Dividend Behavior of Joint Ventures Bank in Nepal

A

Thesis

Submitted by

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Chapter- I

Introduction

Background of the Study

1.1 History of the financial Sector

The Nepalese financial sector is composed of banking sector and non banking sector. Banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. The non-banking sector includes development banks, micro-credit development banks, finance companies, co-operative financial institutions, non-government organizations (NGOs) performing limited banking activities. Other financial institutions comprises of insurance companies, employee's provident fund, citizen investment fund and Nepal Stock exchange.

The incorporation of Nepal Bank Limited (NBL) in 1937 was the turning point of modern financial system of Nepal. It was established under the Nepal Bank Act 1937. Prior to this, the Tejarath Adda, which was established in 1880, used to disburse credi to people. It used to render commercial banking services such as the acceptance of deposits, delivery of credit facilities and other commercial banking services.

Nepal Bank Limited remained the only financial institution in Nepal until Nepal Rastra Bank, the central bank of Nepal, was established in 1956 under the Nepal Rastra Bank Act, 1955. The second commercial bank, Rastriya Banijya Bank, was established in 1966 as per the Rastriya Banijaya Bank Act, 1966 under the full ownership of the Government. The main objective of establishing the second commercial bank was to supplement the banking services to the growing economy.

There is tremendous growth in the number of financial institution in Nepal in the last two decades. At the beginning of the 1980s when financial sector was not liberalized, there were only two commercial banks, and two development banks performing banking activities in Nepal. There were no micro-credit development banks, and two development banks performing banking activities in Nepal.

After the liberalization of the financial sector, financial sector has made a hall-mark progress both in terms of the number of financial institutions and beneficiaries of financial services.At present, NRB licensed bank and non-bank financial institutions totaled 240. Out of them, 27 are commercial banks, 61 development banks, 79 finance companies, 13 micro-credit development banks, 16 saving and credit cooperatives and 45 NGOs.But there are thousands of cooperatives operating locally without taking permission from NRB.

1.1.1 Central Bank

Nepal Rastra Bank is the central bank of Nepal with an authorized capital of Rs 10 million fully subscribed by the Government of Nepal. It was established under the Nepal Rastra Bank Act, 1955. It performs the central banking functions including licensing, supervision, inspection and regularization of banks and non-bank financial institutions. Its other responsibility is to manage the circulation of currency; provide foreign reserves to the country, and provide funds to the government to bridge the deficit in the budget

1.1.2 The Commercial Banks

The proliferation of commercial banks in Nepal started after the Nepal Rastra Bank liberalized its policy. At present, there are twentyseven commercial banks operating in Nepal. Previously they dominated the financial market with various types of deposits and credit products.

Today, there are altogether 27 commercial banks licensed by NRB. Some are joint ventures while others are fully Nepalese private sector owned. Following are the names of the commercial banks:

1) Nepal Bank Limited
2) Rastriya Banijya Bank
3) Nabil Bank Limited
4) Nepal Investment Bank Limited
5) Standard Chartered Bank
6) Himalayan Bank Limited
7) Nepal SBI Bank Limited
8) Nepal Bangladesh Bank Limited
9) Everest Bank Limited
10) Bank of Kathmandu Limited
11) Nepal Credit & Commerce Bank Limited
12) Lumbini Bank Limited
13) Nepal Industrial & Commercial Bank Limited
14) Machhapuchhre Bank Limited
15) Kumari Bank Limited
16) Laxmi Bank Limited
17) Siddhartha Bank Limited
18) Agriculture Development Bank Limited
19) Global Bank Limited
20) Citizens Bank International

21) Prime Commercial Bank Limited
22) Bank of Asia Nepal Limited
23) Sunrise Bank Limited
24) Development Credit Bank Limited
25) NMB Bank Limited
26) Kist Bank Limited
27) Janata Bank Nepal Limited

1.1.3 Development Banks

In the initial stage of development, there was a provision of direct investment to industrial sector in Nepal Rastra Bank Act. As a result of that, Nepal Rastra Bank had provided direct financial assistance to establish Janakpur Cigarettes Factory and Birgunj Sugar Factory to create an environment for industrial development. Recognizing the necessity of a national level separate development bank, Nepal Industrial Development Corporation (NIDC) was established in 1959. Since its establishment, Nepal Rastra Bank has not directly financed but started to assist industrial and development sector through Nepal Industrial Development Corporation & Agriculture Development Bank.

At present, there are 61 development banks providing development services in various districts of Nepal. Out of them, Nepal Industrial Development Corporation and Agriculture Development Bank are established under special acts such as the Nepal Industrial Development Corporation Act 1959 and the Agriculture Development Bank Act 1967 respectively. The remaining 59 development banks operate under the Development Bank Act, 1996.

1.1.4 Finance Companies

Starting from the early 1990s, finance companies have been growing rapidly. The total number of finance companies which stood at 47 in mid-July 2000 reached to 79 in mid-Jan 2010. However, majority of the finance companies are rendering their services in Kathmandu valley.

1.1.5 Micro Credit Development Banks

The numerical size of micro credit development banks has remained the same for about seven years. There were 13 micro credit development banks in 2010. Five of them are called Rural Development Banks (RDBs). RDBs were established with the initiation of NRB and HMG/N. These are established as one in each development regions. The first rural development bank was established in 1993 and the last one in 1996.

1.1.6 Co-operatives and NGOs

There are 16 co-operatives and 45 NGOs which are licensed by NRB to operate the micro credit programs.

1.2 Focus of the Study

The success of any company is depending upon the perception of investors in market. The financial performance and position is key determinant of perception of investors. The profit earned by any company can be used in three forms:

- To pay out the shareholders as a reward for investment in the form of dividend.
- To pay the employee as a reward of intellectual and physical ability in the form of bonus.
- To keep meeting the future contingencies in the form of retain earning.

Generally, the portion of earnings after tax, given to shareholders by companies for their investment is known as dividend. It may be either the form of cash and bonus as stock dividend. There is conceptual conflict about the dividend payment policy is whether it should be pay in cash or retain in company for the purpose long term financing i.e. internal financing. Both the alternatives have their own impact while deciding dividend policy. If the investment as more detail, on the other hand management desired to plough back for internal financing or corporate growth. This dividend will affects both long-term financing net profits market price of share, book value of share and earning per share.

If a company decides to payment a portion of its earning to shareholders in the form of a dividend, the shareholders benefit directly, but if the company returns its earnings to invest in other profitable opportunities, the shareholders can benefit indirectly through future increase in the share price. Thus policy may vary from company to company. Dividend policy is an important decision of financial management because it affects the financial structures, the flow of funds, corporate liquidity etc. It determines the amount of earnings to be distributed to shareholders and the amount to be retained in the firm.

Dividend policy (behavior) involves paying a portion of profit as a divided and rest is invested in the firm to strengthen the financial position of the firm which called R/E. Any change in the behavior (policy) of dividend distribution has both favorable and unfavorable impact on the firm's stock price. So, stock price largely depends on the divided behavior of the firm. Higher dividend payment by the firms means good financial position of the investor and low growth rate of the firm. Higher dividend attracts more investors on the financial condition of the firm. Less dividend means more

retained earning in the company. But it attracts few or no investors, so dividend behavior (policy) should be such which may neither badly affect the position of neither the institution nor the investor. In a nutshell it should be favor able for both.

Retained Earnings is used by the firm as an investment purpose, which strengthen the position of the bank. There is a controversy regarding the distribution of the dividend as investors wants more income in terms of dividend and management tries to pay less dividend as possible in order to keep more R/E and to keep the bank financial position sound. So dividend behavior has a great role to play in the position of the banks and financial institution.

If one looks at the current situation of the public enterprise in Nepal, most of them are operating at loss by which it is quite impossible for these commercial banks to distribute dividend lavishly or as demanded by the investor. In the context of Nepal very few of them have been able to distribute divided to their shareholders despite incurring losses. The trend of distributing dividend has not only attracted more customers but it has also helped to curb the outflow to some extent. So banks in Nepal should attract or lure investor as more as possible earning minimum profit in order to survive in the cut throat competition.

1.2 Profiles of the Selected Companies

Although, 27 commercial banks are actively working in the nation out of them are 27 commercial banks and only 6 of them are joint venture banks listed in Nepal stock exchange. All joint venture banks are taken as samples. These joint ventures banks have already issued their common stock to public

and are actively trading in Nepal Stock Market. The sample banks are as follows:

i) Nabil Bank Ltd (Nepal Arab Bank Ltd)
ii) Himalayan Bank Limited
iii) Nepal Bangladesh Bank Ltd.
iv) Standard Chartered Bank Limited
v) Everest Bank Limited
vi) Nepal SBI Limited

a) Nepal Arab Bank Limited (NABIL Bank Ltd)

Nepal Arab Bank Ltd (NABIL) is the first joint-venture commercial bank in Nepal which was incorporated in 1984 AD (2042 B. S.). Dubai Bank Ltd was the initial foreign joint venture partner with 50% society investment. The shares owned Dubai Bank Ltd (DBL) were transferred to Emirates Bank International Ltd (EBIL) Dubai by virtue of its annexation with the later. Later on, EBIL, Dubai sold its entire 50% equity to National Bank Ltd, Bangladesh (NBLB). NBLB is managing the bank in accordance with the technical services agreement signed between NBLB and Nabil Bank Ltd on June 1995. The main objectives of this bank are collect deposits, provide loans and to provide modern banking services to the public.

Authorized capital, issued capital and paid-up capital of this bank are Rs. 1600000000, Rs. 965747000 and Rs.965747000 respectively. Its par value per share is Rs. 100.

NABIL Bank was listed in the Nepal Stock Exchange in the year 1986 A.D. (2042 B.S.)

b) Himalayan Bank Limited

Himalayan Bank Ltd was established in 1992, under Company Act 1964. It is joint venture bank with foreign partner, Habib Bank Ltd of Pakistan. This is

the first joint venture bank managed by Nepalese chief executive. The main activities of this bank are to provide modern banking services like tele-banking to the businessmen; industrial and other professional and to provide loans in different sectors.

Authorized capital, issued capital and paid-up capital of this bank are Rs. 2000000000, Rs. 1216215000 and Rs. 1216215000 respectively. Par value per share is Rs. 100.The bank is providing its services through 24 branches and open new 10 branches very soon.

Himalayan Bank limited was listed in the Nepal Stock Exchange in the year 1993 (2050 B.S.).

c. Nepal Bangladesh Bank Limited

Nepal Bangladesh Bank Limited was established in June 1994 with an authorized capital of Rs 240 million and paid up capital of Rs60 million as a joint venture bank with IFIC Bank Limited of Bangladesh. At present its Paid up capital is Rs.1860315000. Its head office is situated at New Baneshwor, Bijuli Bazar, Kathmandu.

The prime objective of this bank is to render banking services to the different sectors like industries, traders, business man and every other people who need banking services. With a network of 18 branches.

The bank has earned the glory of making available the services to almost all the top business houses of the country and it occupies one of the leading positions among the Joint Venture Banks in Nepal. The bank is still pursuing to accommodate as many clients as far as possible.

d. Standard Chartered Bank Nepal Limited

Nepal Grindlays banks was established in 1985 as a second foreign joint venture bank under the company act, 1964. ANZ Grindlays Bank is the foreign joint venture bank with 50 percent equity investment. The bank has

authorized capital is Rs.1000000000, issued capital Rs.1000000000, paid-up capital Rs. 931966400.

e. Everest Bank Limited

Everest bank limited stated its operation in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. It joined hands with Panjab National Bank (PNB) India as its joint venture banks in 1997.

The authorized capital of this bank is Rs.1000000000, issued capital Rs.840620000 and paid-up capital Rs.838821000.

The bank is providing its services through a wide network of 35 branches. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS),Which enables customers for operational transactions from any branches. The bank is associated with smart choice of technology.

F. Nepal SBI Limited

Nepal SBI has started its operation with its joint venture partner State Bank of India on 8th July, 1993. The authorized capital of this bank is 200 crore, paid up capital Rs. 64.236 and Issued capital Rs. 87.45 Crore. It is providing its services through a wide network of 32 branches and planned to open new branches in near future very soon.

1.4 Statement of the problem

Dividend is the most inspiring factor for the investment on share of the company and similar to joint venture banks. But Nepalese joint venture banks have not satisfactory result concerning dividend decision. The dividend behavior of commercial bank also affected by government rules and

regulations there is no limit to the identification of the problem about dividend behavior that is visible in commercial bank in Nepal.

This dividend decision however is still a crucial as well as controversial area of managerial finance. There is no, consensus among the financial scholars on this subject matter and its relation with stock price.

Some financial scholars say that stock prices are least influenced by dividend per shares while some other believe that its relevance to the stock prices it quite significant. The idea of relevance is vague, (unclear) as well. It is rather hard to define whether dividend per share has positive or negative impact on joint venture banks.

Dividend behavior of the joint venture banks is not matching with the earning. On the other hand, there is no proper relationship between dividend and quoted market price of share in the stock exchange. Dividends are an important factor for the attraction of the investor and identify healthy position of the company.

