Policy of NABIL and EBL. The specific objectives of the study are to find out dividend policy applied by Banks, compare the various aspects of dividend policy, analyze the dividend policy and its effect on stock price changes and find out the relationship between the dividends with earnings, stock price and net worth. There also include focus of the study, statement of problem, significant and limitation and organization of the study. The research is based on secondary source of data. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to undertake this research more precisely. This section includes conceptual review and review of related studies. In

conceptual review includes concept and meaning of dividend, dividend policy and procedure and its significant. In the review of related studies includes continental and national perspective review of books articles and journals and review of previous thesis.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. This study is mainly conducted on the basis of secondary data collected from annual reports, official report, economic journal, financial statement etc. and authorize web site of concern bank, security board of Nepal and Nepal stock exchange. The five years financial statement has been examined for the purpose of the study.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists EPS, earning yield, DPS, DPR, dividend yield, MPS, NWPS and net profit etc are analyzed. Various statistical tools such as arithmetic mean, standard deviation, coefficient of variation, correlation and trend analysis have been applied to fulfill the objective of this study. The major findings of the study are also included in the final section of the presentation and analysis chapter.

In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis relating to dividend policy. Recommendation has made which would be beneficial for all concerned person, management of the bank and other stakeholder.

Dividends play important role in the valuation of stocks. Earning is important for commercial banks, but stockholders also expect regular dividends. So earning and dividend are closely related. They should be viewed as complementary. Those commercial banks that have high earnings command high market price, but earnings alone will not increase stock price if it does not pay dividends. Therefore it is essential to pay regular dividends because it serves as a simple and comprehensive signal of management's interpretation of the firm's recent performance and its future prospects. Dividend Policy constitutes one of the most critical issues of the public limited companies. Dividend Policy decision is one of the three major decisions of financial management. The dividend policy decision affects on the operation and prosperity of the organization because it has the power to influence other two decision of the organization i.e. capital structure decision and investment decision.

## **5.2 Conclusions**

The conclusion is derived by analyzing the financial and statistical indicators of the sample banks. This has helped to reach conclusion and provide workable solution for the dividend policy of NABIL and EBL. The following conclusions are drawn:

- ) Dividend payment is important for banks. For analyzing the dividend payment amount of NABIL and EBL, NABIL has high portion of dividend payment than EBL. The average dividend payment ratio of NABIL and EBL are 85 percent and 54 percent per share.
- ) The earning price per share of NABIL is higher than EBL. NABIL is better mobilizing it resources to get more earning per share (EPS).
- ) The average earning yield ratio of EBL is higher than NABIL. The higher ratio of EBL indicates higher in earning yield.

- ) NABIL has high portion of dividend payment. The highest dividend payment of NABIL is 140 percent and lowest dividend payment is 30 percent. Similarly highest dividend payment of EBL is 60 percent and lowest dividend payment is 40 percent. It is seen to be dividend payment ratio of NABIL is higher than of EBL.
- ) The dividend payout ratio of NABIL and EBL have fluctuating trend. The Average dividend payout ratio of NABIL and EBL are 81.12 and 59.50. It indicates dividend payment ratio from its earning is of NABIL is higher than EBL.
- ) For the study of dividend yield of the NABIL and EBL, EBL has higher dividend yield.
- ) The average market price of NABIL is higher than EBL. It indicates that demand and demand of share of NABIL is higher due to higher return and dividend. So shareholder of NABIL are getting higher price.
- ) The average price earning ratio of the NABIL and EBL are 34.35 and 23.81 times. It indicates that for getting Rs 1 as earning, one should invest Rs 34.35 of NABIL and Rs 23.81 of EBL. Therefore investors of NABIL are getting better profitability because they are selling their shares in high price. But from the long term view and sustainable fair price,
- ) While observing Net worth per share in overall, NABIL has better in its net worth. The higher net worth per share indicates more value of company.
- ) Net profit of NABIL and EBL are increasing. Net profit of NABIL is higher than EBL every year. The C.V of EBL is higher than NABIL which indicated inconsistency in earning in net profit.
- ) The correlation between EPS and DPS of NABIL and EBL is 0.962 and 0.305. It shows that both have the positive relationship between these two variables. It refers that EPS and DPS of NABIL and EBL move same

direction but NABIL have in high proportion and EBL not proportionately. The correlation coefficient of NABIL is significant because the correlation coefficient is Higher than the relative value of 6 P.Er. EBL is insignificant.

