ASSOCIATION BETWEEN DIVIDEND POLICY AND SHARE PRICE OF NEPALESE INSURANCE COMPANY

A Dissertation Submitted in Partial Fulfillment of the
Requirement for the Master of Business Studies

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Association Between Dividend Policy and Share Price of Nepalese Insurance Company**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Sangita Tamang

Report of Research Committee

Miss Sangita Tamang has defended research proposal entitled "**Association Between Dividend Policy and Share Price of Nepalese Insurance Company**", successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Mr. Ramesh Kumar Paudel and submit the thesis for evaluation and viva voce examination.

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Approval Sheet

We have examined the dissertation entitled "**Association Between Dividend Policy and Share Price of Nepalese Insurance Company**" presented by Sangita Tamang for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

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Table of Contents

List of Tables

Abbreviations

ALICL: Asian Life Insurance Company Limited

ANOVA: Analysis of Variance

DPR : Dividend Payout Ratio

DPS : Dividend Per Share

EPS : Earning Per Share

MPS : Market Price Per Share

NEPSE : Nepal Stock Exchange

NICL : National Insurance Company Limited

NLIC : Nepal Life Insurance Company Limited

NLICL : National Life Insurance Company Limited

NRB : Nepal Rastra Bank

OLS : Ordinary Least Square

PE Ratio: Price Earning Ratio

POLS : Pooled Ordinary Least Square

ROCE : Return on Capital Employed

ROE : Return on Equity

SAIL : Steel Authority of India Ltd

SEBON : Security Board of Nepal

SIC : Sagarmatha Insurance Company Limited

SICL : Shikhar Insurance Company Limited

SIL : Siddhartha Insurance Limited

TU : Tribhuvan University

Abstract

The major objectives of this research were to analyze the elements influencing the profitability of insurance companies in Nepal, specifically NLIC, ALICL, NLICL, SICL, SIC, and SIL, and to assess the trends in dividend distribution and its impact on share prices within the insurance industry. The research adopted a quantitative research approach and utilized financial data from the aforementioned insurance companies spanning a ten-year period from 2012/13 to 2021/22. The population in focus was the financial data of NLIC, ALICL, NLICL, SICL, SIC, and SIL operating within Nepal's insurance sector. A sample of these companies' financial data was collected and analyzed to draw conclusions regarding their profitability and dividend patterns. The research duration encompassed the ten-year period mentioned above, offering a comprehensive perspective on the trends and patterns within the insurance industry during this time frame. Quantitative techniques, including mean, median, standard deviation, and correlation coefficients, were employed to analyze the financial data and draw conclusions. The findings indicated that the insurance companies under study consistently demonstrated strong financial performance, with EPS, DPS, MPS, PE Ratio and Dividend payout ratio surpassing national averages, signifying their robust capitalization. Furthermore, positive correlations were established between EPS, DPS, PE Ratio, and DPR, revealing that these variables had a positive relationship with MPS, suggesting that profitability and dividend patterns significantly influenced share prices within the Nepalese insurance industry.

Keywords: Market Price Per Share, Earnings Price Per Share, Dividend Per Share, Dividend Payout Ratio, PE Ratio

Chapter I
Introduction

1.1 Background of the study

Stock price volatility means a change in stock prices over time. It is a consequence of instability, unpredictability, and risks. This affects investors' interests and leads to the differences between buying and selling prices, which implies that risk management (stock price fluctuations) plays an important role in investment (Beg & Anwar, 2012). The effects of dividend policy on share price fluctuation are a concerned topic, not only for business leaders but also for policymakers as well as for investors, who directly make decisions related to planning future portfolios. In addition, it is important for academics being interested in the topic of evaluating the performance of capital markets (Miller & Modigliani, 1961).

Dividend is a price that a company pays to investors for the capital invested by them in the company. For this reason, dividend payout decisions do not depend solely on financial results and cash flow distribution. Managers' decisions on dividend payments may be dictated by the hedging of funds in a situation of economic downturn increased profit volatility, limited external financing or high future capital needs. Thus, the dividend puzzle has been the object of an ongoing investigation. However, a study of the emerging markets could shed more light on the topic, contributing to the growing body of research on dividend policy (Dabrowska et al. , 2020).

Receiving expected dividends are more valuable than waiting for capital gains. Due to the uncertainty of future cash flows and information asymmetry, investors would prefer dividends to retained earnings. This theory includes two ideas: the dividend payout ratio is positively related to share price, and it is inversely related to the cost of equity capital. Thus, firms must conduct a high dividend payout policy to boost firm value and share price (Al-Malkawi, 2007).

Capital market generates and liquidates the security as per the requirements. But unfortunately, Nepalese capital market has no efficient communication network event today. It has made capital market less efficient and inefficiency result the risk. Even though, it is hope that Nepalese capital market will be moving towards efficiency in the days to

come (Shrestha & Manandhar, 1999). Introduction of company act in 1951, the first issue of government bond 1964 and the establishment of securities exchange center ltd. In 1976 was other significant development in the field of the capital market. Securities exchange center ltd was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institutions undertaking the job of brokering, underwriting, managing public issues, market making for the government bonds and other financial services (Baral & Pradhan, 2017).

There is complex relationship between dividend policy and stock price volatility in the Nigerian Stock Market (Alajekwa & Ezeabasili, 2020). While the dividend history of a stock plays a general role in its popularity, the declaration and payment of dividends also have a specific and predictable effect on market prices. For the issuing company, they are a way to redistribute profits to shareholders as a means of thanking them for their support and encouraging additional investment. Dividends also serve as an announcement of the company's success (Pradhan, 2003). The company faces a problem of choosing an appropriate dividend policy as to what portion of earning to pay out as dividends once the company decides to pay dividends. They may establish a permanent dividend policy, which may in turn impact on investors and perceptions of the company in the financial market (Farukh et al., 2017).

Stocks that pay consistent dividends are popular among investors. Though dividends are not guaranteed on common stock, many companies pride themselves on generously rewarding shareholders with consistent and sometimes increasing dividends each year. Companies that do this are perceived as financially stable, and financially stable companies make for good investments, especially among buy and hold investors who are most likely to benefit from dividend payments (Al-Ali, 2020). When companies display consistent dividend histories, they become more attractive to investors. As more investors buy in to take advantage of this benefit of stock ownership, the stock price naturally increases, thereby reinforcing the belief that the stock is strong. If a company announces a higher-than-normal dividend, public sentiment tends to soar (Pradhan, 2003).

Conversely, when a company that traditionally pays dividends issues a lower-than-normal dividend or no dividend at all, it may be interpreted as a sign that the company has fallen on hard times. The truth could be that the company's profits are being used for other purposes such as funding expansion but the market's perception of the situation is always

more powerful than the truth. Many companies work hard to pay consistent dividends to avoid spooking investors, who may see a skipped dividend as darkly foreboding (Lestari, 2019).

The effect of a firm's dividend policy on the current price of its shares is a matter of considerable importance, not only to management, who must set the policy, but also to investors planning portfolios and to economists seeking to understand and appraise the functioning of the capital market. It is this basis that the study sought to establish the effects of dividend policy on market share value in the Nepalese insurance industry, using the dividend policy of insurance company for the study (Miller & Modigliani 1961). Share prices of a firm tend to be reduced whenever there is a reduction in dividend payments. An announcement of dividend increase generates abnormal positive security returns and an announcement of dividend decrease generates abnormal negative security returns (Hampton, 2001).

Dividend payout and market price are interconnected factors in the world of finance. The dividend payout ratio represents the percentage of a company's earnings that are distributed to its shareholders in the form of dividends. It is an essential metric for investors seeking income from their investments (Chen & Huan, 2021). When a company consistently pays out a substantial portion of its earnings as dividends, it often attracts income-focused investors, which can create demand for the company's stock. As a result, the market price of the stock may increase due to this heightened demand. Investors perceive dividend-paying stocks as more stable and financially sound, leading to higher market valuations (Damodaran, 2002).

The issue addressed in the research is the impact of a company's dividend policy on its share price. This research seeks to explore the relationship between these two variables in the context of Nepalese insurance companies. The study helps to determine if there is a correlation between a company's dividend policy and its share price, and if so, how they are associated. By examining this relationship, the research aims to provide insights into the factors that influence a company's share price and financial performance, which can be useful for both investors and the management of Nepalese insurance companies. This information can help inform investment decisions and guide the development of effective dividend policies that can lead to improved financial performance and higher share prices.

1.2 Problem Statement

Dividend policies can impact share prices, particularly in terms of signaling effects and catering to investor preferences (Khan & Shamim, 2017), there is a notable gap in the literature regarding the specific association between share prices and dividends in Nepalese insurance companies. Despite the growing importance of the sector in Nepal's economy and the uniqueness of its regulatory environment, market characteristics, and investor behaviors, previous research has not comprehensively explored the nature of this association in the context of Nepal (Bhattarai, 2018). This research aims to investigate and establish the relationship between share prices and dividends in Nepalese insurance companies, filling a critical knowledge gap in the field.

Previous research has generally lacked a specific focus on the Nepalese insurance sector, leading to a lack of insights into how dividend policies and share prices interact in this unique market. While international literature provides valuable insights into dividend theories and practices, the dynamics in a developing economy like Nepal may diverge due to various contextual factors (Paudel et al., 2011). The specific nuances and drivers of the share price-dividend relationship in Nepalese insurance companies. This research seeks to address these limitations by providing a comprehensive investigation into the association between share prices and dividends in this specific sector, offering insights that can inform both theoretical understanding and practical decision-making in Nepal's insurance industry (Das, 2020).