Joint ventures banks in Nepal have not adopted consistent behavior (policy) on dividend decision.

a. What are the prevailing behaviors of the joint venture banks regarding their dividends?
b. What is the relationship of dividend with earning per share, stock price, net profit and net worth of different joint venture banks?
c. Whether dividend decision affects the market price of shares differently in different joint venture banks or not?

1.5 Objective of the Study

The study primarily focuses on the dividend behavior adopted by the sample banks with a view to provide workable suggestion which may be helpful to the formulation of optional dividend policy and maximize the stock price and to take some other appropriate dividend strategies. However, the specific objectives can be set as follows:

i) To study and analyze the dividend behavior of Nepalese joint venture banks.

ii) To analyze the relationship of dividend with earning per share, stock price, net profit and net worth.

iii) To find out whether dividend behavior affect the market price of shares differently in different banks.

iv) To provide recommendations regarding dividend behavior (policy) on the basis of research findings.

1.6 Importance of the Study

Most of financial theories have been developed on the assumption of dividend behavior. Moreover, dividend policy has implicated for the investment strategy that the investors may wish to pursue. Hence, the knowledge of level of dividend behavior (policy) helps investors to use theoretical models correctly and to choose the correct investment strategy for the investment decision.

In Nepal, there almost none of the companies (including banks) are adopting fair dividend behavior. So, the study of dividend behavior (policy) is great importance.

Therefore, this study will be helpful to understand the dividend payment behavior of joint venture banks. It will also be helpful to shareholders, management and policy maker for their knowledge. It will be helpful to

government in making policy, controlling, monitoring and supervising the commercial bank in Nepal.

Finally, it will be also useful literature for the future study about the relating topics.

1.7 Limitations of the Study

Dividend policy play a vital role in management, so financial manager has to take several decisions from financial management area like liquidity management, capital structure management, Investment decision, leverage, dividend policy and other many more. Here, i have only taken dividend policy, which will try to interpret and analyze the dividend behavior of listed joint venture banks only.

No study can be free from its own limitation. So, the present study has also some limitations. Reliability of statistical tools, lack of research experiences are the major limitations. So, following are the limitations factor for the study.

a. Only sample joint venture banks are taken as the population of study, which are already listed in Nepal Stock Exchange (NEPSE).
b. Only secondary data will be used. So, the limitations of using secondary data exist.
c. The major sources of data are financial statement of sample joint venture banks, which are available in Nepal Stock Exchange.
d. The study covers 5 fiscal years data from FY 2004/2005 to 2008/2009
e. This study covers only cash dividend excludes bonus/stock dividend.

1.8 Organization of the Study

The study has been organized into five chapters, each devoted to some aspects of the comparative study of dividend policies between joint venture banks of Nepal. The title of each chapter is as follows:

Chapter One:

Deals with the subject matters of the study consists introduction and background of commercial banks, statement of the problems, objectives of the study, importance of the study and limitations of the study.

Chapter Two:

It deals with review of literature. It includes a discussion on the conceptual framework on dividend. It also reviews the major studies relating with dividend decision of several authors and from the several books and journals.

Chapter Three:

Explain the research methodology used to evaluate dividend behavior of joint venture banks in Nepal. It consists of introduction, research design, selection of sample, sources of data collection, method of analysis financial tools and statistical tools.

Chapter Four:

Chapter four fulfills the objectives of the study by presenting data and analyzing them with the help of various statistical tools followed by methodology.

Chapter Five:

States summary, conclusion and recommendations of study

Chapter - II

Review of Literature

The present research aims to analyze the dividend policy (behavior)of commercial banks especially six joint venture banks. For this purpose, itneeds to review related literatures, in this concerned area which will help researcher to get a clear idea. The researcher studies different magazines, journals and newspaper, book to collect the information about their dividend behavior. This process of studying different materials, which are concerned with dividend behavior of the research, is known as review of literature.

2.1 Conceptual Framework

Dividend is a periodic payment made to the stockholders to compensate them for the use of and risk of their investment funds. In other words, it is that portion of their net earning dividend by their company among the shareholders as a return of their money invested. Dividend policy simply means the separating of net earnings between to shareholders as dividend and retention within the company to meet its further financial requirement. Dividends are generally paid in cash because of which the assets or cash balance of the firm is reduced. However, the firm also intends to have enough funds or cash available to finance its investment opportunities. Thus in order to strike a balance between paying dividend and retained earnings, it is necessary for the firm to adopt an effective and relevant dividend policy. The firm's directors periodically meet in order to decide whether to pay dividend and to determine the amount and form of dividend payment.

Dividend policy means some kind of consistent approach to the distribution versus retention decision. Dividend policy determines the amount of earnings

to be retained and paid out by the firm. Various question related to the payment of dividend or retain the earnings are contained in the dividend policy. The dividend policy adopted by the firm should be such that it strikes the proper balance between financing decision and wealth maximizing decision. There is inverse relationship between the retained earnings and cash dividend. When the firm retains earning providing necessary equity, the amount of dividend decreases, which may affect market price of the stock adversely, this leads to the increase in future earnings per share. Thus dividend decision is one of the major decisions of managerial financé as it directly or indirectly determines and affects the maximization of the wealth of the owners or the shareholders.

Mostly interpreted in terms of leftover earnings after financing all acceptable investment opportunities and these are used for the payment of dividend. Any change in dividend policy has both favorable and unfavorable and effects on the firms stock price. Higher the dividend means higher the immediate cash flows to investors, which is good but lower future growth which is bad. The dividend policy should be optimal which balances the opposing forces and maximizes stock prices.

2.2 Major Forms of Dividend

Although most particular forms of dividend is cash dividend, corporations need to follow different types of dividend in view of the objectives and policies which they implement. "The types of dividend that corporation follow is partly of a matter of attitude of directors and partly a matter of the various circumstances and financial constraint that bound corporate plan and policies".7 (Shreshta, 1980, P670).

According to the changing needs of corporation, dividend is being distribute in several forms like cash dividend, stock dividend etc.

I) Cash Dividend

Cash dividend is the dividend, which is distributed to the shareholders in cash out of the earnings of the company. When cash dividend is distributed both total assets and net worth of the company decrease as cash and earnings decrease. "The market price of the share drops in most cases by the amount of cash dividend distributed". (Hasting,1966, P370) For distribution cash dividend, firm has maintains adequate balance of cash other wise company should be made to borrow fund; which is risky or difficult.

II) Stock Dividend

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding shares of the firm's stock. Although stock dividends do not have a real value, firms pay stock dividend as a replacement for a supplement to cash dividend. "A stock dividend simply is the payment of additional stock to shareholders nothing more than a re-capitalization of the company, shareholders proportional ownership remain unchanged. (James Van Horn, 1998, P334)

III) Bond Dividend

Bond dividend by its name is a dividend that is distributed to shareholders in the form of a bond. Those bonds can be long-term bonds. Bond dividend helps to postpone the payment of cash. In other words, company declares dividends in the form of its own bond with a view to avoid cash outflow is called bond dividend. In this study, the term dividend generally refers to cash dividend.

IV) Scrip Dividend

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

V) Interim Dividend

Generally dividend is declared at the end of financial year. This is called regular dividend also. Many times director can declare dividend before the end of financial year. This is called interim dividend.

2.3 Stability of Dividend

Stability or regularity of dividend is considered as a desirable policy by the management of company. Most of the stockholders prefer stable dividends because all other things being same, stable dividends have a positive impact on the market price of shares. The term dividend stability refers to consistency or lack of variability in the stream of dividend. In other words, it means that a certain minimum amount of dividend is paid out regularly.

There are three distinct forms of stability of dividend payment. They are;

2.3.1 Constant Dividend per Share

Investors who have dividend as the only sources of their income prefer the constant dividend per share. Under this policy, dividend is paid in a fixed amount per share in each year without considering the fluctuation in the earning of the company. It is easy to follow this policy where earnings are

stable. However, if the earning pattern of a company shows wide fluctuations. It is difficult to maintain such a policy. When the company reaches new level of earning and expect to maintain it, the annual dividend per share may also be increased.

2.3.2 Constant Payout Ratio

The Ratio of dividend to earning is known as payout ratio. When fixed percentage of earnings is paid as dividend in every period; the policy is called constant payout ratio. Since, earning fluctuate, following this policy necessarily means that the rupee amount of dividends will fluctuate. It ensures that dividends are paid when profit are earned, and avoided when it incurs losses.

2.3.3. Low Regular Dividend plus Extra

The low regular dividend plus extra policy is combination of the first two. It gives the firm flexibility but it leaves investors somewhat uncertain about what their dividend income will be if a firms earnings are quite volatile however, this policy may be best choice. Under this policy, the small amount of dividend is fixed to reduce the possibility of over missing a dividend payment. By paying extra dividend in the period of good profit an attempt is made to prevent investors from expecting that the dividend represent an increase in the established dividend amount. The policy enables a company to pay constant amount of dividend regularly, without a default and allows a great deal of flexibility. If the firms earning is quite volatile, this policy may be the best policy

2.4 Residual Theory of Dividend

"Residual dividend policy is based on the premise that investors refer to have a firm retain and reinvest earnings rather than pay them out in dividends if the rate of return of the firm can earn and reinvested earnings exceeds the rate of

return investors can obtain for themselves on other investments of comparable risk. Further, it is loss expensive for the firm to use retained earning than is to issue new common stock." (Gautam and Thapa, 2003, P25)

"The residual theory of dividend suggests that dividend paid by a firm should be viewed as a residual amount or left after all acceptable investment opportunity have been undertaken." (Gitman,2001, P7)

2.5 Factors Affecting Dividend Decision

The factors affecting dividend decision is one of the main focus of this study. Mostly public enterprises are operating at loss in Nepal. Therefore, the question of paying dividend does not arise. But some Nepalese commercial banks, private organization and joint venture company are operating in profit and they are trying to pay more or less dividend to their shareholders. In such commercial bank, dividend policy play main role in financial management decision. Although all of them are not protecting shareholders right, main factors which affecting dividend policy are as follows;

2.5.1 Legal Consideration

Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. While specific limitations vary by state, generally a corporation may not pay a dividend.

If the firm's liabilities exceed its assets,

If the amount of the dividend exceeds the accumulated profits (retained earnings),

If the dividend is being paid from capital invested in the firm.

The second types of legal restrictions is unique to each firm and results from restrictions in debt and preferred stock contracts.

2.5.2 Liquidity

The cash or liquid position of the firm influences its ability to pay dividends. A firm may have sufficient retained earning, but if they are invested in fixed assets, cash may not be available to make dividend payment. Thus the company must have adequate cash available as well as retained earning to pay dividend.

2.5.3 Restrictions in Debt Contracts

Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after signing the loan agreement and only when net working capital is above a specific amount. Also, preferred dividend takes precedence to common stock dividends.

2.5.4 Stability Earning

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 where needed.

2.5.5 Need to Repay Debt

The need to repay debt also influences the availability of cash flow to pay dividend.

2.5.6 Ability to Borrow

A liquid position is not the only way to provide flexibility and to protect against uncertainty. If a firm is able to borrow on short notice, it may be flexible. The greater ability to borrow, greater the flexibility and greater its ability to pay a cash dividend from its operating profits is:

2.5.7 Internal Investment Opportunity

Internal investment opportunity of a firm may affect its dividend behavior. If a firm has profitable investment opportunities, it retains large amount of earning for investment activities and pay zero or low dividend, and vice-versa.

2.5.8 Control

For many small firms, and certain large ones, maintaining the controlling vote is very important. These owners would refer the use of debt and retained profits to finance new investments rather than issue new stock. As a result dividend payout will be reduced.

2.5.9 Access to the Capital Markets

A firm's access to capital markets will be influenced by the age of size of the firm, therefore a well-established firm is likely to have a higher payout ratio than a smaller or newer firm.

2.5.10 Profit Rate

A high rate of profit on net worth makes it desirable to retain earnings rather than to pay them out if the investor will earn less on them.

2.5.11 Tax Position of Shareholders

The tax position of stockholders also affects dividend policy. Corporations owned by largely tax payer in high income tax brackets tend towards lower dividend payout where as corporations owned by small investors tend toward higher dividend payout.

2.6 Legal Provision Of Dividend Behavior

Nepal Company Act 1997 makes some legal provisions for dividend payment in Nepalese firm/organizations. These provisions are as follows;

Section-2 "(M) states that bonus share means share issued in the forms of additional shares to shareholders by capitalizing the surplus from the profits or the reserve fund of a company. The term also denotes an increase in capitalized surplus or reserve funds."12 (Endi consultants Ktm p. 43)

Section 47 has forbid company from purchasing its own share. This section states that no company shall purchases its own shares or supply loan against the security of its own share. 13 (Ibid p 60)

Section 137, in regarding bonus shares and subsection (1) states that company must inform the office before issuing bonus shares under sub-section. This may be done only by passing special resolution by the general meeting.14 (Ibid p 94)

Section 140, is regarding dividend a sub-section of this section are as follows.15 (Ibid pp 94-95)

Sub-section (1): Dividends shall be distributed among the shareholder within 45 days from the date of decision to distribute them, except in the following circumstances.