- ) The correlation between EPS and MPS of NABIL and EBL are positive but NABIL is high proportionately and EBL is low proportionately.
- ) There is positive correlation between net worth per share and market price per share of NABIL and EBL. The 80.50 percent of MPS is determined by NWPS of NABIL and 46.40 percent of MPS is determined by NWPS of EBL.
- ) The correlation between market price per share and net profit of NABIL and EBL are negative. The correlation is insignificant due to coefficient of correlation is lower than 6P.Error.
- ) The correlation between earning per share of NABIL and EBL is low positive. The relationship of EPS between NABIL and EBL is insignificant.
- ) There is negative correlation dividend per share between NABIL and EBL. The correlation coefficient is not significant.
- ) The correlation between the market price of share of NABIL and EBL is positive. The correlation coefficient between two banks is 0.899. It means MPS of these two banks moves in the same direction. This correlation coefficient is significant.
- ) The correlation between net profits of NABIL and EBL is highly positive by 0.925. This relationship is significant. The coefficient of determination is 0.856 which shows the 85.60 percent of the degree of relationship between NABIL and EBL.
- ) The trend line of DPS of NABIL is decreasing and EBL is fluctuating. The forecasted trend of NABIL is decreasing trend and EBL is increasing trend. The rate of decreasing of DPS of NABIL is higher than rate of increasing trend of EBL.

- ) The earning price per share of NABIL is decreasing and EBL is fluctuating So, forecasted trend of EPS of NABIL banks have been decreasing and EBL have been increasing trend. The decreasing trend of NABIL is higher and aggressive than increasing trend of EBL. The trend projected for further five year FY 20011/12 to FY 2015/16. The forecasted EPS NABIL and EBL are decreasing.
- ) The trend line of net profit of NABIL and EBL are forecasted increasing trend. The trend of increasing value of net profit of NABIL is higher than EBL every year. It indicate that earning of NABIL is aggressive than EBL. Both banks have consistent increasing net profit in the study period.

### **5.3 Recommendations**

Based on the major finding of this study, some recommendations have been made so as to overcome some shortfalls regarding the issue of dividend of the banking sector effective and efficient. These recommendations may also have some repercussions, but there is no doubt of the measures to improve the existing conditions. This would help to draw some outline and make reforms in the respective banks

- ) The legal rule for treatment of dividend is for the smooth growth of the banks as well as growth of national economy, but there is lack of proper legal provisions regarding the dividend payment. The government as well as the central bank of Nepal, Nepal Rastra Bank should pay their attention in this matter for prescribing certain provisions and rules regarding the percentage of earning as payment of dividend.
- ) The commercial banks are paying dividend without adopting any appropriate policy. It seems impossible to increase shareholders wealth. The commercial banks management is advised to adopt the long-run dividend policy also. It is a stable dividend policy, constant payout ratio or

low regular plus extra dividend policy, which helps to boost up the wealth of shareholder.

- ) The stockholders have a high desire and expectation that market price of share will be higher than net worth and getting high percent of dividend from earnings. So distributing dividend to the shareholders is effective to achieve the trust of investors and encourage them to invest in shares. Besides this dividend paying ability reflects the financial position of the organization in the market. So the funds that could not be used due to the lack of investment opportunities would be better as dividend, since stockholders have investment opportunities elsewhere.
- ) EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS signify good condition of banks
- ) Dividend payment of commercial banks is neither stable nor constantly growing. Due to the uncertainty and high degree of risk, the market price per share may be adversely affected. So the commercial banks should follow either stable or constantly growing dividend payment policy.
- ) NWPS of most crucial factor of commercial banks, so bank always try to increase in its NWPS. Value of all company rating by its NWPS.
- ) All the investor wants both cash and stock dividend from bank and financial institution. Bank should give priority to dividend payment.
- ) Nepalese investors are investing their funds on commercial banks haphazardly, randomly and without consulting capital market analyst. So, they are suggested to analyze the capital market situation before pouring their fund.
- ) While making dividend decision, a minor mistake may lead the bank to serious crisis. Due to this reason, it is advised to adopt optimum dividend decision based on the following criteria:

Optimum retention for excellent expansion and modernization of bank.

Stable or consistency in dividend payment.

Optimum dividend so that market value per share will increase rapidly i.e.

Net Present value or shareholders wealth maximization or net worth.

- ) The dividend payment practices of the commercial banks are not regular in Nepal. Only some reputed banks are providing dividend payment in present year. All commercial banks recommended to provide dividend to its share holder.
- ) There is a necessity of legal provisions and rules for prescribing certain policy regarding the dividend payment in the banking sector. For this purpose the concerned authority i.e. Nepal Government, Nepal Rastra Bank, Security Board and Nepal Stock Exchange should be conscious about formulation and implementation of rule regarding dividend payment. This will help to regularize the dividend policy of financial sector in Nepal.
- ) Keeping all these in consideration, the NABIL has little high performance than that of EBL. The EPS, DPS, DPR, NWPS and net profit of NABIL is higher than EBL but NABIL seems riskier and inconsistency to some extend than EBL in this regard. Therefore, in the future ahead, the NABIL improve in constant and regularity and EBL has recommended follow higher dividend payment.