There was a moderate positive relationship between Earnings Per Share and Market Price per Share. When EPS increases, MPS tends to increase as well. There was a strong positive relationship between the Price-to-Earnings ratio and Market Price per Share. Higher PE ratios are associated with higher stock prices. There was a positive correlation between DPR and MPS which indicated a weak positive relationship between the Dividend Payout Ratio and Market Price per Share. A higher DPR may be associated with a slightly higher MPS. The regression analysis involved predicting MPS using the three independent variables (EPS, PE, and DPR) in the commercial banks in Nepal (Baral & Pradhan, 2017). The another research also showed a positive correlation between MPS and EPS. Additionally, there was a moderate positive correlation of between MPS and DPS, suggesting that companies that distribute higher dividends may experience relatively elevated market prices. Furthermore, MPS showed a weak positive correlation with ROE,

suggesting that companies with better ROE had slightly higher market prices (Singh & Tandon, 2019).

In sum, this thesis aims to contribute to the existing body of knowledge by investigating the association between share prices and dividend policies in Nepalese insurance companies, thereby enhancing our understanding of the interplay between these financial variables in the context of a developing economy. Through a holistic examination of both quantitative and qualitative data, this research aspires to offer insights that can inform decision-making processes of stakeholders, investors, and regulators in the Nepalese insurance industry.

In Nepal there are few companies specially life insurance has sufficient earning and are capable to pay dividend. Besides the above matter following are the issue of the study;

- What is the trend of the insurance companies regarding their dividend?
- What is the prevailing practice of the dividend distribution of the insurance companies?
- Is there any relationship of dividend per share and market share price?
- How much impact does the EPS, DPS, DPR, PE Ratio and net profit creates on the MPS of the insurance companies of Nepal?

1.3 Objectives of the study

The major objective of this study is to analyze the association between the share price and dividend of Nepalese insurance companies.
The specific objectives are:

i. To describe the dividend distribution pattern in the selected insurance companies regarding their dividend.
ii. To analyze the relationship between EPS, DPS, DPR, P/E Ratio, net profit and MPS.
iii. To examine the impact of EPS, DPS, DPR and P/E Ratio and net profit creates on MPS of the insurance companies of Nepal.

1.4 Hypothesis of the study

In order to empirically verify the data, the following hypothesis have been formulated and verified in this study.

H1: There is significant relationship between EPS and MPS of the insurance companies.

H2: There is significant relationship between DPS and MPS of the insurance companies

H3: There is significant relationship between DPR and MPS of the insurance companies

H4: There is significant relationship between P/E Ratio and MPS of the insurance companies

H5: There is significant relationship between Net Profit and MPS of the insurance companies

1.5 Significance of the study

Investment in financial market i.e. money market and capital market instruments are the new aspect of investment in Nepalese investment sector, which show the positive trends of Nepalese financial market growth. Nepalese investor is more attracted to investing in the financial market instrument due the various reasons. When any new company issues(floats) shares through capital markets, very big congregation gathers to apply for owner's certificate. It reveals that people have expectation on higher return for investing in stock. Behind this, there in one of the important factor i.e. dividend decision is one of the most important decisions of financial management. It is an effective tool to attract new investors maintains present investors and controlling position of the firm. Therefore, considering all these facts, the undertaken study will help to meet deficiency of the literature relating to dividend decision and factors affecting the dividend policy, which will affect the value of stock. So the study of dividend will be considerably importance to those who want to invest in capital market instrument especially stock.

1.6 Limitations of the Study

The limitations of the study are:

- The study may be based on a limited number of Nepalese insurance companies, which could affect the generalizability of the findings.
- The study may only cover a limited period of time, which may not accurately reflect long-term trends or patterns in the relationship between share price and dividend.
- The study may establish a correlation between share price and dividend policy, but it may not establish causality. Other factors, such as economic conditions, industry trends, and company-specific events, may also play a role in determining share prices and dividend.
- The study may use a limited set of variables to examine the relationship between share price and dividend, which may not capture all the relevant factors that influence these variables.
- The Study is conducted taking the sample of ten years' data only.

Chapter II
Literature Review

This research aims to analyze the impact of dividend on market share price of insurance company. For this purpose, it is helpful to review related literatures in this concerned area, which will help to get clear ideas, opinions and other concepts. What others have said? What others have done? And what others have written? All these and other related questions are reviewed, which has provided useful inputs in this research work. This chapter emphasizes on the literatures that are concerned with this connection. Therefore, in this chapter, conceptual frameworks given by different authors and intellectuals on this area, books, journals, research works, and previous thesis related to dividend policies and practices are reviewed. Moreover, rules regarding to dividend policy are reviewed and an attempt has been made to present them properly.

2.1 Theoretical Review

The primary objective of financial management is the maximization of shareholders' wealth. To achieve this objective, management, the custodians of shareholders' interests, are faced with three important categories of decision making namely, investment, financing and dividend decisions. Investment decisions determine the total value and types of assets a firm employ. Financing decisions determine the capital structure of the firm and forms the source on which investment decisions are made. Dividend decisions in the form of dividend policies, which form the focus of this study, involve the determination of the payout policy that management follows in determining the size and pattern of cash distributions to shareholders over time. The investment, financing and dividend decisions are interdependent and must be resolved simultaneously. The objective of a dividend policy should be to maximize shareholders return so that the value of investment is maximized. Shareholders return consists of two components: dividend and capital gain. Dividend policy has a direct influence on these two components of return (Pandey, 2000).

Dividend decision of the firm is yet another crucial area of financial management. The important aspect of dividend is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are the most significant internal sources of financing the growth of the firm. On the other hand, dividends may be considered desirable from shareholder's point of view as they tend to

increase their current return. Dividend however constitutes the use of the firm's funds (Pandey, 2000).

Stock or equity share is defined as the one of the major components of capital structure. It is also defined as the primary sources of capital. It gives the ownership to its holder which was known as equity shareholder. The shareholders are the ultimate owner and received the dividend as return. The investors make investment for the return as dividend and capital gain when it sold. The price of the stock may influence by the various factors which are; Industry performance, Company performance, Profits and future estimated profits, announcement of dividend, change of management, Investor sentiment consists Bull market and Bear market, economic Factors including interest rate, inflation, deflation and political factors (Khan, 2009).

In the capital market, all firms operate in order to generate earnings. Shareholders make investment in equity capital with the expectation of making earning in the form of dividend or capital gains. Thus, shareholder's wealth can increase through either dividend or capital gain. Once the company earns a profit, it should decide on what to do with the profit. It could be continued to retain the profit within the company, or it could pay out the profit to the owners of the company in the form of dividend. Dividends are payment made to stockholders from a firm's earning in return to their investment. Dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained or reinvestment in the firm. The objective of a dividend policy should be to maximize shareholder's wealth position (Hampton, 2001).

Dividend refers to that portion of firms' net earning which are paid out to the shareholders. Firms should try to follow an optimum dividend policy, defined as one which maximizes the shareholder's wealth in the long run (Khan & Jain, 1999).

The dividend policy of a firm determines what proportion of earning is paid to shareholders by way of dividend and what proportion is ploughed back in the firm for reinvestment purposes. If a firm's capital budgeting decision is independent of its dividend policy, a higher dividend payment will entail a greater dependence on external financing. Thus the dividend policy has a bearing on the choice of financing. On the other hand, if a firm's capital budgeting decision is dependent on its dividend decision, a higher payment will shrink its capital budgeting and vice versa. In such a case the dividend has a bearing on the

capital budgeting decision. A firm's dividend payout ratio obviously depends on how earnings are measured. The principal objective of corporate financial management is to maximize the market value of equity shares the key question of interest to us is: what is the relationship between dividend policy and market price of equity shares? This is one of the most controversial and unresolved question in corporate finance (Chandra, 2008).

Dividends are payment made to stockholders from a firm's earning in return to their investment. Dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained for the future growth of the firm. The objective of a dividend policy should be focused to maximize the shareholder's wealth position. Retained earnings are used for making investment in favorable investment opportunities, which in turn help to increase the growth rate of the firm. What and how much it is desirable to pay dividend is always a controversial topic because shareholders expect higher dividend from corporation, but corporation ensure towards setting aside funds for maximizing the overall shareholders' wealth. Management is therefore concerned with the activities of corporation that affect the wellbeing of shareholders. That wellbeing can be partially measured by the dividend received, but a more accurate measure is the market value of stock (Hampton, 2001).

Dividend policy has been a puzzle in corporate finance for several decades. Among numerous research subjects about dividend policy, the most popular one is the relationship between the dividend level and the share price of a firm. According to the dividend discount model (Gordon, 1959); it is feasible to derive that dividend payment augmentation should be accompanied by the value increase in a firm". (Miller & Modigliani 1961) however, point out that the value of a firm is not influenced by current and future dividend decisions, which is well recognized as the dividend irrelevance theory. They have given a theory stating that the shareholders should be indifferent between amount distributed and retained in the firm. However, in practice, the assumption of capital market perfection does not exist that lead to the situation where dividend policy is relevant (Miller & Modigliani, 1961).

The study of revealed that the determinants of changes in dividends are current earnings and the dividends distributed in the past are subject to mitigate the dividend cash flow relationships (Lintner, 1956). He found the evidences that dividends, retained earnings and other determinants have dynamic relationship with market share price (Khan, 2009). The study suggests that the overall impact of dividends on stock prices is comparatively better

that of retained earnings. There are two different views regarding the dividend policy and stock price. Those who think dividends have more impact in determining share price, argues that shareholder prefers current return rather than future return and dividend distribution is an indicator of earning capacity in future.

The other views are based on the importance of retained earnings. They argue that retained earnings are indicator of future investment opportunities. The shareholders can enjoy tax advantages in retained earnings. For tax purpose, retained amount is not treated as income until it is realized. A number of studies on impact of dividends on stock price have been carried out in different parts of the world particularly in developed countries. Most of the earlier studies show the significant role of dividend policy on stock price. The corporate firms should follow the appropriate dividend policy to maximize the shareholders' value. Dividend refers to the portion of net income paid out to shareholder it is paid in cash and stock for making investment and bearing risk. Dividend decision of the firm is yet another crucial area of financial management as it affects shareholder wealth and value of the firm. The percentage of earning paid out in from of cash dividend is known as dividend payout ratio. A company may retain some portion of its earning to finance new investment. The percentage of earning retained in the firm is called retention ratio. Dividend policy is concerned with determining the proportion of firms earning to be distributed in the form of cash dividend and the proportion of earning to be retained. A firm has three alternatives regarding the payments of cash dividends (Paudel et al., 2011).