Incase any law may forbids the distribution of dividends.

Incase the right to dividend is disputed.

In case the dividends can't be distributed within the time limit mentioned above owing to circumstance beyond anyone's control and without any fault on the part of company.

Sub-section (2): In case the dividends are not distributed within the time limit mentioned in subsection (1), this shall be done by adding interest at the prescribed rate.

Sub-section (3): Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

The above mentioned sections and sub-section of Company Act-1997 indicates that the repurchase of own stock is not permitted to Nepalese company. This act is not enough regarding dividend policy.

2.7 Review of Major Studies in the Relevant Field

Here, we are going to review of the major studies concerning dividends, behavior aspect of dividend policy, dividends effect upon value of enterprises and dividend's effect on market price of share.

2.7.1 Walter's Study

James E. Walter study concluded that the choice of dividend policies almost always affects the value of enterprises. (Walter, 1996, P29-44).

In this study he suggests that dividend practice of firm affects its stock price. Walter's especially highlight that, there is significant relationship between internal rate of return and cost of capital, which is the main determining factor to retain its earnings or to distribute dividend to shareholder.

His study was based on the following assumptions

- The firm finances all investment projects through retained earning.
- All earning are either distributed as dividend or reinvested internally.
- The firm's internal rate of return (r) and its cost of capital (K) remain constant.

- There is no change in value of earnings per share and dividend per share.
- The firms have perpetual life.

Based on these assumptions, Prof. Walter develops a model to determine the market price per share is as follows:

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

Where,

P = Market price per share

DPS = Dividend per share

EPS = Earnings per share

R = Internal rate of return

K = Cost of Capital

According to this study the given firm may have three probable conditions. There are:

1) Growth First, r>K

If the firm's internal rate of return is more than cost of capital, the relation between dividend and stock price is negative, i.e., more dividend leads to low stock price and vice-versa. This kind of firm is refereed to as growth firm. The zero dividend payout ratios would maximize the market value of stock for growth firm.

2. Normal Firms, r = K

If a firm has r = K, there is no relation between dividend and stock price, i.e., there is no role of dividend payout ratio for determining stock price. In this situation the firm is indifference whether to retain its earnings or to pay dividends, such firms is called normal firm.

3) Declining Firms, r< K

If the firm's internal rate of return is less than the cost of capital, the relation between dividends and stock prices is positive, i.e., increase in payout ratio leads to increase in stock price. This type of firm referred to declining firm. Prof. Walter argues that 100% dividend payout would optimize the market price of share for such firm.

In this way, Walter's study conclude that dividends are negatively correlated with market value of stock for growth firm, positively correlated for declining firm and there is no relation between market value and dividend payout ration for normal firm.

2.7.2 Gordon's Study

In 1962, Mayron Gordon developed his theory. In his study he concluded that dividend policy of a firm affects its value. (Gordon, 1962, P57)

A firm having greater investment opportunities tends to increase retention ratio by keeping low dividend payout ratio. In his dividend model, he assumes that the in all equity financed and also making the firm to rely on retained earnings without external financing. According to him, market value of the share is equal to present value of an infinite stream of dividend to be received by the share.

Basically his model based on the following assumptions:

a. No external financing is available i.e., only source is retained earning.
b. The firm uses equity capital only.
c. Internal rate of return (r) and cost of capital (K) of the firm remains constant.
d. The firm has a perpetual life.
e. There are no taxes on corporate income.
f. The growth rate, g= br, is constant forever.

g. Growth rate is always smaller than cost of capital G<K.

From, his above assumption, Gordon develop following formula for finding out the market value per share,

P = Market value per share

E = Earning per share

b = Retention ratio

Ke = Cost of capital or capitalization rate

r = Interest rate of return

b r= growth rate

l – b = Dividend payout ratio i.e. percentage of earning distributed as dividend.

According to his study, following facts are revealed.

- In case of growth firm, share price tends to decline in corresponding with increase in payout ratio or decrease in retention ratio i.e. high dividend corresponding to earning leads to decrease in share price. Therefore, dividend and stock price are negatively correlated in growth firm.
- In the normal firm, share price remain constant regardless of change in dividend policies. It means dividend and stock prices are free form each other in normal firm.
- In the case of declining firm, share price tends to rise in correspondence with rise in dividend payout ratio. It means dividend and stock prices are positively correlated with each other in a decline firm.

2.7.3 Linter's Study

During, the period of 1956, Linter an important study of the behavioral aspect of dividend policy in the American context. Form the test of 28 companies in

America partial adjustment model was developed by him. From that he concluded that a major portion of the dividend of a firm could be expressed in the following way. (Linter, 1956/57,P113)

$Div_t^* = P^{EPS}_t$ …… (i)

And $Div_t^* - Div_{t-1} = a + b (Div_t^* - Div_{t-1}) + e_t$. …… (ii)

Or $Div_t = a + b\ Div_t^* + (l-b)\ Div_{t-l} + e_t$ ……. (iii)

Where,

Div_t^* = is firm's desired payment

EPS_t = Earning per share

P = targeted payout ratio

a = Constant relating to dividend growth

b = Adjusted factors relating to previous period's dividend and new desired level of dividend whose b<1.

The major findings of this study were:

- Firms generally think in terms of proportion of earning to be paid out.
- Investment requirements are not considered for modifying the pattern of dividend behavior.
- Firm generally have target payout ratio in view while determining change in dividend, or dividend rate.

2.7.4 Modigliani and Miller's Study

In 1961 Modigliani and Miller, for the first time in the history of finance argued that the dividend policy doesn't affect the stock price of the firm. They argued that the value of the firm depends upon the firm's earnings which depend on its investment policy. That is why, MM theory; a firm's value is independent of dividend policy. (Modiglinani & Miller,1961, P411-433)

This study is based on the following assumption:

- The firm operates in perfect capital market.

- These are no taxes.
- The firm has a fixed investment policy, which does not change at all.
- Risk of uncertainty does not exist.

Considering the above critical assumption MM provide the proof in support of their arguments.

$$nP_0 = \left(\frac{(P_1(n + \Delta n) - 1 + E)}{1 + Ke} \right)$$

Where,

nP_o = Value of firm

Pl = Market price of the share at the end of year.

n= No. of additional share.

Δn = No. of new shares at the end of the period.

I = Total investment.

E = Total Earning of the firm.

By taking the above equation, it is formed that there is no role of dividend in estimating the value of firm. So Modigliani & Miller concluded that dividend policy has no effect on the share price or value of the firm.

Hence, MM theory concluded that, it seems that under the conditions of perfect capital market, rational investors, absence of tax discrimination between dividend income and capital appreciation, given the firm's investment policy may have no influence on the market price of the share. (Modigliani & Miller,1966, P 345)

2.7.5 Van Horn & Mc – Donald's Study

Van Horn and Mc Donald conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's stocks. They explored some basic

aspects of conceptual framework, and empirical tests were performed during year-end 1968, for two industries, using a well-known valuation modal. The required data were collected from 86 electric utility firms included on the COMPUSTAT utility data tape and 39 firms in the electrics and component industries as listed on the COMPUSTAT industry data tape. (Van Horne & McDonald 1971, P507-519)

They tested two regression models for the utilities industries.

First model was,

$$P_0/E_0=a_0+a_1\ (g) + a_2\ (D_0/E_0) + a_3\ (Lev) + U$$

Where,

P_0/E_0= Closing market price in 1968 dividend by average EPS for 1967 and 1968

g= Expected growth rate, measured by the compound annual rate of growth in assets per share for 1960 through 1968.

D_0/E_0=Dividend payout, measured by cash dividend in 1968 dividend by earnings in 1968.

Lev= Financial risk, measured by interest charges dividend by the difference of operating revenues and operating expenses.

U = Error term

The Second Model was,

$$P_0/E_0 = a_0+a_1\ (g) + a_2\ (D_0/E_0) + a_3\ (Lev) + a_4\ (F_a) + a_5\ (f_b) +a_6\ (F_c) + a_7\ (F_d) + U$$

Where,

Fa, F_b, F_c and F_d are dummy variables corresponding to new issue ratio (NIR) group A through D.

It is noted that they had grouped the firms in five categories A. B. C. D. and E by NIR group is one and the value of remaining dummy variables are zero.

Again, they tested the following regression equation for electronics electronic components industry.

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (OR) + U$$

Where,

Lev = Financial risk, measured by long-term debt plus preferred stock dividend by net worth as of the end of 1968.

OR = Operating risk, measured by the standard error for the regression of operating earning per share on time of 1960 through 1968, and rest are as in first model above.

By using these models or methodology, they compared the result obtained for the firms, which both pay dividends and engage in new equity financing with other firms in an industry. They concluded that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividends, except for those in the highest new issue group and it made new a mostly costly form of financing than the retention of earning. They also indicated that the payment of dividends through excessive equity financing reduces share prices for electronics, electronic components industry, a significant relationship between new equity financing and value was not demonstrated.

2.8 Review of Research Works in Nepalese Perspective

In this regard, there are very few articles published in Nepal under this sub-section, the two major studies are reviewed as follows:

2.8.1 Pradhan's Study

It is desirable to put forth here the study of Radhe S. Pradhan. The study "A survey of Dividend Policy and Practices of Nepalese Enterprises" has been conducted based on views of 135 managers on dividend policy of large Nepalese enterprises. (Pradhan, 2003)

A questionnaire was distributed to the financial executives of 50 large Nepalese enterprises as identified in the publication of securities boards, Nepal and Nepal Stock Exchange Ltd. out of 50 enterprises. They research on 36 finance sector and 14 on non-finance sector.

The main objective of that study is to examine management's view on various aspects of dividend policy and practices in Nepal.

The major finding of the study:

- In their ranks for the importance of major decision of finance, respondents give third priority to dividend decision.
- With respect to major motives for paying cash dividend that it is to convey information to shareholders that the company is doing well and is to draw attention from the investment community.
- Dividend decision is not a residual decision.
- Nepalese shareholders are not really indifferent to whether the company pays or does not dividend.
- The earning announcement by the company would help to increase market price of share.
- In Nepal most of the companies do not want to pay dividend.
- Dividend policy is affected by earning availability stock price.

The major finding of this study is similar to the findings of the studies cared by the Linter (1956).

2.8.2 Shrestha's Study

One article, "Public Enterprises: Have they dividend paying ability" Was published in 1981 by Prof. Dr. Manohar Krishna Shrestha, which gives short

glimpse of the dividend performance of some public enterprise of that time in Nepal. (Shrestha, 1981,p.23)

Dr. Shrestha has highlighted following issues in his article.

- HMG expects two things from the public enterprises:

  i) They should be in a position to pay minimum dividend and

  ii) The public enterprises should be self-supporting in financial matters in future years to come, but none of these two objectives are achieved by the public enterprises.
- One reason for this inefficiency is caused by excessive governmental interference in day-to-day affairs. On the other hand, high-ranking officials of HMG appointed on directors of Board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and thus led corporation to face losses. Losing corporations are, therefore, not in position to pay dividend to government.
- Another reason is the lack of self-criticism and self-consciousness. Esman has pointed out that the lack of favorable leaders is one of the biggest constraints to institution building. Moreover, corporate leadership come as managers of corporations have not been able to identify them regarding what they can contribute as managers of corporations. So, HMG must be in a position to develop a financial target in corporate investment by imposing financial obligation on corporation.
- The article point out the irony of government biasness that government has not all owed bands to follow an independent dividend policy and HMG is focused to have pressurized on dividend payment in case of Nepal Bank Ltd. regardless of profit. But, it has left off Rastriya Banijya Bank from dividend obligation is spite of considerable profit.

The improvements suggested by author are:

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

If HMG want to tap resources through dividend, the following criteria should be followed.

a) Proper evaluation of public enterprises in term of capability of paying dividend should be made through corporation co-ordination committee.
b) Imposition of fixed rate of dividend by government to all the financially sound public enterprises.
c) Circulating the information to all the public enterprises about the minimum rate of dividend.
d) Specifying performance criteria such as profit target in terms of emphasis, priorities, timing and plans and developing a strategic plan that is not just a statement of corporation aspiration but must be done to convert the aspiration into reality.
e) Identification of corporation objectives in corporation Act, Company Act or special charter so as to clarify the public enterprise managers regarding their financial obligation to pay dividend to HMG.

2.9 Review of Previous Thesis

Prior to this thesis, several Theses have been written by students of MBS. Some of them are supposed to be relevant for these studies are presented below:

2.9.1 Bishnu Hari Bhattari's Study

Bishnu Hari Bhattari in his thesis paper "Dividend Decision and its Impact on Stock Valuation" concludes that:

- There is positive relationship between cash flow and current profit and dividend percent of shares. The degree of relationship is almost perfect. Net worth point in Nepalese companies is cash balance is maintained only when there is profit to pay dividend through where there if both balance of cash and enough net profit only when the dividend is cleared.
- There is no criterion to adopt payout ratio and it is observed that there is negative relationship between payout ratio and valuation of shares.
- In aggregate, there is no stable dividend paid by the companies over the years. Some companies have steadily increased dividend; it can be inferred that they adopted low regular plus extra dividend. Stable dividend influence considerable impact on valuation of shares if there are rational investors. However, Nepalese Company Management yet to realizes this.
- Inflation rate in recent year are decreasing and the market price of share are increasing. Nevertheless, the companies are not able to give required rate of return to the investors.
- There was negative relationship between market price of share and stockholders required rate of return. Shareholders have foregone opportunity income in hope of getting higher return, but companies have not been able to return even equal to risk free rate of return.