## BIBLIOGRAPHY

### Books:

- Baxley, James B. (1987). *Banking Management*. New Delhi: Sujeet Publication.
- Brealy, R. & Myers'S. (1991). *Principle of corporate finance*. New Delhi: Mc- Graw Hill.
- Grolier Incorporate. (1984). *Encyclopedia: The World Book*. New York: Grolier Incorporated.
- Gupta, S.C. (2000). *Fundamental of statistics*. New Delhi: Himalayan Publishing House Private Limited.
- Kothari, C.R. (1990). *Research Methodology: method and techniques*. New Delhi: Tata Mc-Graw Hill Publishing Company Limited.
- Kulkarni, P. V. (1994). *Financial Management: Theory & Practice*. New Delhi: Tata MC-Graw Hill Publishing Co. Ltd.
- Pandey, I. M. (2003). *Financial Management*. New Delhi: Vikas Publishing House Private Limited.
- Richard, A.B. (1996). *Principles of corporate finance*. New Delhi: Tata Mc-Graw Hill Publishing Company Private Limited.
- Roy, A. F. (1974). *Financial Statement Analysis*. New Delhi: Tata MC-Graw Hill Publishing Co. Ltd.
- Shekher & Shekher, (1999). *Banking theory and practice* .New Delhi: Vikas Publishing House.
- Shrestha, K.N. and Manandhar, K.D. (2051). *Statistics and Quantitative Techniques for Management*. Kathmandu: Valley Publishers.
- Shrestha, M. S. (2006). *Fundamentals of Banking*. Kathmandu: Buddha Academic Enterprises Private Limited.
- Van Horne, J. C. (1999). *Financial Management and Policy*. New Delhi: Prentice Hall of India.

Varsahney, N.P. and Swaroop, G. (1994). *Banking law and practice for C.A.I.I.B.* New Delhi: Sultan Chand and Sons Private Limited.

Wolf, H.K. & Pant, P.R. (2005). *Social Science Research & Thesis Writing.* Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

**Journal and Articles:**

Aleknevičienė, V., Domeika, P., Jatkunaite, D.(2006). “*The Development of Company Dividend Policy in Respect of Profit Distribution Priorities*”. Engineering, Economics, No.5(50), Ajademija: Kauno Raj,Lietuvos Zemes Ukio University 10,LT-53361

Bhattarai, Rabindra, (2005). “*Split Shares to Benefit Small Investors*” New Business Age kathmandu: New Business Age Pvt. Ltd., 4(2):3-7

Chikashi, T.(2010). “*What Are The Determinants of Dividend Policy Business and Economics Journals, BEJ-9 Graduate School of Systems and Information Engineering, University of Tsukuba, Japan, Published online: July31, 2010*

Chawala, Deepak and Srinivasan G. (1987). “*Impact of Dividend and Retention on share price.*” An Econometric Study Decision, Vol-14(3):137-140.

Lamont, J.H.(1998). “*Dividend and Stock Valuation.*” (7th edition). New York:Horper Collins College Publishers

Malcolm Baker and Jeffery Wurgler (2004), “*A Catering Theory of Dividends.*” The Journal of Finance, Chicago: Blackwell Publishing for the American Finance Association, 59 (3):1125.

Modigliani, F. & Millor. M.H. (1961). “*Dividend policy growth and valuation of share.*” Journal Business: 411-433

Pradhan, R.S (1993). “*Effects of Dividend on Common Stock Prices: The Nepalese Evidence*”. Research in Nepalese Finance, Kathmandu: Buddha Academic Publishers and Distributors.

Walter, James E. (1996). “*Dividend and Common Stock Prices.*” Journal of Finance. Vol.11.

William N. Gotezmann and Phiope Jorion(1995). “*A longer look at Dividend Yields.*”  
The Journal of Business, Chicago: The University of Chicago press, 68(4):483

**Previous Research works:**

Guragain, D.P(2005). “*A Study of Dividend and Its Impact on Stock Price of Nepalese Selected Commercial Banks*”. Kathmandu: Central Department of Management, T.U

Budhathoki, Kishori (2006). “*The study of dividend Policy of the Commercial Banks in Nepal*” on may 2006. Kathmandu: Shanker Dev Campus, T.U.

Yadav, Vijay Kumar,(2007). “*Dividend Policy and Its Impact on Market Price of Stock*”.Kathmandu: Shanker Dev Campus, T.U.

Maharjan, Mana, (2008). “*Dividend Policy of Listed Commercial Bank*”. Kathmandu: Shanker Dev Campus, T.U.

Bhandari, Anjali,(2009). “*Dividend Policy Analysis of Commercial Banks of Nepal*”.Kathmandu: Shanker Dev Campus, T.U.

Pangeni, Hari (2010). “*Dividend Policy of Commercial Banks in Nepal.*” Kathmandu: Shanker Dev Campus, T.U.

**Annual Reports:**

Everest Bank Limited (2006/07 to 10/11). Annual Report

Nabil Bank Limited (2006/07 to 10/11). Annual Report

Websites:	Date of Download
<a href="http://www.everestbankltd.com">www.everestbankltd.com</a>	(28/07/2012)
<a href="http://www.nabil.com">www.nabil.com</a>	(28/07/2012)
<a href="http://www.nrb.org.np">www.nrb.org.np</a>	(03/07/2011)
<a href="http://www.studyfinance.com">www.studyfinance.com</a>	(02/08/2011)
<a href="http://www.nepalstock.com">www.nepalstock.com</a>	(15/08/2011)