2.1.1 Major forms of Dividend

According to the article of Chen and Huang (2021), the major forms of the dividend are:

Cash Dividend

The company offers certain percent of dividend in-terms of cash to its shareholders out of its profit which was known as cash dividend. The investors especially the old and retired investor depend on this form of payment for want of current income (Chen & Huang, 2021).

Stock-Dividend

Companies, not having good cash position, generally pay dividend in the form of shares by capitalizing the profits of current year and of past years. Such shares are issued instead of

paying dividend in cash and called 'Bonus Shares'. Basically there is no change in the equity of shareholders. Certain guidelines have been used by the company Law Board in respect of Bonus Shares (Chen & Huang, 2021).

Interim Dividend

If Articles so permit, the directors may decide to pay dividend at any time between the two Annual General Meeting before finalizing the accounts. It is generally declared and paid when company has earned heavy profits or abnormal profits during the year and directors which to pay the profits to shareholders. Such payment of dividend in between the two Annual General meetings before finalizing the accounts is called Interim Dividend. No Interim Dividend can be declared or paid unless depreciation for the full year (not proportionately) has been provided for. It is, thus, an extra dividend paid during the year requiring no need of approval of the Annual General Meeting. It's paid in cash (Chen & Huang, 2021).

Scrip Dividend

Scrip dividends are used when earnings justify a dividend, but the cash position of the company is temporarily weak. So, shareholders are issued shares and debentures of other companies. Such payment of dividend is called Scrip Dividend. Shareholders generally do not like such dividend because the shares or debentures, so paid are worthless for the shareholders as directors would use only such investment. Such dividend was allowed before passing of the Companies, but thereafter this unhealthy practice was stopped (Chen & Huang, 2021).

Bond Dividends

In rare instances, dividends are paid in the form of debentures or bounds or notes for a long-term period. The effect of such dividend is the same as that of paying dividend in scrip's. The shareholders become the secured creditors are the bonds has a lien on assets (Chen & Huang, 2021).

Property Dividend

Sometimes, dividend is paid in the form of asset instead of payment of dividend in cash. The distribution of dividend is made whenever the asset is no longer required in the business such as investment or stock of finished goods (Chen & Huang, 2021).

2.12 Dividend Policy Theories

Over the time various theories of dividend policy have emerged; some of the main theories are as follows:

The Residual Theory of Dividend Policy

The residual theory of dividend policy holds that the firm will only pay dividend from residual earnings, that is dividends should be paid only if funds remain after the optimum level of capital expenditures is incurred i.e. all suitable investment opportunities have been financed.

With a residual dividend policy, the primary focus of the firm is on investments and hence dividend policy is a passive decision variable. The value of a firm is a direct function of its investment decisions thus making dividend policy irrelevant.

Dividend Irrelevancy Theory, (Miller & Modigliani, 1961)

The dividend irrelevancy theory asserts that dividend policy has no effect on either the price of the firm or its cost of capital. Dividend policy does not affect share price because the value of the firm is a function of its earning power and the risk of its assets. If dividends do affect value, it is only due to:

Information effect: The informational content of dividends relative to management's earnings expectations.

Clientele effect: A clientele effect exists which allows firms to attract shareholders whose dividend preferences match the firm's historical dividend payout patterns.

A study conducted by Dangol (2010) found that found that Older investors were more likely to hold high dividend stocks and Poorer investors tended to hold high dividend stocks hence, firms with older investors pay higher dividends and firms with wealthier investors pay lower dividends.

Signaling Effect:

Rise in dividend payment is viewed as a positive signal whereas areduction in dividend payment is viewed as a negative signal about the future earnings prospects of the company, thus leading to an increase or decreases in share prices of the firm. Managers use dividends as signals to transmit information to the capital market.

Theoretical models by Bhattacharya (1979), Miller and Rock (1985) and John and Williams (1985) and Williams (1988) tell us that dividends increases convey goods news and dividend decreased convey bad news.

However, this theory is based on the following assumptions like There is an existence of perfect capital markets i.e. No personal or corporate taxes and no transaction costs. The firm's investment policy is independent of its dividend policy and investors behave rationally and information is freely available to them and Risk or uncertainty does not exist.

The Bird in the Hand Theory, (John & Lintner, 1962 and Myron Gordon, 1963)

The essence of this theory is not stockholders are risk averse and prefer current dividend due to their lower level of risk as compared to future dividends. Dividend payments reduce investor uncertainty and thereby increase stock value.

This theory is based on the logic that what is available at present is preferable to what may be available in the future. Investors would prefer to have a sure dividend now rather than a promised dividend in the future (even if the promised dividend is larger). Hence dividend policy is relevant and does affect the share price of a firm.

2.2 Empirical Review

2.2.1 Review of Article and Journals

Kanakriyah (2021) aimed to investigate the relationship between dividend policy and the financial performance of companies in emerging countries, with a particular focus on the Amman Stock Exchange (ASE). The primary objective was to determine the nature of the association between dividend policy and a corporation's financial performance, while also identifying the key variables that could influence financial performance. The study analyzed data from 92 industrial and service sector companies listed on the Amman Stock Exchange (ASE) during the period spanning from 2015 to 2019. Panel Data Analysis,

utilizing cross-sectional time-series data, and various linear regression models (including simple and multiple linear regression) were employed to analyze the data. Additionally, a multiple regression model was developed to assess the potential impact of various factors on financial performance, including Dividend Pay-out Ratio (DPR), Firm Size (FSIZE), Leverage Ratio, and Current Ratio. Data for the study was collected from annual reports and information available on the ASE website, covering the specified period. The study's results revealed significant findings. It identified a strong positive relationship between Dividend Pay-out Ratio (DPR), and Firm Size (FSIZE) as variables that explained firm performance. Furthermore, the Leverage Ratio was found to have a negative and statistically significant association with Return on Assets (ROA) and Asset Turnover Efficiency (AOE). However, no significant relationship was detected between the Current Ratio and financial performance. The study's conclusion underscores the substantial impact of dividend policy on a company's financial performance, emphasizing its statistically significant influence.

The study conducted by Dabrowska et al. (2020) aimed to investigate the determinants of dividend payout decisions in publicly quoted food industry enterprises operating in emerging markets. The primary objective was to identify and analyze the factors that influence the decisions made by these companies regarding dividend payouts. The research was based on an analysis of unbalanced panel data, encompassing a dataset of 799 observations from companies in 15 different countries over a 14-year period. To achieve its objectives, the study developed eight research hypotheses and employed a modeling approach based on the random effects panel probit model. This methodology allowed for a comprehensive examination of the factors affecting dividend payout decisions in the food industry enterprises within emerging markets. The study's major findings yielded significant insights into the determinants of dividend payout decisions. Notably, the research highlighted that a company's financial situation in the preceding year significantly influences its dividend payout decisions. Additionally, the key determinants identified as significantly impacting dividend payout decisions during the study's period included free cash flow, growth prospects, liquidity, profitability, and firm size. These crucial research findings were in alignment with similar studies in the field, emphasizing their importance in shaping dividend policies. The study also recognized the importance of individual effects specific to each investigated enterprise, underscoring their role in shaping dividend policy decisions.

Das (2020) conducted a study to assess the influence of dividend policy on the financial performance of selected companies listed on the Bombay Stock Exchange. The primary aim of this research was to examine whether there existed a significant relationship between a company's dividend policy and its financial performance. The study employed a combination of correlation matrix and panel regression models to analyze the data. It evaluated whether the selected companies adhered to a consistent pattern of dividend payments and investigated the correlation between the Price Earnings Ratio (P/E ratio) and Dividend Payout Ratio (DPR). The analysis also assessed the relationship between Return on Assets (ROA) and Return on Equity (ROE). Importantly, the Hausman Test was utilized to determine whether a random effects model was suitable, which in turn indicated the significance of the impact of company performance on dividend policy decisions. The study's major findings were notable. It revealed that the selected companies did not consistently follow a particular pattern in their dividend payment practices. Moreover, the association between Price Earnings Ratio (P/E ratio) and Dividend Payout Ratio (DPR) was found to be weakly positive. Conversely, a strong association was identified between Return on Assets (ROA) and Return on Equity (ROE). Importantly, the Hausman Test suggested that a random effects model was appropriate, emphasizing the significant impact of the financial performance of the selected companies on their dividend policy decisions. These findings underscored the complexity of dividend policy in corporate finance and recommended that company boards should consider these results when formulating dividend policies.

Gul et al. (2020) conducted a study aimed at identifying and measuring the factors influencing dividend policy, with a specific focus on pharmaceutical companies listed on the Pakistan Stock Exchange (PSX). The study's primary objective was to analyze and quantify the impact of various factors on dividend policy decisions within the pharmaceutical sector, utilizing data from the years 2013 to 2017. To achieve their objectives, the researchers employed a census sampling technique, selecting all pharmaceutical companies listed on the Pakistan Stock Exchange (PSX). The study utilized a combination of statistical methods, including a Panel Vector Autoregressive (VAR) model, Fixed Effect Model (FAM), and regression analysis. These methodologies were used to assess the influence of independent variables (IV) on the dependent variable (DV), which in this case was dividend policy. The study yielded significant findings regarding the factors affecting dividend policy in pharmaceutical companies. It revealed that

managerial ownership, debt policy, Return on Assets (ROA), firm size, and free cash flow all had a significant impact on dividend policy decisions. Notably, the study highlighted that investors and stakeholders in these pharmaceutical companies were more concerned with the firms' future performance than their current revenue. As a result, the study suggested that companies should place active focus on future aspects to enhance firm performance and meet investor expectations.