2.9.2 Anajani Raj Bhattari's Study

Anajani Raj Bhattari carried out a thesis "Share Market in Nepal" in 1990. He concluded that:

Many companies were paying less than the expected cash dividend per share of the investors. Some of them were paying higher than the average cash

dividend per share while some company were paying regular dividend with higher amount, was low period. Thus, taking as a whole most company were undertaking the expectation of investor and they're be resulting low marketability of shares on the trading floor of stock exchange.

- Dividend declared by the majority of companies is less than risk free rate of return plus risk premium.
- Majority of companies displaying lower price earning ratio indicates the erosion of the believes of investors on shares of listed companies. As a result, market price of the share is highly skewed.
- Calculate price of shares do not match with quoted price.

2.9.3 Sudakahar Timilsina's Study:

Sudakahar Timilsina in his thesis paper "Dividend and Stock Price, An empirical study" has studied the relationship between dividend and stock price. Though it was not very comprehensive, it was the 1st of its kind and able through some light in the Nepalese context.

The objectives of this were as follows:

- To test the relationship between dividend per share and stock price.
- To determine the impact of dividend policy on stock price
- To identify whether it is possible to increase the market value of stock by changing dividend policy or payout ratio.

He concludes:

a. The relationship between dividend per share and stock price is positively in the sample companies.
b. Dividend per share affects the share price differently in different sectors.
c. Changing the dividend policy or dividend per share might help to increase the market price of shares

2.9.4 P.L. Rajbhandari's Study:

This study takes into consideration of data of only five year 1994/95 through 1998/99. Six companies are taken as sample. Her main findings are (Rajbnandari, 2001, P.1-90):

- Average earning per share seems satisfactory of all sample companies.
- The positive relationship between dividend per share and earning per share.
- The coefficient of correlation between earning per share and market price to be negative.
- The relationship between market price per share and dividend is positive dividend payment is not consistency in all six sample companies.

  The institutions do not seem to follow the optimal dividend policy of paying regular dividend as per shareholders expectation and interest.

At first, her study is based on secondary data of past five year 1994/1995 to 1998/1999. That may not represent the exact practice of dividend policy of joint venture banks and insurance companies based on secondary data only.

Second, she did not explain the existing capital market in Nepal.The dividend is in macro level but it is necessary to do comparative study and analysis of dividend policy in micro level for the assessment of joint venture banks and insurance companies as well.

2.9.5 Bishnu Hari Neupane's study

The study on "Dividend Policy of Financial Institutions" conducted by Bishnu Hari Neupane has following objective. (Neupane, 2002, P. 6-7)

- To identify and compare the dividend policies followed by joint venture banks and finance companies.
- To analyze the relationship dividend with various important variables such as EPS, Net Worth and Market price per share (MPPS).
- To identify the major determinants of dividend policy.For that purpose, he selected three join venture banks and three financial institutions based on secondary data of past five year 1996 to 2000.

Analysis of the result of the sample companies helped him to conclude the following points.

- Dividend practices of all sample joint venture banks and finance companies are not stable.
- Relations between DPS with EPS and NPAT are positive in all these sample financial institutions. Where as there is mixed result of relationship between DPS with average stock price and net worth is observed.
- DPS affects MPPS in different banks differently.

Chapter – III

Research Methodology

3.1 Introduction

Research methodology is a way to systematically solve the research problem. It highlights the method adopted in the process of present study. It also focuses about the sources and limitation of the data, which are used in the present study. Research methodology indicates the various sequential steps to be adopted by the researcher in studying a problem with certain objectives in view, So, it is the methods, steps and guidelines, which are to be followed in analysis and it is a way presenting the collected data with meaning fully analysis.

Background information regarding banking companies has already stream lined in the previous literature of review chapter from where I got lots of ideas, theories, findings of different study related to dividend policy and practices of banking and finance companies in Nepal and also to find out the factors that affect dividend policy of the joint venture companies. It also tries to find out the relationship between dividend with earnings per share, net profit after tax, market price of shares and net worth of the joint venture banks. To achieve those objectives the study follows the research methodology describe in the chapter.

3.2 Research Design

The research design is simply the framework for a study that helps the analysis of data related to study topic. It is descriptive and prescriptive in nature. Research design is a controlling media for the collection of data and it helps to collect the accurate information, which is related to dividend policy

of joint venture banks. For the analytical purpose the annual reports of joint venture banks were collected for the concerned year.

3.3 Population and Sample

Now, 27 commercial banks (including government owned, private and joint venture) are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, sampling will be done selecting from population.

Out of 27 commercial banks only six are joint venture and listed in Nepal Stock Exchange. All joint ventures banks are selected for study since population of joint ventures are not large.

3.4 Data Collection Procedure/Sources of Data

The research is mainly based on the secondary data which may include the Annual Reports of the banks under study, Economic Report Published by Nepal Rastra Bank, the stock price for the whole year listed in the Nepal Stock Exchange (NEPSE), Economic Survey published from GON Ministry of Finance, Financial Status report published form World Bank, Financial and other relevant data regarding the dividend policies and practices of the Banks. Besides this, the data are also collected from various newspapers, magazines and journals published by the concerned agencies as well as website of Nepal Stock Exchange.

3.5 Data Analysis Method

The analysis of data is done according to pattern of data available. Specific financial and statistical tools are used in this study. Basically two types of tools are used. They are:

3.5.1 Financial Tools Used for Analysis

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 profitability of the banks by mobilizing their funds and vice-versa. In other words, the earning per share indicates the strength and weakness of the bank.

Earning per Share is computed to know the earning 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,

$$EPS = \frac{Earning\ Available\ to\ Common\ Stockholders}{Number\ of\ Common\ Stock\ Outs\tan ding}$$

b. 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 to bank is common stock, which consequently helps to increase the market value to the share. And it also works as the indictor of better performance of the bank management.

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

$$DPS = \frac{Total\ Amount\ of\ Dividend\ Paid\ to\ Ordinary\ Shareholders}{Number\ of\ Ordinary\ Shareholders\ Outs\tan ding}$$

c. Dividend Percent (DP)

Dividend percent is the ratio of dividend per share to the paid-up price per ordinary share. It can be calculated as:

$$DP = \frac{Dividend\ Per\ Share}{Paid-up\ \Pr ice\ Per\ Share}$$

c. Dividend Payout Ratio (DPR)

It is the proportion of earning paid in the form of dividend. 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 vice-versa.

There is an inverse relationship between dividends and retained earnings. The higher dividend payout ratio, the lower will be the proportion of retained earning 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 divided. This ratio is calculated by dividing per share by the earning per share. Thus,

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

And, Retention Ratio = (1-Dividend payout ratio)

= (1-DPR)

d. Price Earning Ratio (P/E Ratio)

Price-earning ratio is also called the earnings multiplier. Price-earning ratio is the ratio between market price per share and earning per share. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings.

The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investor in the firm's future. This ratio is computed by dividing earning per share to market price. Thus,

$$P/E\ Ratio = \frac{Market\ Price\ Per\ Share}{Earning\ Per\ Share}$$

e. 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 share price at a particular time. It measures the earning in relation to market value of share. It gives some idea of how much an investor is earning for his money. The share with higher earnings yield is worth buying. It is calculated as:

$$Earning\ Yield = \frac{Earning\ Per\ Share}{Market\ Price\ Per\ Share}$$

f. 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 a percentage of market prices per share in the stock market.

This ratio highly influences the market price per share because a small change in dividend per share can bring 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 share in the secondary market. This ratio is calculated by dividing dividend per share by market price of the stock. Thus

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

3.5.2 Statistical Tools used for Analysis

Besides the financial tools, various statistical tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated, compared, analyzed and interpreted. In this study, the following statistical tools are used to analyze the relationship between dividend and other variables.

a. Arithmetic Mean or Average ($\overline{X}$)

An average is the value, which represents a group of values. It depicts the characteristic of the whole group. It is an envoy of the entire mass of homogeneous data. Generally the average value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is calculated as follows.

$$\text{Arithmetic Mean } (\overline{X}) = \frac{X_1 + X_2 + X_3 + ... + X_n}{N}$$

$$\text{Or, } \overline{X} = \frac{\sum X}{N}$$

Where,

$\sum X$ = Sum of the sizes of the items

N = Number of items

b. Standard Deviation (±)

Karl Pearson first introduced the concept of standard deviation in 1983. Standard deviation is the positive square root of the arithmetic average of the squares of all the deviation 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 deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. Standard Deviation is denoted by a Greek letter '± ' (Sigma) and is calculated as follows.

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

Where,

N= Number of items in the series.

$\overline{X}$ = Mean

X= Variable

c. Coefficient of Variation (C.V.)

It is the measurement of the relative dispersion by Karl Person. 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 and 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,

Coefficient of Variation (C.V) = $\frac{S.D \times 100}{Mean}$ *or*, $\frac{\pm \times 100}{\overline{X}}$

Where,

± = Standard Deviation

$\overline{X}$ = Mean

d. Coefficient of Correlation (r)

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 variation in the other.

The value of coefficient of correlation always lies between ± 1. A value of -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 is +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 concerted with the strength, or closeness of the relationship between two variables.

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

$$r = \frac{Cov(XY)}{\pm_x \pm_y}$$

$$r = \frac{\Sigma(X - \overline{X})(Y - \overline{Y})}{(N-1)\pm_x \pm_y}$$

or,

$$r = \frac{N\Sigma XY - \Sigma X \Sigma Y}{\sqrt{N\Sigma X^2 - (\Sigma X)^2}\sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

Where,

$\pm_x, \pm_y$ Are the standard deviation of the distributions of X and Y values respectively.

Cov (X,Y) = covariance of X, Y value

$$= \frac{\Sigma(X - \overline{X})(Y - \overline{Y})}{(N-1)}$$

Under this study, the correlation between the following variables is analyzed:

a) Dividend per Share and Earning Per Share.
b) Dividend per Share and Net profit.
c) Dividend per Share and Market price per share.
d) Dividend per Share and Net Worth.
e) Dividend Payout Ratio and Market Price per Share.

e. 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. It refers to a measure of the total variance in a 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 infinity. The closer to infinity means greater the explanatory power. A value or one can occur only if the unexplained diagram falls exactly on the regression line. The R^2 is always a positive number. It can't tell whether the relationship between the two variables is positive or negative. The R^2 is defined as the ratio of explained variance to the total variance. Thus,

$$\text{Coefficient of Determination } (R^2) = \frac{Explained\ Variance}{Total\ Variance}$$

Or,

$$R^2 = \frac{1 - Unexplained\ Variance}{Total\ Variance}$$

f. Regression Analysis

Francis Galton was the first person to introduce the concept of regression. Regression refers to an analysis, which involves the fitting of an equation to a set of data points, generally by the method of least square. In other words the correlation analysis shows the direction of movement but it doesn't tell the relative movement in the variable under study. Regression analysis helps to know that relative movement in the variables. Simple regression analysis of following variables are calculated and interpreted in this study.

- **Dividend per Share on Earning Per share**

For this following model is used.

$$Y = a+bx$$

Where,

Y= Dividend per share

a = Regression constant

b = Regression co-efficient

x = Earning per share

This analysis enables to know whether EPS is influencing factor of dividend per share or not.

- **Dividend per Share on Net Profit.**

The model:

Y = a+bx

Where,

Y= Dividend per share

a = Regression constant

b = Regression co-efficient

x = Earning per share

This model tests the dependency of DPS on Net profit.

- **Market Price per Share on Dividend per Share**

The Model:

Y = a+bx

Where,

Y= Market per share

a = Regression constant

b = Regression co-efficient

x = Dividend per share

This model tests the dependency of MPPS on DPS.

- **Net Worth on Dividend per Share**

The model:

$$Y = a+bx$$

Where,

Y= Net per share

a = Regression constant

b = Regression co-efficient

x = Dividend per share

These models test the dependency of Net Worth on dividend per share.

In correlation and regression analysis following statistics has been calculated and interpreted accordingly.

1. Multiple R: It is the correlation coefficient between observed values and values given by the model. The values close to 1 is preferable, since it indicates that the values are closely related.
2. R^2: It is the co-efficient of determination. It measures the linear association between variables. It tells the explained variation due to independent variable. It is square of co-efficient of co-relation.
3. Standard Error of Estimate (SEE): It is likely error in predicted values given by the model. Smaller SEE is desirable, since it denotes lower degree of error.

4. Regression Co-efficient (b): It describes its changes in independent variables affect the values of dependent variable's estimate.
5. Regression Constant (a): The regression constant (a) indicates the average effect on dependent variable, if all the independent variables omitted from the model.