Lestari (2019) conducted a study with the aim of investigating the determinants that influence corporate dividend policy in Indonesia. The primary objective of this research was to identify and examine the various factors that play a role in shaping dividend policy decisions among manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period from 2011 to 2015. The study utilized a sample comprising manufacturing companies listed on the IDX and focused on multiple independent variables, including earnings, cash flow, free cash flow, debt, growth opportunities, investment opportunities, firm size, largest shareholder, firm risk, lagged dividend, with dividend policy as the dependent variable. A total of 32 manufacturing companies were examined. The data analysis was conducted using software Views 9.0, employing multiple regression analysis to assess the relationships between the variables. The study's findings provided significant insights into the determinants of corporate dividend policy in Indonesia. Notably, it revealed that earnings, cash flow, free cash flow, firm size, and lagged dividend had a significant impact on dividend policy decisions. On the other hand, factors such as debt, growth opportunities, investment opportunities, the presence of a largest shareholder, and firm risk were found to have no significant effect on dividend policy. These findings have practical implications for financial managers, as they can use this information to enhance corporate profitability and make informed decisions related to return on investment.

Singh and Tandon (2019) conducted a study with the objective of examining the relationship between dividend policy and the market price of shares, a highly debated issue in corporate finance. The specific focus of this research was to evaluate how dividend policy affects the market prices of shares of companies in the Nifty 50 index listed on the National Stock Exchange (NSE) during the period from 2008 to 2017. The study employed multiple panel data regression models, including pooled regression, fixed effect model, and random effect model, to analyze the data. These models were used to investigate the

relationship between dividend policy and stock prices. To determine the most appropriate regression model, the researchers conducted the Hausman test. The results of the Hausman test indicated that the random effect model was the most relevant in describing the relationship among the variables under study. Subsequently, the findings from the random effect regression model provided support for the notion that dividend policy significantly impacts the stock prices of firms. This conclusion sheds light on the relevance and importance of dividend policy in influencing stock prices within the Indian market.

Masry (2018) conducted a study aimed at investigating the factors that influence dividend policy within an emerging capital markets (ECM) country context. The primary objective was to examine the various considerations that underlie dividend decisions in companies operating in such markets, recognizing that there cannot be a one-size-fits-all dividend policy applicable to all firms. The research sought to shed light on how dividend policies vary among companies and highlighted that dividend decisions are influenced by factors such as current earnings, previous year's dividends, and changes in profit. The study employed both theoretical and empirical approaches to analyze the factors affecting dividend policy. The theoretical framework considered legal and financial factors that influence dividend decisions. Empirically, the research explored the impact of various factors on share price performance, pay-out ratio, and dividend policy. Key factors under investigation included profitability aspects (such as return on equity, return on assets, and earnings per share), financial risks (including financial leverage and gains variation), size, investment opportunities, liquidity, and signals. The study's major findings highlighted the significant influence of profitability aspects, particularly return on equity, return on assets, and earnings per share, on share price performance. Financial risks, including gains variation and financial leverage, also had a notable impact on share prices. Additionally, the research revealed that profitability aspects, specifically return on equity, return on assets, and earnings per share, were the most influential factors on pay-out ratio. The liquidity factor, represented by the cash ratio (excluding signals index), and the size and investment opportunity factors, including investment opportunity and assets volume (excluding net profit standard deviation), also played significant roles in shaping dividend policy within ECMs.

Khan and Shamim (2017) conducted a study with the objective of analyzing the dividend payment behavior across various sectors listed on the Karachi Stock Exchange (KSE). The

specific aim was to examine the trends in dividend payments for the years 2009 to 2013 within all 32 sectors represented on the KSE. The research sought to provide insights into how dividend payment behavior varied across different sectors. The study employed a two-step approach to its analysis. First, it conducted a descriptive analysis to assess the five-year trend of dividend payments across all 32 sectors. Second, it utilized unit root tests for panel data and pooled ordinary least squares (POLS) tests on 15 non-financial sectors to delve deeper into the dividend payment behavior. The analysis focused on factors such as earnings per share and free cash flow to understand their impact on dividend payments within specific sectors. The study's major findings revealed sector-specific variations in dividend payment behavior. Earnings per share was found to have a positive impact on dividend payments in eight sectors, including beverages, travel and leisure, fixed-line telecommunication, food processors, household goods, personal goods, automobiles, and electricity. However, the forestry sector (paper and board) exhibited a negative association with the dividend payout ratio. Additionally, free cash flow was positively linked to dividend payments in the fixed-line telecommunication sector, while it had a negative impact in several other sectors, such as chemical, forestry, construction and materials, engineering, beverages, tobacco, travel and leisure, food processors, household goods, pharmaceutical and biotech, and automobiles.

In 2017, Farrukh et al. conducted a study with the objective of investigating the impact of dividend policy on both shareholders' wealth and firm performance in Pakistan. The study sought to address the unresolved question in corporate finance regarding whether dividend policy affects shareholders' wealth. Dividend per share is used as measures of dividend policy, while earning per share and share price served as proxies for shareholders' wealth. Firm performance was assessed using the metric of return on equity. The study employed regression analysis to examine the relationships between dividend policy, shareholders' wealth, and firm performance. It specifically assessed the impact of dividend policy on both shareholders' wealth and firm performance in the context of the Pakistani market. The study's major findings revealed a positively significant impact of dividend policy on both shareholders' wealth and firm performance. These results were consistent with several established theories in corporate finance, including dividend relevance theory, signaling effect theory, bird in hand theory, and clientele-effect theory. The research recommended the implementation of stable, effective, well-managed, and target-oriented dividend policies by financial managers of firms in Pakistan. Additionally, it highlighted the

importance of an effective supervisory framework governed by capital market regulatory bodies to enhance both firm performance and shareholders' wealth in the country.

Jozwiak (2015) conducted a study with the primary objective of investigating the determinants of dividend policy among Polish listed companies. This paper aimed to fill this gap by examining the cash dividend payments of Polish listed companies. The research sought to use panel data analysis to understand the factors that determine dividend policies in Poland and explore whether these factors aligned with those observed in developed countries, such as profitability, liquidity, firm size, and leverage. The study employed panel data analysis to investigate the determinants of dividend policies among Polish listed companies. Panel data analysis is a statistical method used to examine data collected over time from multiple entities (in this case, companies). The research aimed to identify and analyze the factors that influence dividend policy decisions in the Polish market. The major findings of the study provided insights into the determinants of dividend policy in Polish listed companies. While the specific findings were not mentioned in the provided text, the research aimed to shed light on whether factors such as profitability, liquidity, firm size, and leverage had a significant impact on dividend payout decisions in the Polish market, similar to what had been observed in developed countries. The study contributed to the understanding of dividend policy in an emerging market context, offering valuable insights for practitioners and researchers interested in dividend policy in Poland.

Maldajian and Khoury (2014) conducted a research study with the primary objective of investigating the determinants of dividend payout policy among Lebanese banks listed on the Beirut Stock Exchange. The study aimed to understand the factors that influence the dividend payout ratios of these banks, specifically focusing on seven variables: profitability, liquidity, leverage, firm size, growth prospects, firm risk, and the previous year's dividend payout. The research utilized an unbalanced panel dataset spanning the years 2005 to 2011 to analyze the relationship between these variables and dividend payout ratios. The study employed two models for analysis, utilizing Ordinary Least Squares (OLS) and dynamic panel regressions. These statistical approaches were applied to examine the impact of the seven selected variables on dividend payout policies in Lebanese listed banks. The empirical results of the study revealed several key determinants of dividend policy among Lebanese listed banks. It was observed that dividend payout policies were positively influenced by firm size, firm risk, and the dividend payout in the previous

year. In contrast, dividend policies were found to be negatively affected by growth opportunities (opportunity growth) and profitability. These findings suggested that firms may use dividends as a means to mitigate agency conflicts, and that managers consider the stability of dividends when determining dividend policies. Additionally, the results indicated a preference among Lebanese listed firms to reinvest their earnings for growth rather than distributing higher dividends to shareholders, reflecting their focus on long-term expansion and development.

In 2013, Ghose conducted a study focusing on the impact of dividend decisions on Steel Authority of India Limited (SAIL). Corporate finance is a significant domain within finance that addresses the financial challenges faced by firms and seeks solutions for them. The primary objective of corporate finance is to maximize shareholder value, making dividend decisions a critical aspect of this field. This research aimed to investigate the relationship between the Dividend Payout Ratio, Gross Profit Margin, Net Profit Margin, Return on Capital Employed (ROCE), and Return on Net Worth for SAIL over the period spanning from 2008 to 2012. The study relied on secondary data collected from authentic company websites. The research employed Pearson's Correlation Coefficient with a two-tailed test at a 5% level of significance to assess whether significant correlations existed among the variables mentioned. Additionally, the study examined whether there were any notable fluctuations in these variables over the specified period. It sought to understand how dividend payout ratios were related to factors such as Gross Profit Margin, Net Profit Margin, ROCE, and Return on Net Worth. These findings could offer valuable insights into the impact of dividend policies on shareholder value and financial performance within the context of SAIL.

2.2.2 Review of National Articles

Paudel and Pradhan (2018) conducted a study to investigate the impact of dividend policy on the share price of commercial banks in Nepal. Their sample consisted of 10 A-class banks listed on the Nepal Stock Exchange over a five-year period from 2012/13 to 2016/17. The analysis utilized mean, standard deviation, and regression techniques to assess the relationships between various factors and market share prices. The findings revealed that among the factors examined, such as Earnings Per Share (EPS), Price-to-Earnings (P/E) ratio, and Dividend Payout Ratio (DPR), P/E ratio had the strongest positive influence on the share price of top-gaining commercial banks, while DPR had the most significant

impact on the share price of top-losing banks. Correlation analysis indicated positive relationships between EPS and market share price (albeit relatively weak), between P/E ratio and share price (moderate), and between DPR and share price (strong). The regression results showed that the independent variables (EPS, P/E, and DPR) collectively explained around 26.9% of the variability in Market Price per Share (MPS). However, the adjusted R-squared value, which considered the number of predictors, suggested that the model accounted for 16.5% of the variability while penalizing for multiple predictors. The F-statistic for the model was relatively low, indicating that the model as a whole might not be statistically significant. Additionally, the t-statistics for EPS, P/E, and DPR indicated that these variables may not individually be statistically significant in explaining MPS. Overall, the study provided insights into the complex relationship between dividend policy and share prices in the context of Nepalese commercial banks.

Baral and Pradhan (2017) examined the impact of dividend policy on the share price of commercial banks in Nepal, focusing on a sample of 10 A-class companies listed on the Nepal Stock Exchange over a 5-year period. The research utilized correlation and regression analyses to uncover key relationships between various financial variables. The correlation analysis unveiled important insights into these relationships. Earnings Per Share (EPS) displayed a moderate positive correlation of 0.406 with Market Price per Share (MPS), indicating that higher EPS tended to correspond with higher MPS. The Price-to-Earnings ratio (PE) exhibited an even stronger positive correlation of 0.797 with MPS, suggesting a robust positive relationship between PE and MPS. Additionally, the Dividend Payout Ratio (DPR) displayed a weak positive correlation of 0.128 with MPS, implying that a higher DPR might be associated with a slightly higher MPS. The regression analysis aimed to predict MPS using EPS, PE, and DPR as independent variables. The results were highly promising, with an R-squared value of 0.946, signifying that nearly 94.6% of the variability in MPS could be explained by these independent variables. This indicated a robust linear relationship between the chosen financial metrics and MPS. The F-value, which tests the overall significance of the regression model, was notably high at 124.764, reinforcing the model's statistical significance. Importantly, the significance values of 0.000 for all three independent variables confirmed that each of them—EPS, PE, and DPR—was highly statistically significant in explaining MPS, ruling out the possibility of random chance. Overall, the study provided valuable insights into the influence of dividend policy and related financial metrics on the share price of commercial banks in Nepal

Paudel et al. (2011) investigated the relationship between share prices and dividends of Nepalese insurance companies. The study employed a quantitative approach, analyzing financial data from a sample of insurance firms over a specified period. The findings revealed a positive association between dividends and share prices, suggesting that dividend announcements positively influence stock prices. However, the study emphasized that relationship might be influenced by various factors unique to the Nepalese insurance industry, such as regulatory frameworks, market sentiment, and investor behavior.

Chandra (2008) explored the impact of dividend policies on the stock prices of Nepalese insurance companies. Using a panel data methodology, the study covered multiple insurance firms and their dividend practices. The empirical analysis demonstrated a mixed relationship between dividends and share prices. While some insurance companies showed a significant positive correlation between dividends and stock prices, others exhibited limited or no impact. The study highlighted the need for further investigation into the underlying factors that contribute to the variation in the association between dividends and share prices across different insurance firms.

Pandey (2000), analyzed the impact of dividend changes on share prices within the Nepalese insurance sector. Employing event study methodology, the article examined the market's response to dividend announcements, considering both positive and negative changes in dividends. The findings suggested that positive dividend changes tend to had a more significant impact on stock prices compared to negative changes. This asymmetry attributed to investors' preferences for dividend growth and income stability in the Nepalese insurance context.

Pradhan (2003) examined the influence of dividend payout ratios on share prices of Nepalese insurance companies. The study adopted a cross-sectional analysis approach, examining a sample of insurance firms. The results indicated a nuanced relationship, where moderate dividend payout ratios were associated with higher share prices, suggesting that investors valued a balanced approach to dividend distributions. However, extremely high or low payout ratios exhibited weaker correlations with share prices, possibly due to concerns about sustainability and growth prospects.

2.3 Research Gap

This study stands out from previous research efforts in several key aspects. Unlike prior studies that focused on a comparative analysis of dividend policies among six insurance companies, this research examines the dividend policies and practices within the unique context of the Nepalese capital market. The Nepalese market, still in its early development stages, may not align with the conclusions drawn from international studies. Hence, it is recommended that foreign models of dividend practices be carefully considered when shaping Nepalese dividend policies. This study, which encompasses data from six insurance companies over the past decade, takes into account various financial indicators such as EPS, DPS, DPR (Dividend Payout Ratio), MPS (Market Price per Share) and P/E ratio (Price-to-Earnings ratio). This comprehensive approach aims to provide a more detailed and extensive analysis. Furthermore, while recognizing the existing literature on dividend policy both nationally and internationally, this research acknowledges that not all foreign concepts and practices can be directly applied to the unique Nepalese dividend policy landscape. To bridge this research gap, the study also explores the relationship between dividend payout ratios and their impact on market share prices through regression analysis.

Chapter III

Research Methodology

Research has been defined as the systematic investigation and study of materials, sources, etc. in order to establish facts and research conclusion. Research refers to various sequential steps to be adopted by a researcher in studying a problem with certain objective in the process of activities to the solution of the problem through planned and systematic dealing with the collection analysis and interpretation of facts and figures. It consists of research design, population and sample study, sources of data, data processing procedure and technique of analysis of data. This chapter describes the methodology employed in this study. This study has used financial analysis techniques as well as statistical tools. It is more analytical and empirical. It is mainly based on secondary data gathered from respective annual reports of concerned organization and other publication made by them.

3.1 Research Design

Descriptive and analytical design is used in the study. The main objective of this research work is to ascertain the dividend practice and its association on investors of Insurance Company. To complete this study, the study has adopted the descriptive research design and quantities research approved. First of all, information and data are collected. Secondary data are collected. The important information and data are selected. Then data are arranged in useful manner. After that, data are analyzed by using appropriate financial, descriptive, and casual tools. In analysis part, interpretation and comments are also made wherever necessary.

3.2 Population and Sample, and Sampling Design

There are many insurances whose share are traded activity at stock market and dividend practices, hence It is not possible to study of insurance regarding the study topic. According to the report of Nepal Insurance Authority of September 2023, a total of 34 insurance companies including 14 life and 14 non- life, 2 reinsurance companies and 4 micro insurance are in Nepal. The study focuses the relationships among liquidity ratios, profitability ratios, market price to book value ratio and many other key ratios. Proportionate Random Sampling is done for the study where the 3 samples are taken from the life insurance companies and 3 are taken from the non-life insurance companies

randomly. The samples of the study are Nepal Life Insurance, Asian Life Insurance Company, National Life Insurance Company, Shikhar Insurance Company Limited, Sagarmatha Insurance Company Limited, Siddhartha Insurance Limited.

3.3 Nature and Sources of Data, and the Instrument of Data Collection

The study consists the comparative study of dividend policy of Nepalese insurance company and its effect on their stock price behavior. The study is mainly based on secondary data. Data relating to Dividend policy of these six insurance companies are directly obtained from concerned company. The supplementary data and information are obtained from annual report and website of NEPSE, SEBON. Other information sources have been tapped from number of institutions and regulating authorities, Security Exchange Board, Ministry of Finance and National Planning commission etc. Besides the data have been acquired from the various sources. In short, the secondary data are used in the study.

3.4 Method of Analysis

Various financial and statistical tools have been used in this study. The analysis of data will be done according to pattern of data available. Financial tools and simple regression analysis are used in the analysis. The relationship between different variables related to study topic would be drawn out using correlation and regression. The various calculated results obtained through financial and statistical tools are tabulated using the headings of descriptive analysis and statistical analysis; they are compared with each other to interpret the result.

3.4.1 Financial Tools

a) Earnings per Share (EPS)

EPS is the portion of the company's distributable profit, which is allocated to each outstanding equity share (common share). It is an indicator of the profitability of any organization, and it is one of the most widely used measures of profitability. The earnings per share are a useful measure of profitability, and when compared with EPS of other similar companies, it gives a view of the comparative earning power of the companies. EPS when calculated over a number of years indicates whether the earning power of the company has improved or deteriorated. Investors usually look for companies with steadily

increasing earnings per share EPS calculations made over the years indicate whether the sample insurance earning power on per share basis have changed over the period or not. EPS is calculated by dividing the net profit after taxes by the total no. of the common shares outstanding (Fatma & Kumar, 2020).

$$EPS = \frac{Net\ profit after taxes}{No.of\ common\ shares\ outsanding}$$

b) Dividend Per share (DPS)

DPS indicates the part of earning distributed to the shareholders on per share basis. It is calculated by dividing the total dividend to equity shareholders by the total no. of equity shares (Fatma & Kumar, 2020).

$$DPS = \frac{Total\ dividend\ to ordinary shareholders}{No.of\ ordinary\ shares\ outsanding}$$

c) Dividend payout Ratio (DPR)

The dividend payout ratio is the amount of dividends paid to stockholders relative to the amount of total net income of a company. This shows that what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for growth of the insurance. It is calculated by the dividing the DPS by the EPS (Fatma & Kumar, 2020)

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

d) Price Earnings Ratio (P/E ratio)

The price to earnings ratio (P/E ratio) is the ratio of market price per share to earnings per share. The P/E ratio is a valuation ratio of a company's current price per share compared to its earning per share. This is reflects the price currently paid by the market for each rupee of currently reported earnings per share (EPS). It is calculated by dividing the market value per share (MVPS) by earning per share (EPS) (Fatma & Kumar, 2020).

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

e) Market Price of Share (MPS)

MPS is that value of stock, which can be obtained by a firm from the market. Market values share is one of the variables, which is affected by the dividend per Share and earnings per share of the firm. If the earnings per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value. If the firm is growing its earning power will be greater than cost of capital. For such firms market value of share will be higher than the book value. If the firm's earning capacity is lower than the cost of capital the MPS will be lower than the book value (Fatma & Kumar, 2020).

3.4.2 Statistical Tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured form groups of individuals or group of observation from a single individual. Statistics is a study of the principles and method used in collection, presentation analysis and interpretation of numerical data in any sphere of inquiry. Several tools will be used in the study like Minimum, Maximum, Mean, Standard Deviation, Correlation and Regression. In the present study, following statistical tools have been used to draw one meaningful conclusion.