Chapter-IV

Analysis & Presentation of Data

4.1 Presentation of Financial Variables

Under these heading, financial variables are used with financial tools and MS-Excel.

4.1.1 Earnings per Share (EPS)

Normally, the performance and achievement of business organization are measured in term of its capacity to generate earning. The higher earning indicates the higher strength and lower earning indicates the weakness of business organization that helps for its growth, expansion and diversification. The earning power of business organization is measured in terms of earning per share (EPS)

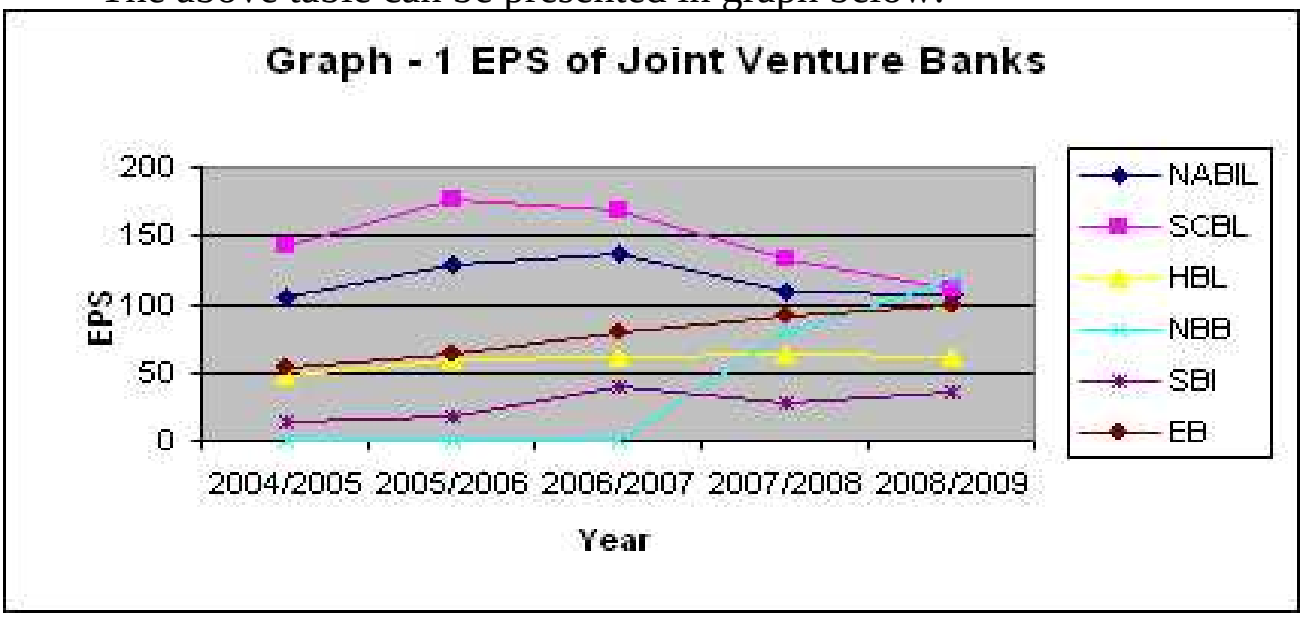
The following table shows the EPS, and its mean, Standard deviation, co-efficient of variation of different joint venture banks.

Table-1 Earnings per share of Joint Venture Banks

Year	NABIL	SCBL	HBL	NBB	SBI	EB
2004/2005	105.49	143.14	47.91	NA	13.29	54.2
2005/2006	129.21	175.84	59.24	NA	18.27	62.8
2006/2007	137.08	167.37	60.66	NA	39.35	78.4
2007/2008	108.31	131.92	62.74	80.16	28.33	91.82
2008/2009	106.76	109.99	61.9	116.01	36.18	99.99
Mean	117.37	145.652	58.49	98.085	27.084	77.442
Std. Deviation	14.70085	26.69102	6.060083	25.34978	11.21055	19.17443
Coef. Variation	0.125252	0.183252	0.103609	0.258447	0.413918	0.247597

(source:http://www.nepalstock.com)

The above table can be presented in graph below:



When analyzing the Earning per Share of Joint Venture Banks, following facts have been found:

- SCBL has highest EPS with a mean of Rs 145.652 and SBI has lowest EPS with a mean of Rs 27.084
- The highest variation is found in EPS of SBI and Lowest in HBL.
- In aggregate the average of EPS of Joint Venture Banks seems to be satisfactory.
- It is also observed that not any of Joint Venture Banks' EPS shows clear indication of growth rate. All the banks have some increasing and decreasing trend.

4.1.2 Dividend per Share (DPS)

Dividend per share indicates the proportion of earning distributed to owner (shareholder) on per share basis. Generally, the higher DPS creates positive attitude among the shareholders toward the bank, which accordingly helps to increase the market value of shares.

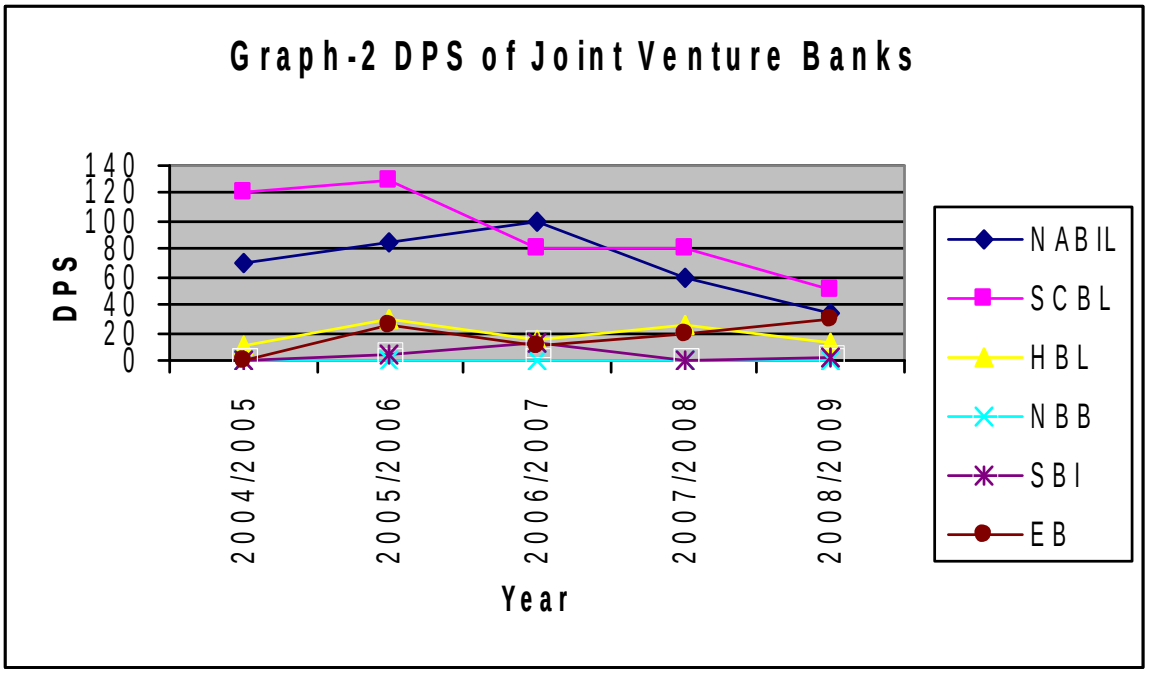
The following table and figure shows the dividend per share,and its mean, standard deviation and co-efficient of variation of different listed samples joint venture banks in Nepal.

Table-2 Dividend Per share of Joint Venture Banks

Year	NABIL	SCBL	HBL	NBB	SBI	EB
2004/2005	70	120	11.58	0	0	0
2005/2006	85	130	30	0	5	25
2006/2007	100	80	15	0	12.59	10
2007/2008	60	80	25	0	0	20
2008/2009	35	50	12	0	2.11	30
Mean	70	92	18.716	0	3.94	17
Std. Deviation	24.74874	32.71085	8.316446	0	5.252195	12.04159
Coef. Variation	0.353553	0.355553	0.44435	#DIV/0!	1.333044	0.708329

(Source: http://www.nepalstock.com)

The above table is represented in graph below:



While analyzing the data of five years regarding dividend per share, the following facts have been found:

- The SCBL has highest DPS with a mean of Rs 92 with least variation. It has also shown the decreasing trend of DPS.
- Another bank which pays dividend regularly with a mean of Rs 70 with C.V. of 0.353553 is NABIL. It is not paying dividend constantly and shows first increasing then decreasing trend.
- The NBB has zero dividend per share
- The SBI has lowest DPS with a mean of Rs 3.94 with highest c.v. of 1.33304
- The HBL and EB have medium DPS with a mean of Rs.18.716 and Rs.17 respectively.

4.1.3 Dividend Payout Ratio

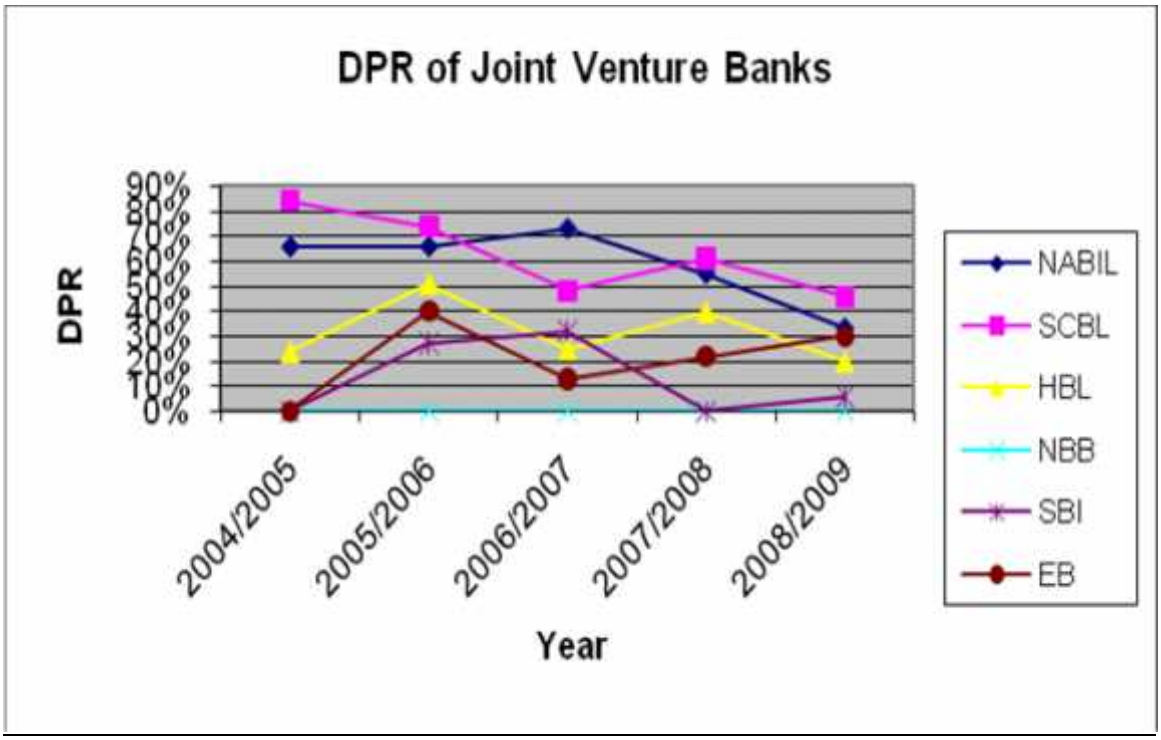
The ratio shows the amount of dividend as a percentage of earning available for equity shares. It depends upon earning of organization. Creator the

earnings show more ability to pay dividend. The dividend payout ratio of the bank's study is stated in the table and figure as follows.

Table-3 Dividend Payout Ratio of Joint Venture Banks

Year	NABIL	SCBL	HBL	NBB	SBI	EB
2004/2005	66%	84%	24%	0%	0%	0%
2005/2006	66%	74%	51%	0%	27%	40%
2006/2007	73%	48%	25%	0%	32%	13%
2007/2008	55%	61%	40%	0%	0%	22%
2008/2009	33%	46%	20%	0%	6%	30%
Mean	0.584881	0.626	0.32	0	0.12966	0.21
Std. Deviation	0.156287	0.164256	0.130576	0	0.153818	0.153948
Coef. Variation	0.267212	0.26239	0.408049	#DIV/0!	1.186321	0.733086

(Source:http://www.nepalstock..com.)



While analyzing the dividend payout ratio, following facts have been found.

- SCBL has highest dividend payout ratio with the average of 62.6% with less C.V. of 0.26239.
- NABIL has also good dividend payout ratio with a mean of 54.48 % with less C.V. of 0.267212.
- HBL has shown great fluctuation in DPR with a mean of 32% with C.V. of 0.408049.
- NBB has shown worst result in dividend payout ratio with a mean of 0%.

4.1.4 Market Price per Share

Market price per shares (MPPS) is the value paid to a share of the firm by the investor in the stock market. Thus this price is fixed in the stock market on the basis of demand and supply position for specified share. Higher MPPS is more desirable.