A. Trend Analysis

Different variants change according to change of time. Variation of such variants with time can be systematically studied and analyzed. The tools that are used to show grandly increase or decrease of variables over a period of time is known as trend analysis. The financial statement may be analyzed computing trends of series of information. This method determines the action upwards or downwards and involves the computation of the percentage relationship that each statement item has been extracted from the same item in the base year. The information for a number of years is taken upward first year, generally the first year is taken as a base year. With the help of trend analysis, the tendency of variables over the period can be seen clearly. The trend percentage analysis interprets that either increase or decrease in trend percentage may give misleading results. This section

expresses the trend of same related items, which have effect in working capital. The minimum and maximum value of the period is identified and represented as the trend.

B. Mean or Average ($\overline{X}$):

An average is value, which represents a group of values. It shows the characteristics of the whole group. Generally, the average value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is also known as simple average (Liu & Xia, 2021).

Where,

Mean or Average ($\overline{X}$) = $\frac{\sum X}{N}$

C. Standard Deviation (σ):

Standard deviation is the positive square root of average sum of squares of deviations of observation from the arithmetic mean of the distribution. Standard deviation is the popular and useful measure of dispersion and gives uniform, correct and stable results. Karl Pearson introduced the standard deviations concept in 1823. It is denoted by the small Greek letter sigma. "The standard deviation measures the absolute dispersion or variability of the distribution; for the greater the amount of dispersion or variability the greater the standard deviations, for the 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; a large standard deviation means just the opposite." (Gupta; 1991) In this, standard deviation is calculated for selected dependent and independent variables specified in the model presented above (Liu & Xia, 2021).

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum(X - \overline{X})}{n-1}}$$

D. Correlation Analysis:

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another. In the present study, both simple correlation and multiple correlations have been used. Correlation co-efficient between the following financial variables have been calculated and interpreted (Liu & Xia, 2021).

$$Correlation\ (X,Y) = \frac{n\sum \mathrm{XY} - (\sum \mathrm{X})(\sum \mathrm{Y})}{\sqrt{(n\sum X2} - (\sum X)2)\sqrt{(n\sum Y2} - (\sum Y)2)}$$

Where,

n = number of observation in series X and Y

∑ X = sum of observation in series X

∑ Y = sum of observation in series Y

∑ X2 = sum of squared observation in series X

∑ Y2 = sum of squared observation n series y

∑ XY = sum of the product of observations in series X and Y

The value of correlation coefficient ranges from -1 to +1.

r = 0 means variables are correlated lies between -1 and +1

r = -1 means perfect negative correlation between the variables

r = +1 means positive correlation between the variables

E. Regression Analysis

Regression is a statistical analysis technique that investigates the relationship between a dependent variable and one or more independent variables. It aims to find the best-fitting mathematical model that describes the relationship between variables and can be used for prediction and inference. The concept of regression was first introduced by Francis Galton in the late 19th century and later formalized by Karl Pearson and Ronald Fisher (Hogg & Ledolter, 2021).

MPS = α + β1 EPS + β2 DPS + β3 DPR+ β4 P/E Ratio + e……

Where,

MPS = Market Price Per Share

EPS = Earning Price Per Share

DPS = Dividend Per Share

DPR = Dividend Payout Ratio

P/E Ratio = Price Earnings Ratio

3.5 Determinants and Measure of the Variables

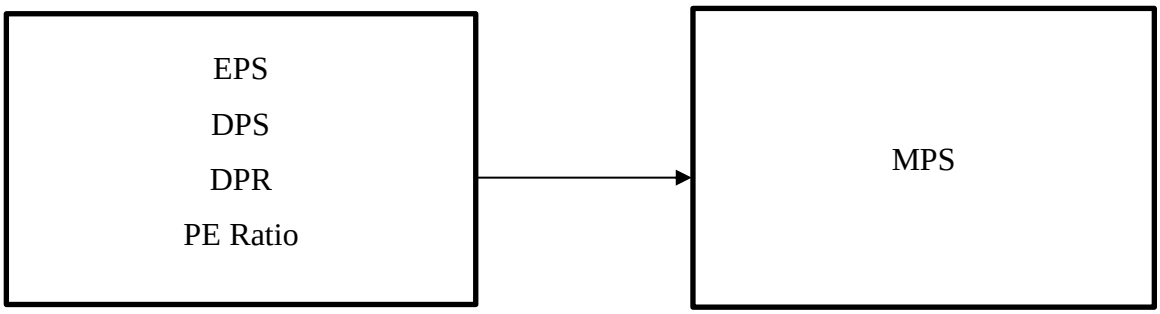
Table 1

Determinants, Measure and Expected Summary

Variable	Measure	Notation	Expected Sign
Market Price Per Share	Share Traded in the Secondary Market	MPS	Dependent Variable
Earnings Per Share	Net Profit After Tax/Total No, of Share	EPS	-
Dividend Per Share	Dividend Payed /Total No, of Share	DPS	+
Dividend Pay-out Ratio	DPS/EPS	DPR	-
PE Ratio	MVPS/EPS	PE Ratio	+

3.6 Research Framework and Definition of Variables

Independent Variable **Dependent Variable**



(Source: Rajput & Singh, 2019)

Earnings per Share(EPS)

EPS is the portion of the company's distributable profit, which is allocated to each outstanding equity share (common share). It is an indicator of the profitability of any organization, and it is one of the most widely used measures of profitability. The earnings per share are a useful measure of profitability, and when compared with EPS of other similar companies, it gives a view of the comparative earning power of the companies. EPS when calculated over a number of years indicates whether the earning power of the company has improved or deteriorated. Investors usually look for companies with steadily increasing earnings per share EPS calculations made over the years indicate whether the sample insurance companies earning power on per share basis have changed over the period or not. EPS is calculated by dividing the net profit after taxes by the total no. of the common shares MPS outstanding (Fatma & Kumar, 2020).

Dividend per Share

Dividend per Share (DPS) gives financial soundness of the company. Only financially strong companies can distribute dividend. It attracts investor to invest in shares of stock and maintains goodwill. It is calculated, by dividing net earnings per share to the common shareholders (after payment of preference dividend) by number of common share.

Dividend Pay Out Ratio

DPS indicates the part of earning distributed to the shareholders on per share basis. It is calculated by dividing the total dividend to equity shareholders by the total no. of equity shares (Fatma & Kumar, 2020).

PE Ratio

The price to earnings ratio (P/E ratio) is the ratio of market price per share to earnings per share. The P/E ratio is a valuation ratio of a company's current price per share compared to its earning per share. This is reflecting the price currently paid by the market for each rupee of currently reported earnings per share (EPS). It is calculated by dividing the market value per share (MVPS) by earning per share (EPS) (Fatma & Kumar, 2020).

MPS

MPS is that value of stock, which can be obtained by a firm from the market. Market values share is one of the variables, which is affected by the dividend per Share and earnings per share of the firm. If the earnings per share and dividend per share is high, the market value of share will also be high. Market value of share may be lower or higher than the book value. If the firm is growing its earning power will be greater than cost of capital. For such firm's market value of share will be higher than the book value. If the firm's earning capacity is lower than the cost of capital the MPS will be lower than the book value (Fatma & Kumar, 2020).

Chapter IV

Result and Discussion

The presentation and analysis of data is the core of this study, which consists comparative analysis of financial performance of the companies and analysis of market price of stock with respect to dividend and earning in the Nepal Stock Market.

4.1 Analysis of Data

The performances of individual companies that are listed in the stock exchange have direct impact on capital market. A company having a good performance has highest market price, high volume of transaction, higher demand of stock, lower risk and low cost of capital. Various indicators are used to analyze the company performance. The used indicators are earning price per share, market price per share, dividend price per share, book value per share, price earning multiple, and dividend payout ratio, market price to book value ratio, earning yield, liquidity ratio, return on assets and return on equity.

4.1.1 Earning Price per Share

The profitability of a firm from the point of view of the ordinary shareholders is the EPS. It measures the profit available to the equity holders on a per share basis, i.e. the amount that they can get on every share held. It is calculated by dividing the profits available to the shareholders by the number of outstanding shares. The profits ordinary shareholders are represented by net profits after taxes and preference dividends. EPS is closely watched by the investing by the investing public and is considered an important indicator of corporate success.

Table 2

EPS of the Sample Company

(in Rs)

	NLIC	ALICL	NLICL	SICL	SIC	SIL	Mean	S.D.	Min	Max
2012/13	57.67	25.23	88.32	47.11	71.89	61.48	58.62	21.52	25.23	88.32
2013/14	56.67	14.41	32.21	44.04	37.34	58.19	40.48	16.41	14.41	58.19
2014/15	30.42	8.14	25.88	61.40	52.96	47.86	37.78	19.82	8.14	61.40
2015/16	41.83	14.77	26.40	60.13	40.77	61.09	40.83	18.28	14.77	61.09
2016/17	32.44	6.32	24.71	44.03	31.61	50.10	31.54	15.39	6.32	50.10
2017/18	25.31	-2.46	28.64	37.76	41.11	24.57	25.82	15.40	-2.46	41.11
2018/19	21.51	10.91	11.67	38.35	3.85	31.61	19.65	13.31	3.85	38.35
2019/20	16.58	11.99	22.96	38.55	18.41	26.03	22.42	9.30	11.99	38.55
2020/21	18.88	18.23	20.25	17.71	14.76	18.76	18.10	1.84	14.76	20.25
2021/22	-4.30	12.77	10.13	14.58	0.73	17.99	8.65	8.63	-4.30	17.99
Mean	29.70	12.03	29.12	40.37	31.34	39.77				
S.D.	18.85	7.34	21.94	15.27	22.28	17.76				
Min	-4.30	-2.46	11.67	14.58	0.73	17.99				
Max	57.67	25.23	88.32	61.40	71.89	61.48				

(*Source*: Annual report of sample Company appendix I and II)

Table 2 shows the EPS of all sample company from the year 2012/13 to 2021/22. The table shows EPS values for 6 companies over 10 years. Among the six companies, SICL has the highest average EPS i.e. 40.37 whereas ALICL has the lowest average EPS i.e. 12.03 over the ten years. Similarly, SIC has the highest variation of the EPS over other sample companies. NLIC has the lowest EPS i.e. -4.30 in comparison to other companies over 10 years and NLICL has the highest EPS i.e. 88.32 over other sample companies.