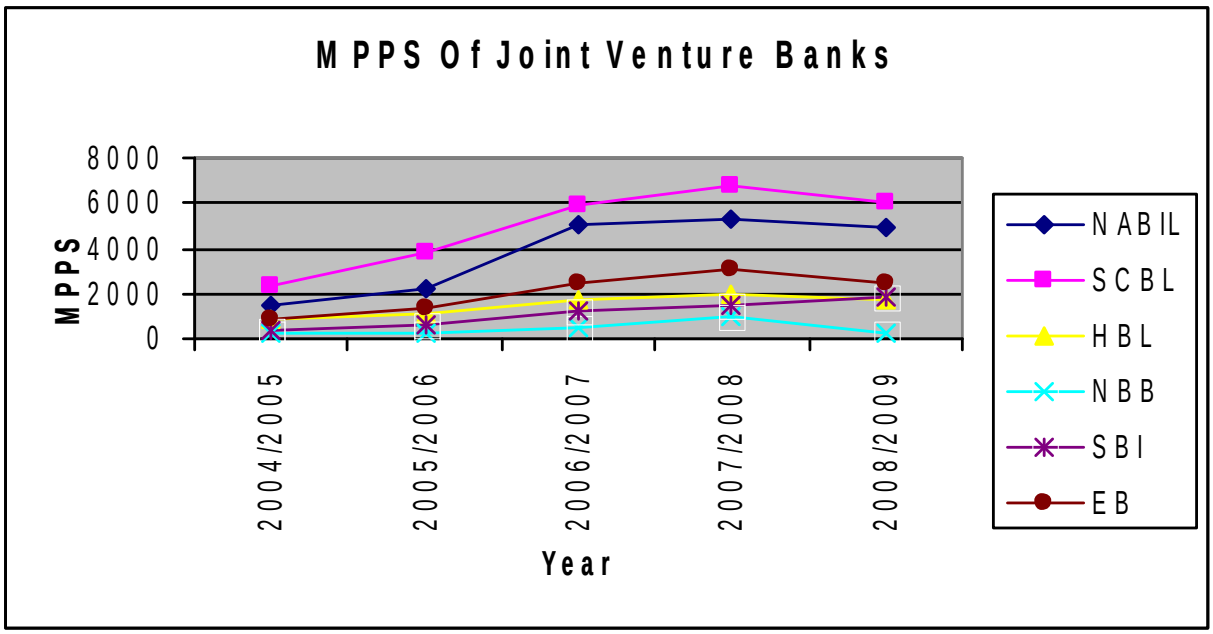
The market prices per share of different joint venture banks are presented in the following table and figure respectively

Table-4 Market Price Per share of Joint Venture Banks

Year	NABIL	SCBL	HBL	NBB	SBI	EB
2004/2005	1505	2345	920	265	335	870
2005/2006	2240	3775	1100	199	612	1379
2006/2007	5050	5900	1740	550	1176	2430
2007/2008	5275	6830	1980	1001	1511	3132
2008/2009	4899	6010	1760	280	1900	2455
Mean	3793.8	4972	1500	459	1106.8	2053.2
Std. Deviation	1778.086	1852.345	461.5192	331.4068	639.8896	911.2819
Coef. Variation	0.468682	0.372555	0.307679	0.722019	0.578144	0.443835

(Source:http://www.nepalstock.com.)

The above figure is presented in graph below:



Analysis of MPPS of Joint Venture Banks reveals the following facts and figure:

- The SCBL is market leader in MPPS with a mean of Rs 4972 with C.V. of 0.372555.
- The NABIL has market price with a mean of Rs 3793.8 with C.V. of 0.468682
- The HBL has market price with a mean of Rs 1500 with C.V. of 0.307679.
- EB has market price with a mean of Rs2053.2 with C.V. of 0.443835
- SBI has mean market price Rs 1106.8 with a C.V. of 0.578144.
- Although average market price of NBB is Rs 459, it seems to be unrealistic which is reflected by higher C.V. of 0.722019.

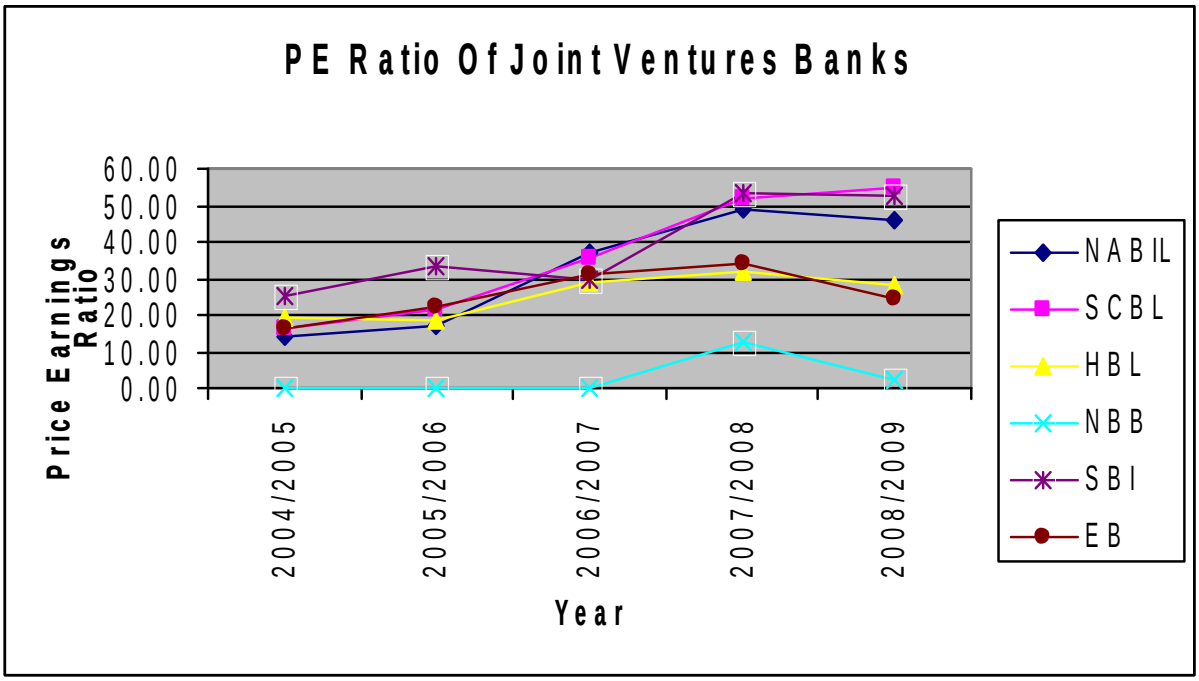
4.1.5 Price Earning Ratio (P.E. Ratio)

Price-earning ratio is the between market price per share and earning per share. It is also called earning multiplier. The price earning ratio of the banks under study is presented in table and figure below:

Table-5 Price Earnigs Ratio of Joint Venture Banks

Year	NABIL	SCBL	HBL	NBB	SBI	EB
2004/2005	14.27	16.38	19.20	0.00	25.21	16.00
2005/2006	17.34	21.47	18.57	0.00	33.49	22.00
2006/2007	36.84	35.25	28.69	0.00	29.89	31.00
2007/2008	48.70	51.77	31.56	12.49	53.34	34.11
2008/2009	45.89	54.64	28.43	2.41	52.52	24.55
Mean	32.608	35.902	25.29	2.98	38.89	25.532
Std. Deviation	15.98959	17.26791	5.978691	5.417707	13.15182	7.207279
Coef. Variation	0.490358	0.480973	0.236405	1.818023	0.33818	0.282284

(Source: http://www.nepalstock.com)



The average P/E ratio of NABIL, during the period of study is 32.608. It is within the range of 45.89 and 14.27. The standard deviation of price earning ratio is 15.9895 whereas the coefficient of variation 0.490358 implies the fluctuating nature of P/E ratio in NABIL.

The average P/E ratio of SCBL, during the period of study is 35.902.It is within the range of 54.64 and 16.38. The standard deviation of price earning ratio is 17.2679 whereas the coefficient of variation 0.48097 implies the fluctuating nature of P/E ratio in SCBL.

The average P/E ratio of HBL, during the period of study is 25.29.It is within the range of 31.56 and 18.57. The standard deviation of price earning ratio is 5.978691 whereas the coefficient of variation 0.236405 implies the stable nature of P/E ratio in HBL.

The average P/E ratio of NBB, during the period of study is 2.98.It is within the range of 12.49 and 2.41. The standard deviation of price earning ratio is

5.417707 whereas the coefficient of variation 1.818023 implies the higher fluctuation of P/E ratio in NBB.

The average P/E ratio of SBI, during the period of study is 38.89. It is within the range of 53.34 and 25.21. The standard deviation of price earning ratio is 13.15182 whereas the coefficient of variation 0.33818 implies the fluctuating nature of P/E ratio in SBI.

The average P/E ratio of EB, during the period of study is 25.532. It is within the range of 31 and 16. The standard deviation of price earning ratio is 7.207279 whereas the coefficient of variation 0.282284 implies the fluctuating nature of P/E ratio in EB.

4.1.6 Dividend Yield

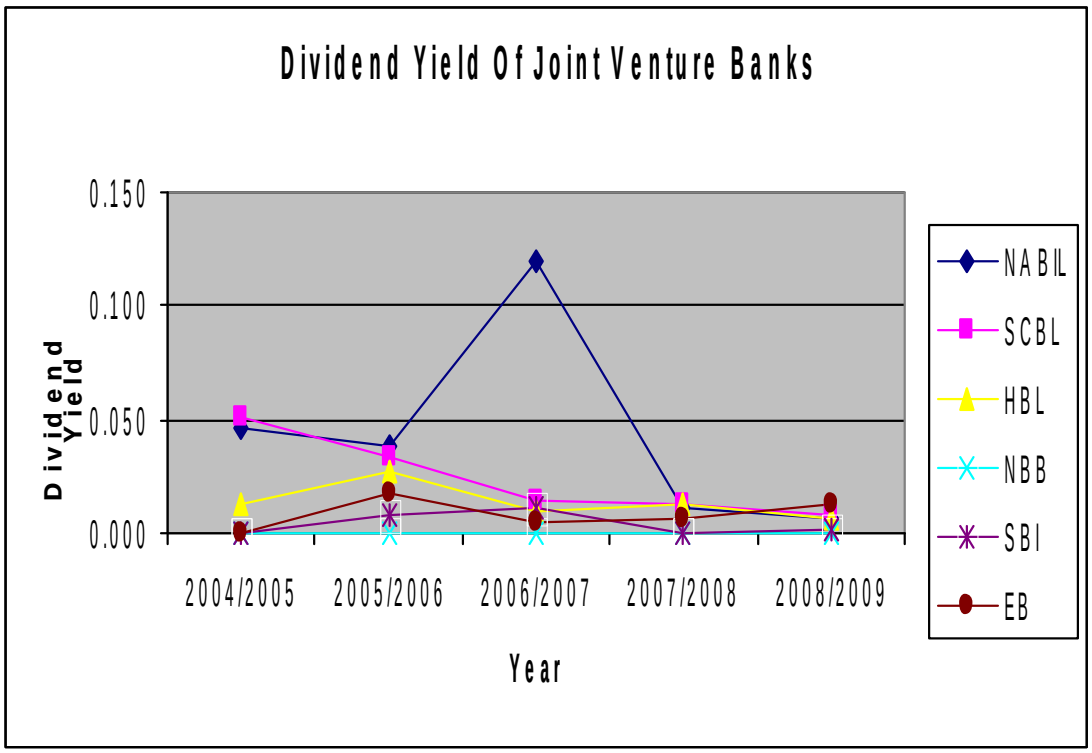
It is the percentage of dividend per share on market price per share. It shows that how much is the dividend per share on Market price per share. It is the dividend received by the investors as a percentage of market prices per share in the stock market. This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in the market value of the share.

The dividend yields of different joint ventures bank are presented in the following table and figure:

Table 6 Dividend Yield of Joint Venture Banks

Year	NABIL	SCBL	HBL	NBB	SBI	EB
2004/2005	0.047	0.051	0.013	0.000	0.000	0.000
2005/2006	0.038	0.034	0.027	0.000	0.008	0.018
2006/2007	0.120	0.014	0.009	0.000	0.011	0.004
2007/2008	0.011	0.012	0.013	0.000	0.000	0.006
2008/2009	0.007	0.008	0.007	0.000	0.001	0.012
Mean	0.0446	0.0238	0.0138	0	0.004	0.008
Std. Deviation	0.04549	0.018226	0.007823	0	0.005148	0.007071
Coef. Variation	1.019945	0.765813	0.566887	#DIV/0!	1.286954	0.883883

(Source: http://www.nepalstock.com)



While analyzing the dividend Yield the following facts and figures are found:

- The NABIL has highest dividend yield with mean of 0.0446 with CV of 1.019945.

- The least dividend is found in NBB almost zero.
- The rest of the banks have reasonable dividend yield with higher variability.
- It shows that Joint Venture Banks has not paid enough amounts to cover up current market price of share.