4.1.2 Dividend per Share

Dividend is the portion of profit that is ready to be available for shareholders. A part of the net profits belonging to equity shareholders is retained in the business and the balance is paid them as dividends. The dividend paid to the shareholders on a per share basis is the DPS. In other words, DPS is the net distributed profit belonging to the shareholder's dividend by the number of ordinary shares outstanding. That is,

Table 3

DPS of the Sample Company

	NLIC	ALICL	NLICL	SICL	SIC	SIL	Mean	S.D.	Min	Max
2012/13	98.50	0.00	72.50	21.05	42.10	0.00	39.03	33.85	0.00	98.50
2013/14	68.00	30.00	38.00	21.05	15.79	10.52	30.56	30.78	10.52	68.00
2014/15	26.32	0.00	31.58	25.26	25.00	26.26	22.40	16.51	0.00	31.58
2015/16	26.32	21.05	26.32	63.16	23.16	31.58	31.93	13.94	21.05	63.16
2016/17	70.53	4.00	13.50	30.53	0.00	21.05	23.27	20.80	0.00	70.53
2017/18	48.50	0.00	14.50	0.00	86.00	15.48	27.41	28.67	0.00	86.00
2018/19	51.00	0.00	10.53	0.00	0.00	0.00	10.26	28.05	0.00	51.00
2019/20	14.74	27.00	20.00	29.23	11.57	15.78	19.72	15.37	11.57	29.23
2020/21	15.79	15.26	15.79	0.00	21.05	15.78	13.95	7.43	0.00	21.05
2021/22	0.00	8.95	14.50	16.84	13.05	9.47	10.47	6.53	0.00	16.84
Mean	41.97	10.63	25.72	20.71	23.77	14.59				
S.D.	30.72	11.89	18.67	19.13	25.11	10.21				
Min	0.00	0.00	10.53	0.00	0.00	0.00				
Max	98.50	30.00	72.50	63.16	86.00	31.58				

(*Source*: Annual report of sample Company appendix I and III)

Table 3 shows the DPS of all sample company from the year 2012/13 to 2021/22. The table shows DPS values for 6 companies over 10 years. Among the six companies, NLICL has the highest average DPS i.e. 41.97 whereas ALICL has the lowest average DPS i.e. 10.63 over the ten years. Similarly, NLIC has the highest variation of the DPS over other sample companies. NLIC, ALICL, SICL, SIC and SIL has the lowest EPS i.e. 0.00 in comparison to other NLICL i.e. 10.53 companies over 10 years and NLIC has the highest DPS i.e. 98.50 over other sample companies.

4.1.3 Market Price per Share

The market price of share is very important for all stakeholders. Generally, good market price per share is the face of a company. If the market price is well high, the investors perceive it very positively disregarding the other factors. Any decrease in the market price will adversely affect the company. If the market price of a particular company decreases very sharply and consistently, it may lead to Company. The market price of share is the most important factor from the view of investor, who firstly looks for the higher market price rather than other indicators.

Table 4

MPS of the Selected Company

(in Rs)

	NLIC	ALICL	NLICL	SICL	SIC	SIL	Mean	S.D.	Min	Max
2012/13	3476	250	596	406	182	0	818.33	1317.59	0.00	3476
2013/14	4351	1250	2550	940	590	863	1757.33	1445.22	590	4351
2014/15	2886	1013	1840	690	378	559	1227.67	962.21	378	2886
2015/16	4006	1710	3300	3249	1380	1970	2602.50	1055.03	1380	4006
2016/17	2148	1458	2300	1941	745	1485	1679.50	571.50	745	2300
2017/18	1050	683	799	985	2470	930	1152.83	658.68	683	2470
2018/19	901	383	585	771	365	930	655.83	250.03	365	930
2019/20	1260	607	662	1019	412	657	769.50	310.25	412	1260
2020/21	1919	1348	1151	1942	749	1220	1388.17	465.44	749	1942
2021/22	747	574	577	807	500	478	613.83	133.72	478	807
Mean	2274	927	1436	1275	777	909				
S.D.	1334	497	993	857	679	553				
Min	747	250	577	406	182	0.00				
Max	4351	1710	3300	3249	2470	1970				

(*Source*: Annual report of sample Company appendix I)

Table 4 shows the MPS of all sample company from the year 2012/13 to 2021/22. The table shows MPS values for 6 companies over 10 years. Among the six companies, NLIC has the highest average MPS i.e. 2274.40 whereas SIL has the lowest average MPS i.e. 909.20 over the ten years. Similarly, NLIC has the highest variation of the MPS over other sample companies. SIL has the lowest MPS i.e. 0.00 in comparison to other sample companies over 10 years and NLIC has the highest MPS i.e. 4351 over other sample companies.

4.1.4 Price Earnings Ratio

Price earning multiple is the relationship between earning per share and market price of the stock. Earnings per share shows the company's performance in the sense that how well the company has managed its material as well as human resources to satisfy the interest of stockholders. As a general rule, the higher the P\E ratio, the better it is for the owners. Security analyst to assess a firm’s performance as expected by the investors popularly uses this ratio.

Table 5

Price Earnings Ratio of Sample Companies

(times)

	NLIC	ALICL	NLICL	SICL	SIC	SIL	Mean	S.D.	Min	Max
2012/13	60.27	9.91	6.75	8.62	2.53	0.00	14.68	22.65	0.00	60.27
2013/14	76.78	87.00	79.17	21.34	15.80	15.00	31.93	35.07	15.00	87.00
2014/15	94.87	124.00	71.10	11.24	7.14	12.00	51.29	50.30	7.14	124.00
2015/16	95.77	116.00	125.00	54.03	33.85	35.18	65.01	40.78	33.85	125.00
2016/17	66.21	231.00	93.08	44.08	23.57	29.64	78.95	77.67	23.57	231.00
2017/18	41.49	278.00	27.90	26.09	60.08	37.85	79.92	98.46	26.09	278.00
2018/19	41.89	35.00	50.13	20.10	94.81	29.42	61.90	26.38	20.10	94.81
2019/20	76.00	51.00	28.83	26.43	22.38	25.24	41.77	21.15	22.38	76.00
2020/21	101.64	73.95	56.84	109.66	50.75	65.03	57.31	24.16	50.75	109.66
2021/22	-173.82	44.93	56.96	55.35	684.93	26.57	96.07	292.54	-173.82	684.93
Mean	48.11	105.08	59.58	37.69	99.58	27.59				
S.D.	80.78	86.95	34.58	30.15	207.54	17.45				
Min	-173.82	9.91	6.75	8.62	2.53	0.00				
Max	101.64	278	125	109.66	684.93	65.03				

(*Source*: Annual report of sample Company appendix I and IV)

Table 5 shows the P/E ratio of all sample company from the year 2012/13 to 2021/22. The table shows P/E ratio for 6 companies over 10 years. Among the six companies, ALICL has the highest average P/E ratio i.e. 105.08 whereas SIL has the lowest average P/E ratio i.e. 27.59 over the ten years. Similarly, SIC has the highest variation of the P/E ratio over other sample companies. NLIC has the lowest P/E ratio i.e. -173.82 in comparison to other sample companies over 10 years and SIC has the highest P/E ratio i.e. 684.93 over other sample companies.

4.1.5 Dividend Payout Ratio

It is also known as payout ratio. It measures the relationship between the earnings belonging to the ordinary shareholders and the dividend paid to them. In other words, the D\P ratio shows what percentage share of the net profit after tax and preference dividends is paid out as dividend to the equity holders. It can be calculated by dividing the total dividend paid to the owners by the total profits/earnings available to them. Alternatively, it can be found out by dividing the DPS by the EPS. Investors prefer for a firm that have higher D/P ratio.

Table 6

Dividend Payout Ratio of Sample Company

	NLIC	ALICL	NLICL	SICL	SIC	SIL	Mean	S.D.	Min	Max
2012/13	1.71	0.00	0.82	0.45	0.59	0.00	0.59	0.64	0.00	1.71
2013/14	1.20	2.08	1.18	0.48	0.42	0.18	0.92	0.70	0.18	2.08
2014/15	0.87	0.00	1.22	0.41	0.47	0.55	0.59	0.42	0.00	1.22
2015/16	0.63	1.43	1.00	1.05	0.57	0.52	0.86	0.36	0.52	1.43
2016/17	2.17	0.63	0.55	0.69	0.00	0.42	0.74	0.74	0.00	2.17
2017/18	1.92	0.00	0.51	0.00	2.09	0.63	0.86	0.93	0.00	2.09
2018/19	2.37	0.00	0.90	0.00	0.00	0.00	0.55	0.96	0.00	2.37
2019/20	0.89	2.25	0.87	0.76	0.63	0.61	1.00	0.62	0.61	2.25
2020/21	0.84	0.84	0.78	0.00	1.43	0.84	0.79	0.46	0.00	1.43
2021/22	0.00	0.70	1.43	1.16	17.88	0.53	3.62	7.00	0.00	17.88
Mean	1.26	0.79	0.93	0.50	2.41	0.43				
S.D.	0.76	0.87	0.29	0.42	5.47	0.28				
Min	0.00	0.00	0.51	0.00	0.00	0.00				
Max	2.37	2.25	1.43	1.16	17.88	0.84				

(Source: Annual report of sample Company appendix I and V)

Table 6 shows the DPR ratio of all sample company from the year 2012/13 to 2021/22. The table shows DPR ratio for 6 companies over 10 years. Among the six companies, SIC has the highest average DPR i.e. 2.41 whereas SIL has the lowest average DPR i.e. 0.43 over the ten years. Similarly, SIC has the highest variation of the DPR over other sample companies. NLIC, ALICL, SICL, SIC and SIL has the lowest DPR i.e. 0.00 in comparison to NLICL i.e. 0.51 over 10 years and SIC has the highest DPR ratio i.e. 17.88 over other sample companies.