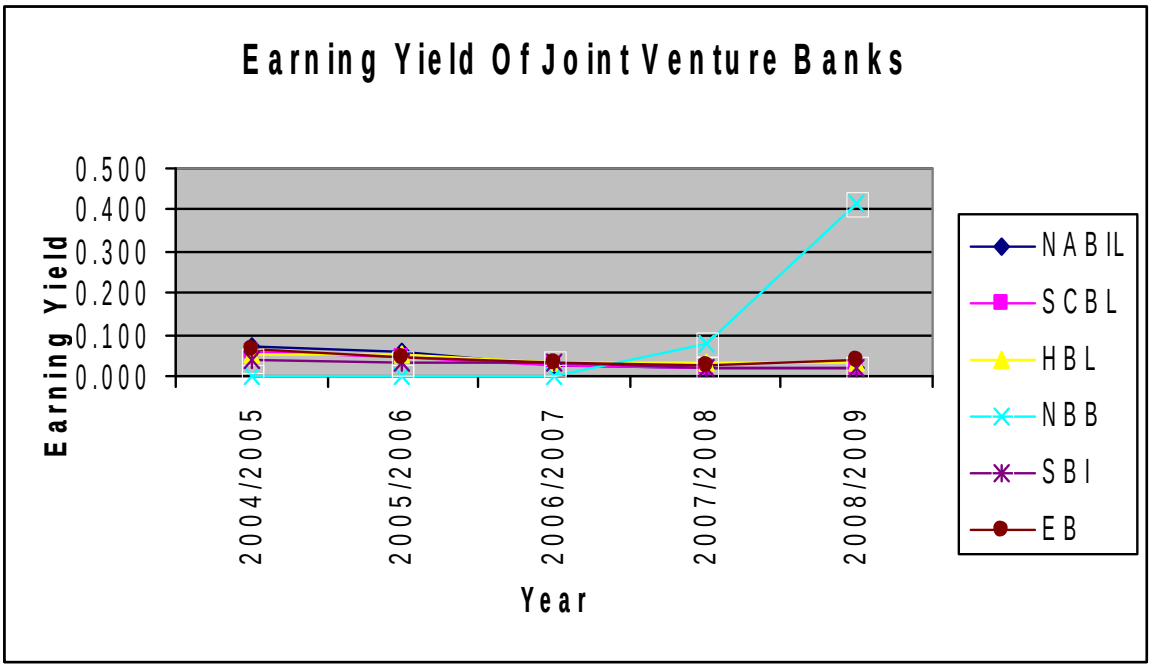
4.1.7 Earning Yield (EY)

Earning per share as the percentage of market price per share in the stock market is called the current yield. In other words, it is a financial ratio relating to earnings per share to the market share price at a particular time. It measures the earnings in relation to market value of share. It gives some idea of how much an investor might get for his money. The share with higher earning yield is worth buying. Earning yield is informative to compare the market share prices of stocks in the secondary market. The table and graph is presented below:

Table-7 Earnigs Yield of Joint Venture Banks

Year	NABIL	SCBL	HBL	NBB	SBI	EB
2004/2005	0.070	0.061	0.052	0.000	0.040	0.062
2005/2006	0.058	0.047	0.054	0.000	0.030	0.046
2006/2007	0.027	0.028	0.035	0.000	0.033	0.032
2007/2008	0.021	0.019	0.032	0.080	0.019	0.029
2008/2009	0.022	0.018	0.035	0.414	0.019	0.041
Mean	0.0396	0.0346	0.0416	0.0988	0.0282	0.042
Std. Deviation	0.022788	0.018796	0.010502	0.179575	0.009149	0.013096
Coef. Variation	0.575458	0.543245	0.252461	1.817561	0.324424	0.311805

(Source: http://www.nepalstock.com)



Above tables and graphs have clearly shown the trends of earning yield of Joint Ventures Banks. NBB has highest earning yield with the mean of 0.0988 with CV of 1.817561, which indicates higher variability in its earning yield. SBI has lowest earning yield with the mean of 0.0282 with CV of 0.32442. NABIL and SCBL has moderated mean of earning yield 0.0396 and 0.0346 with CV of 0.57545 and 0.543245 respectively. HBL and EB also has moderate mean of earning yield 0.0416 and 0.042 with CV of 0.252461 and 0.311805 respectively.

4.2 Statistical Analysis

4.2.1 Correlation Analysis

Table-8 Correlation between financial variable

Banks	Variables	Correlation with			
	DPS	EPS	MPPS	NP	NW
NABIL	DPS	0.845765	-0.22222	-0.72665	0.908992
	DPR		-0.38538		
SCBL	DPS	0.709775	-0.80898	-0.87029	0.536158
	DPR		-0.85138		
HBL	DPS	0.395368	0.000234	0.013014	-0.59161
	DPR		-0.16262		
NBB	DPS	0.00	0.00	0.00	0.00
	DPR		0.00		
SBI	DPS	0.550066	0.005273	0.242916	0.229459
	DPR		-0.16563		
EB	DPS	0.657811	0.468023	0.727763	0.407803
	DPR		0.244458		

(Source:http://www.nepalstock.com & Annual Reports)

Correlation analysis is the statistical tool we can use to describe the degree to which one variable is linearly related to another. It exists between -1 to +1. All the variables either positive or negative correlated with each other. Here I try to find out the relationship between DPS with EPS, MPPS, NP and NW and DPR with MPPS.

The correlations between DPS of NABIL with all variables i.e. EPS and NW are positive. MPPS and NP are negative . Similarly the correlation of DPR with MPPS is also negative. It indicates that when DPS is fluctuating all the variables also fluctuate.

The correlation between DPS of SCBL with all variables i.e. EPS, and NW are positive, MPPS and NP are negative. Similarly the correlation of DPR with MPPS is also negative. It indicates that when DPS is decreased all the variables also decreased.

The correlation between DPS of HBL with all variables i.e. EPS, MPPS and NP are positive. But NW and the correlation of DPR with MPPS is negative. It indicates that when DPS is fluctuating in nature all the variables also fluctuate.

The correlation between DPS of NBB with all variables i.e. EPS, MPPS, NP and NW are zero. Similarly the correlation of DPR with MPPS is also zero. It indicates that when DPS is zero all the variables also zero.

The correlation between DPS of SBI with all variables i.e. EPS, MPPS, NP and NW are positive. But the correlation of DPR with MPPS is negative. It indicates that when DPS is fluctuating all the variables also fluctuate.

The correlation between DPS of EB with all variables i.e. EPS, MPPS, NP and NW are positive. Similarly the correlation of DPR with MPPS is also positive. It indicates that when DPS is increased all the variables also increased.

Above analysis clearly suggest that the correlation between DPS with EPS is positive for all joint venture banks. But MPPS and NP are negative for all joint venture banks. It means when DPS is fluctuating in nature, all other variables will also fluctuate. However, the degree of correlation is different for all banks. The correlation of DPS with EPS is highly positively correlated for all joint venture banks except NBB. The correlation of DPS with EPS, MPPS, NP and NW are zero correlated for NBB. The highly negatively correlated variables DPR with MPPS are SCBL. Similarly, the highly positively correlated variables DPR with MPPS are EB. The correlation of DPS with NW is positive of NABIL, SCBL, SBI and EB.

4.2.2 Regression Analysis

Regression analysis helps us to know the relative movement in the variables. The regression results of dividend per share on earning per share, dividend per share on net profit, market price per share on dividend per share and dividend per share on net worth are presented in the following different tables.

4.2.2 a. Regression Analysis of DPS on EPS

Table-9 Regression Results of DPS on EPS

Banks	Variables	b.	SEE	T. Value	R^2
NABIL	EPS	1.423837	15.24762	5.485	0.715318
	Constant (a)	-97.1158		-0.917	
SCBL	EPS	0.869856	26.60713	1.065	0.503781
	Constant (a)	-34.6963		0.084	
HBL	EPS	0.542576	8.820579	2.443	0.156316
	Constant (a)	-13.0193		1.684	
NBB	EPS	0.00	0.00	0.00	0.00
	Constant (a)	0.00		0.00	
SBI	EPS	0.257709	5.06477	0.532	0.302573
	Constant (a)	-3.03978		1.356	
EB	EPS	0.413107	10.47258	-0.528	0.432715
	Constant (a)	-14.9918		2.384	

Above table shows the linear relationship between dividend per share (DPS) and earnings per share (EPS). All joint venture banks has positive regression co-efficient "b". The regression coefficient indicates that one rupee increase in EPS lead to certain increase in DPS. For NABIL, one rupee increase in

EPS lead to average Rs 1.4238 increase in DPS. For SCBL, one rupee increase in EPS lead to average Rs 0.8698 increase in DPS. For HBL, one rupee increase in EPS leads to average Rs 0.542576 increase in DPS. For NBB, zero EPS leads no increase in DPS which is lowest among the joint venture banks. For SBI, one rupee increase in EPS leads to increase in DPS by Rs 0.257709. Similarly one rupee increase in EPS for EB leads to increase in DPS by Rs 0.413107

The standard error of estimate (SEE) of NABIL, SCBL, HBL, NBB, SBI and EB are 15.24762, 26.60713, 8.820579, 0.000, 5.06477 & 10.47258 respectively which indicates the likely errors or predicated value of respective banks.

However, the value of co-efficient of multiple determinations (R^2) indicates how much variation can be explained by concerned variable. NBB's R^2 is zero, HBL is lowest (0.1563), then other joint venture banks. This indicates that only 15.6 percent in dividend variable is explained by earning variable (i.e. 15.6 %) variation is explained in DPS due to change in the value of EPS of this bank. NABIL's R^2 is 0.715318, which indicates that 71.5 percent variation is explained in DPS due to change in value of EPS. Similarly, the value of R^2 is, 0.503781, 0.00, 0.302573 & 0.432715 for SCBL, NBB, SBI and EB respectively, which indicates that 50.37 percent, 0.00 percent, 30.25 percent and 43.27 percent variation is explained in DPS.

4.2.2 b. Regression Analysis of DPS on MPPS

Table-10 Regression Results of DPS on MPPS

Banks	Variables	b.	SEE	T. Value	R^2
NABIL	MPPS	-0.00309	27.86287	1.036	0.04938
	Constant(a)	81.73417		2.288	
SCBL	MPPS	-0.01429	22.20334	0.817	0.654447
	Constant (a)	163.0295		0.731	
HBL	MPPS	4.22535	9.603004	-0.921	5.49832
	Constant (a)	18.70966		4.895	
NBB	MPPS	0.00	0.00	0.00	0.00
	Constant(a)	0.00		0.00	
SBI	MPPS	4.32766	6.064627	-0.621	2.77994
	Constant(a)	3.8921014		22.925	
EB	MPPS	0.0061844	12.28757	0.869	0.2190455
	Constant (a)	4.302166		21.348	

Above table shows the linear relationship between dividend per share (DPS) and market price per share (MPPS). All joint venture banks have positive regression co-efficient "b" except NABIL and SCBL. The regression coefficient indicates that one rupee increase in MPPS lead to certain increase in DPS. For NABIL, one rupee increase in MPPS lead to average Rs -0.00309 decrease in DPS. For SCBL, one rupee increase in MPPS lead to average Rs -0.01429 decrease in DPS. For HBL, one rupee increase in MPPS

leads to average Rs 4.22535 increase in DPS. For NBB, no increase in DPS. For SBI, one rupee increase in MPPS leads to increase in DPS by Rs 4.32766. Similarly one rupee increase in MPPS for EB leads to increase in DPS by Rs 0.006184.

The standard error of estimate (SEE) of NABIL, SCBL, HBL, NBB, SBI and EB are 27.86287, 22.20334, 9.603004, 0.00, 6.064627, and 12.28757, respectively which indicates the likely errors or predicated value of respective banks.

However, the value of co-efficient of multiple determinations (R^2) indicates how much variation can be explained by concerned variable. NABIL is lowest (0.04938), then other joint venture banks. This indicates that only 4.93 percent in dividend variable is explained by market price per share (i.e. 4.93 %) variation is explained in DPS due to change in the value of MPPS of this bank. SCBL's R^2 is 0.654447, which indicates that 65.44 percent variation is explained in DPS due to change in value of MPPS. Similarly, the value of R^2 is, 5.49832, 0.00, 2.77994 & 0.219045 for HBL, NBB, SBI and EB respectively.

4.2.2 c. Regression Analysis of DPS on Net Profit

Table-11 Regression Result of DPS on Net profit

Banks	Variables	b.	SEE	T. Value	R^2
NABIL	NP	-0.09372	19.63278	2.772	0.528025
	Constant (a)	137.5814		-0.142	
SCBL	NP	-0.1534	18.60381	-0.175	0.757405
	Constant (a)	206.4613		1.049	
HBL	NP	0.000634	9.60219	-0.005	0.000169
	Constant (a)	18.3807		0.842	
NBB	NP	0.00	0.00	0.00	0.00
	Constant(a)	0.00		0.00	
SBI	NP	0.011889	5.88305	0.581	0.059008
	Constant(a)	1.57782		0.017	
EB	NP	0.0061844	12.28757	1.235	0.219045
	Constant(a)	4.302166		0.142	

Above table shows the linear relationship between dividend per share (DPS) and Net Profit. All joint venture banks have positive regression co-efficient "b" except NABIL and SCBL .The regression coefficient indicates that one rupee increase in net profit lead to certain increase in DPS. For NABIL, one rupee increase in net profit lead to average Rs -0.0937 decrease in DPS. For SCBL, one rupee increase in net profit lead to average Rs -0.1534 decrease in DPS. For HBL, one rupee increase in net profit leads to average Rs 0.000634

increase in DPS. For NBB, no increase in net profit. For SBI, one rupee increase in net profit leads to increase in DPS by Rs 0.011889. Similarly one rupee increase in net profit for EB leads to increase in DPS by Rs 0.0061844.

The standard error of estimate (SEE) of NABIL, SCBL, HBL, NBB, SBI and EB are 19.63278, 18.60381, 9.60219, 0.00, 5.88305 and 12.28757 respectively which indicates the likely errors or predicated value of respective banks.

However, the value of co-efficient of multiple determinations (R^2) indicates how much variation can be explained by concerned variable.HBL is lowest (0.000169), then other joint venture banks. This indicates that only 0.0169 percent in dividend variable is explained by net profit (i.e. 0.0169 %) variation is explained in DPS due to change in the net profit of this bank. NABIL's R^2 is 0.528025, which indicates that 52.80 percent variation is explained in DPS due to change in net profit. Similarly, the value of R^2 is, 0.757405, 0.00, 0.059008 & 0.21904 for SCBL, NBB, SBI and EB respectively, which indicates that 75.74 percent, 0.00 percent, 5.90 percent and 21.90 percent variation is explained in DPS.

4.2.2 d. Regression Analysis of DPS on Net Worth

Table-12 Regression Result of DPS on Net Worth

Banks	Variables	b.	SEE	T. Value	R^2
NABIL	NW	0.599808	11.91145	2.772	0.826266
	Constant (a)	-147.61		-0.142	
SCBL	NW	0.25114	31.88338	-0.175	0.287465
	Constant (a)	-15.0746		1.049	
HBL	NW	-0.34921	7.74219	-0.005	0.35
	Constant (a)	105.1458		0.842	
NBB	NW	0.00	0.00	0.00	0.00
	Constant(a)	0.00		0.00	
SBI	NW	0.069631	5.902895	0.581	0.052652
	Constant(a)	-7.82227		0.017	
EB	NW	0.096751	12.69572	1.235	0.166303
	Constant(a)	-9.42655		0.142	

Above table shows the linear relationship between dividend per share (DPS) and Net Worth. All joint venture banks have positive regression co-efficient 'b' except HBL. The regression coefficient indicates that one rupee increase in net worth lead to certain increase in DPS. For NABIL, one rupee increase in net worth lead to average Rs 0.5998 increase in DPS. For SCBL, one rupee increase in net worth lead to average Rs 0.25114 increase in DPS. For HBL, one rupee increase in net worth leads to average Rs -0.3492 decrease in DPS. For NBB, no increase in net worth. For SBI, one rupee increase in net worth

leads to increase in DPS by Rs 0.06963.Similarly one rupee increase in net worth for EB leads to increase in DPS by Rs 0.09675.

The standard error of estimate (SEE) of NABIL, SCBL, HBL, NBB, SBI and EB are 11.91145, 31.88338, 7.74219, 0.0000, 5.90289 and 12.69572 respectively which indicates the likely errors or predicated value of respective banks.

However, the value of co-efficient of multiple determinations (R^2)
Indicates how much variation can be explained by concerned variable.SBI is lowest (0.0526), then other joint venture banks. This indicates that only 5.26 percent in dividend variable is explained by net worth (i.e. 5.26%) variation is explained in DPS due to change in the net worth of this bank. NABIL's R^2 is 0.826266, which indicates that 82.62 percent variation is explained in DPS due to change in net worth .Similarly, the value of R^2 is,0.28746, 0.35, 0.00 and 0.1663 for SCBL, HBL,NBB and EB respectively, which indicates that 28.74 percent , 35 percent and 16.63 percent variation is explained in DPS.

4.2 Major Findings

The major findings of research work are summarized below.

- The average earnings per share of the joint venture banks under study shows a positive result but coefficient of variation indicates that there is no consistency in EPS of joint venture banks. The coefficient of variation range between 10 to 41%. The highest mean of EPS Rs 145.65 and lowest coefficient of variation is 10%.
- The average dividend per share shows that there is no regularity in dividend payment. SCBL has highest average of DPS Rs 92 with least

coefficient of variation 35%. SBI has lowest average of DPS with great variability.

- The analysis of dividend payout ratio also shows that DPR of banks are not stable. Among the joint venture banks, SCBL has highest dividend payout ratio i.e. 62% with least variation i.e. 26%. SBI has lowest mean of dividend payout ratio around 12%.
- The average market price per share shows that there is quite high level of fluctuation. SCBL has higher average market price of share than other joint venture banks. MPPS of all joint venture banks seems positive trend.
- The average price earnings ratio of joint venture banks seems to be satisfactory. SBI has higher P.E. ratio and NBB is lowest. It indicates that investors perceive that investment in SBI is more worthy.
- The average earning yield of joint venture banks under study indicates that NBB has highest earning yield with great fluctuation where SCBL has moderate dividend yield with moderate variation.
- The average dividend yield of the joint venture banks under study indicates that NABIL has highest dividend yield with high variability.
- The DPS of NABIL is negatively correlated with MPPS and NP. Similarly DPR is negatively correlated with MPPS.DPS is highly correlated with EPS and NW.
- The DPS of SCBL is negatively correlated with MPPS and NP. Similarly DPR is negatively correlated with MPPS. DPS is highly correlated with EPS and NW.
- The DPS of HBL is positively correlated with EPS, MPPS and NP. But NW is negatively correlated. Similarly DPR is negatively related with MPPS.

- The DPS of NBB is none correlated with EPS, MPPS, NP. Similarly DPR is none correlated with MPPS.NBB has zero DPS.
- The DPS of SBI is positively correlated with EPS, MPPS, NP and NW. But DPR is negatively correlated with MPPS.
- The DPS of EB is positively correlated with EPS, MPPS, NP and NW. Similarly DPR is positively related with MPPS.
- The regression analysis of DPS on EPS shows that regression coefficient 'b' is positive for joint venture banks.
- The regression analysis of DPS on MPPS shows that regression coefficient 'b' is positive for all joint venture banks except NABIL and SCBL.
- The regression analysis of DPS on NP shows that regression coefficient 'b' is positive for all joint venture banks except NABIL and SCBL.

Chapter –V

Summary, Conclusion and Recommendations

5.1 Summary

Dividend policy decision is one of the most important 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 decisions of the organization i.e. capital structure decision and. Investment decision. An investor expects two types of return namely capital gain and dividend by investing in ordinary shares. So, payment of dividend to shareholders is an effective way to attract new investors and maintain present investors. It is important to have clearly defined and effectively managed dividend behavior so as to fulfill the shareholders expectations and corporate growth.

Paying dividend be taken as an important tool to attract new investors. Besides this dividend paying ability reflects the financial positions of the organization in the market. Due to the division of earnings between dividend payout and retention ratio the market price of the share may also be affected which is also crucial for the organization. So, the funds that couldn't be used due to the lack of investment opportunities would be distributed as dividend. Since shareholders have investment opportunities elsewhere.

Dividend paying banks haves been analyzed to show the implication of dividend behavior they have adopted in their market price per share. Now, in Nepal, those banks have made profit, only these banks paid dividend. Instability of dividend and inconsistent dividend pay out ratio is the most applied phenomenon of joint venture banks in Nepal. But, only the banks

promoted by foreigners are paying dividend more attractively than the banks promoted by indigenous promoters. However, dividend behavior is taking its path, slowly in Nepalese environment.

In analyzing the problem with the stated objectives in mind, this study has been of more descriptive nature. The study covers six joint venture banks (i.e. NABIL, HBL, SCBL, NBB, SBI & EB) and only for the last five fiscal years from 2004/2005 to 2008/2009. The available secondary data has been analyzed using various financial and statistical tools. So, the reliability of conclusions of this study is determined on the accuracy of secondary data.

The main statement of problem is that whether dividend is depend upon net profit, Earnings per share and Market price per share. In the light financial analysis following figure have been brought into picture:

- SCBL has highest mean of EPS i.e. Rs 145.65 whereas the SBI has lowest mean of EPS i.e. Rs 27.084
- SCBL is market leader in paying the dividend to its investor with a mean of Rs 92 where as the SBI has lowest dividend payer in this industry with a mean of 3.94.
- SCBL is paying most of its earnings as dividend i.e. 62.6%. It indicates in one hand that they have sound financial position on another hand they might not have enough good investment opportunities which can maximizes shareholders wealth. SBI is just paying 12.9% of earnings as a dividend.
- According to Market Price Per Share, the SCBL is a market leader in banking industries with an average of Rs 4972 and least mean price is RS 459 for the NBB. SBI share price average is Rs 1106.8, it shows increasing trend in recent years.
- SCBL has highest price earning ratio that indicates investor want to pay more for its earning where as NBB has lowest.

- NABIL has highest earning yield as well as dividend yield.

From the statistical analysis, following facts brought into picture:

- The regression coefficient of DPS on EPS is positive for all joint venture banks.
- The regression coefficient of DPS on MPPS is positive for all joint venture banks except NABIL and SCBL.
- The regression coefficient of DPS on NP is positive except NABIL and SCBL.
- The regression coefficient of DPS on NW is positive except HBL.

From the analyzing of financial, statistical analysis of all sample banks, following results are drawn out;

i) The instability in EPS, MPPS, DPS, DPR, P/E ratio, E/Y and D/Y is seen and it lack consistency.

ii) The inconsistency in term of dividend behavior is seen and it is neither static nor increasing (growing). Random system of payment of dividend is seen.

iii) The relation between MPPS with DPS has produced mixed results.

iv) The market price per share has affected due to change in DPS in different banks in different manner.

The situation of capital market of Nepal is improving day by day as a result the capital market efficient with compare to previous trend. Though 'weak' efficient market where, share price movement is random this means share price movement does not follow any trends. In such market cash dividend will more effective than other forms dividends like bonus and right. But it is reality that capital market of Nepal is still immature.

5.2 Conclusion

By the analysis of investment activities, is noticed that only few joint venture banks have aggressive investment strategy with compare to conservative strategy among most of the commercial banks. In spite of this, there is no doubt that join venture banks are the foundation of a national economical bank are running at profit and providing dividend to shareholders according to their earning. They also achieved the trust of common people, which is the great success of their performance. But, yet much more to be done than this for the satisfaction of shareholders as well as overall growth of national economy. To make the market efficient, Nepalese company should concentrate on paying cash dividend rather than bonus or right share.

This will attract more individual to invest in capital market as a result capital market will become strong.

5.3 Recommendations

Considering the major findings and conclusion of this study some recommendations are presented. It is hoped that these recommendations will certainly be proved milestone to overcome existing issues in this field.

a) To follow legal provision

- There is no clear legal provision concerning dividend payment by joint venture banks. So, through appropriate legal provision, the government and Nepal Rastra Bank should compel the profit earning joint venture banks to distribute certain portion of their profit as dividend.

b) To get long-term visions of earnings

- Join venture bank should have long-term vision regarding earnings and dividend payout ratio, which help to cope with challenging competitive situation of present world. Banks should define their vision clearly considering their future plans, expansion of business and future economy of country. Considering various internal and external factors, banks should choose whether to adopt stable dividend policy or constant payout ratio or leaving dividend as residual.

c) To make the fixed dividend policy

- There is inconsistency in dividend payment. The dividend is neither static nor growing. This may relate misconception about the organization regarding its financial position. Due to high degree of risk and uncertainly, the market price per share may be adversely affected. So the joint venture banks should follow either static or growing dividend payment policy.

d) To protect the interest of shareholders

- Issue of stock dividend decreases market value per share and earning per share. But issue of cash dividend increases market value per share and earning per share. So due to this reason common share holders should be given a choice whether they preferred stock dividend or cash dividend. Therefore, all the joint venture banks are suggested to take care regarding the interest of shareholders.

e) To conduct interaction programme

- All the joint venture banks should conduct the seminar or workshop for shareholder experience at least twice in a year. Private consultancy, firms, expert in financial activities and top executives from all the commercial banks should be the key participation for seminar to identify where the problem lie in their efficient operation. Only then there will be the solution of the problems regarding the financial performance of the joint venture banks, which is helpful for generating more profit as well as more dividends to their shareholders.

f) To follow optimum dividend decision

- 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.
    - Optimum dividend so as to maximize shareholders wealth through increase in market price per share i.e. net present value of shareholders.
    - Stability or consistency in the dividend payout ratio.

g) To follow consistency in dividend payment

- There is no consistency in the dividend payment behavior in many cases; for example small amount of dividend has been paid despite sufficient earnings without considering risk free rate of return.

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ANNEXES