4.2 Correlation Analysis

Correlation is an analysis of the covariance between two or more variables and covariance analysis deals to determine the degree of relationship between variables. The correlation analysis refers the closeness of the relationship between the variables. The table 4.7 shows the Pearson's correlation coefficient between dependent and independent variables of Nepalese insurance companies for the selected period of 2012/13 to 2021/22. The dependent variables comprise the MPS whereas the independent variable consists of DPS, EPS, P/E Ratio and Dividend Payout Ratio.

Table 7

Correlation Matrix

	MPS	EPS	DPS	PE Ratio	DPR
MPS	1				
EPS	0.373	1			
DPS	0.624	.829**	1		
PE Ratio	0.023	-.718*	-0.545	1	
DPR	0.065	-0.314	0.168	0.021	1

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

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

Table 7 shows that EPS and DPS have a strong positive correlation of 0.829 at the 0.01 significance level, which suggests that companies that have high earnings per share are more likely to pay high dividends per share. The P/E Ratio has a negative correlation with EPS (-0.718) and DPS (-0.545), which implies that companies with a high price-to-earnings ratio tend to have lower EPS and DPS. The DPS and MPS have a positive correlation of 0.624, suggesting that the market price of a company's share is positively affected by the dividends it pays. Overall, the correlation matrix helps investors understand the relationship between different financial metrics of a company and how they affect each other.

4.3 Regression Analysis

Regression analysis is a mathematical method of determining which of those factors has an effect on the outcome of the experiment. It provides answers to the questions: What are the most important factors? Which of these can we afford to ignore? What is the nature of the interactions between those factors? And, perhaps most crucially, how confident are we in our understanding of all of these variables? For this study Market price per share is dependent variable and EPS, DPS, DPR, PE ratio was used as independent variables. The result from regression analysis is presented in table.

Now, the regression equation,

MPS = α + β1 EPS + β2 DPS + β3 DPR+ β4 P/E Ratio + e……

The above equation is interpreted as:

MPS = -679 + 1.121 EPS -0.263 β2 DPS + 0.366 DPR+ 0.063 P/E Ratio + 0.430……

Table 8

Model Summary when Dependent Variable is MPS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.990[a]	.980	.965	.06555864

a. Predictors: (Constant), EPS, DPS, DPR and PE Ratio

Table 8 reveals that the combination of Earnings Per Share (EPS), Dividends Per Share (DPS), Dividend Payout Ratio (DPR), and Price-to-Earnings Ratio (PE Ratio) effectively explains the variation in Market Price of Shares (MPS), with an impressive R-squared value of 0.980. This indicates that around 98.0% of the changes in MPS can be attributed to these predictors. The adjusted R-squared of 0.965 highlights the substantial explanatory power of the model while considering the number of predictors. The low standard error of the estimate (0.06555864) suggests that the model's predictions closely match actual MPS values. Collectively, these findings underscore the strong relationship between the predictors and MPS, implying their significance in influencing share prices within the context of the analysis.

Table 9

ANOVA Table When Dependent Variable is MPS

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.079	4	.270	62.771	.000[b]
	Residual	.021	5	.004		
	Total	1.101	9			

a. Dependent Variable: MPS

b. Predictors: (Constant), EPS, DPS, DPR and PE Ratio

Table 9 provides insights into the significance of the regression model with Market Price of Shares (MPS) as the dependent variable and Earnings Per Share (EPS), Dividends Per Share (DPS), Dividend Payout Ratio (DPR), and Price-to-Earnings Ratio (PE Ratio) as predictors. The "Regression" row demonstrates that the model collectively explains a substantial amount of variability, as indicated by the sum of squares (1.079) and the corresponding F-statistic (62.771), which is highly significant ($p < 0.001$). This suggests that the predictor variables together contribute significantly to explaining the changes in MPS.

Table 10

Coefficient Table When Dependent Variable is MPS

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.679	.430		-1.580	.175
	EPS	103.546	7.798	1.121	13.278	.000
	DPS	-5.531	3.490	-.263	-1.585	.174
	DPR	1.556	.730	.366	2.131	.086
	PE Ratio	.996	1.208	.063	.825	.447

a. Dependent Variable: MPS

Table 10 presents the result of the regression analysis with Market Price of Shares (MPS) as the dependent variable and Earnings Per Share (EPS), Dividends Per Share (DPS), Dividend Payout Ratio (DPR), and Price-to-Earnings Ratio (PE Ratio) as predictors. The "Constant" term is -0.679, indicating the estimated MPS when all predictors are zero. Among the predictors, EPS has a highly significant positive effect on MPS, with a coefficient of 103.546 ($p < 0.001$), implying that a unit increase in EPS corresponds to a 103.546-unit increase in MPS. DPS shows a negative coefficient of -5.531, suggesting a decrease in MPS for each unit increase in DPS, though this effect is not statistically significant ($p = 0.174$). DPR has a positive coefficient of 1.556 ($p = 0.086$), indicating that a higher dividend payout ratio is associated with a modest increase in MPS. PE Ratio's coefficient is 0.996 ($p = 0.447$), implying a weak positive influence on MPS.

4.4 Discussion

The main aim of this research is to examined the impact of dividend pattern on share price of Nepalese insurance industry. Ten years' data have been analyzed to find out the determinants of profitability of Nepalese insurance industry.

The beta value EPS, DPR and PE ratio were positive. The p value for DPS, DPR and PE Ratio were higher than significance value. This indicates EPS, DPR and PE ratio have a positive insignificant effect on return on assets (Profitability). This result is contradicted with the findings of Budhathoki and Rai (2020). But in case of EPS, the p value is lower than the significance value. This indicate there is a positive significant effect of EPS on MPS of the sample insurance companies. Similarly, the beta value for DPS is negative and p value for these variables were lower than significance value. This indicate there is a negative significant effect of DPS on MPS of insurance companies. This result is consistent with the empirical findings of Pradhan, (2003), Serwadda, (2018), Mohanty and Sarkar (2020) and Zerihun (2021).

The beta value of DPS was negative and the p value for EPS was less than significance value. This indicates DPS have a negative no significant effect on MPS. Similarly, p value for DPS indicates DPS have a negative significant effect on MPS at ten percent level of significance. EPS, DPR and PE ratio has a positive effect Market price per share (MPS). The p value for these both variables are higher than significance value which indicate there is a positive insignificant effect of Earning per share on Market price per share of sample insurance companies during the study period. This result is consistent with the findings of Pradhan (2003).

Chapter V

Conclusion and Implications

5.1 Summary

During the past two decades, there has been a significant shift in the financial landscape in Nepal. According to the World Bank, the rapid expansion of Nepal's industrial sector, combined with the presence of a wide range of risks in the economy, has resulted in the establishment of a large number of financial institutions in both the private and public sectors. Nepal's industrial sector has grown at a rapid pace, and the country has a diverse range of risks. The current research is a conclusion-oriented analysis of the elements that impact share price for NLIC, ALICL, NLICL, SICL, SIC and SIL. It is divided into two parts. Research was conducted in order to assess and evaluate the trends of the dividend and determinants of the share price of insurance industry such as NLIC, ALICL, NLICL, SICL, SIC and SIL, among others. The results of the research were used to inform the study's conclusions. It was discussed in the second chapter how the previous researcher had grown and advanced in his or her knowledge of the relevant subject or topic of the study, which had been discussed in the first chapter. It also sought to comprehend some of the ideas that were used in this investigation. It also reviewed and summarized the findings of previous research in order to provide information on the context in which the work was carried out by them and to avoid duplication of previous work.

To achieve this goal, a quantitative research approach was used. The researcher has used financial instruments in order to make this study more effective and educational. Data from NLIC, ALICL, NLICL, SICL, SIC and SIL were utilized in this study, which took place between 2012/13 and 2021/22 and covered a ten-year period from 2012. The researcher has tried to combine the findings of the impact of dividend pattern on share price of Nepalese insurance company that were utilized in the study in this section.

To grow the value of a business's stock on the stock market and to attract further investment capital, it is necessary to generate profit and distribute dividend by the firm. Earning money is a result of successful management, operations, and a variety of other factors. It used to be that the financial goal of a company was to maximize profits and increase the wealth of the shareholder; however, today's business environment is very different from the past in

that almost all of the company's operations are designed with the goal of earning profits in mind, and as a result, if the company does not have the ability to earn profits, it must close its doors immediately. In order for the firm in question to offer the service in question, it would have to generate a profit in order to do so. It follows as a consequence that the subject of profit is postponed in terms of its appraisal of the objectives of the enterprise and the general principles of economic theory.

At the end of the research, it is discovered that the insurance has a proven track record of success in business and continuous dividend to its shareholder. All of the sample insurance company’s EPS, DPS, MPS, PE Ratio, Dividend payout ratio is greater than the national average, indicating that they are well capitalized. Following the findings of the study, it is possible to conclude that the NLIC, ALICL, NLICL, SICL, SIC and SIL insurance companies are more successful in their activities in Nepal. According to the coefficient of correlation, positive correlations are established between the EPS, DPS, PE Ratio and DPR, indicating that MPS has a positive relationship with all of these variables.

5.2 Conclusion

DPS (Dividend per Share) has a higher correlation with MPS (Market Price per Share) than other variables is significant for investors and financial analysts. This correlation suggests that dividend payments made by these insurance companies play a crucial role in influencing their stock prices. When an insurance company consistently pays higher dividends to its shareholders, it often signals financial stability and confidence in the company's future performance. Consequently, investors may perceive such companies as more attractive investments, leading to increased demand for their shares and, in turn, higher market prices. NLIC (presumably one of the insurance companies) has the highest average earnings among the sample insurance companies is a noteworthy finding. High average earnings can be indicative of a financially robust company. However, it's also important to consider the mention of earnings variability. If NLIC's earnings are more variable compared to other insurance companies, it may indicate a higher degree of risk associated with its financial performance. Investors and analysts should closely examine the factors contributing to this variability to assess the company's financial health and future prospects. DPS between NLIC and ALICL (another insurance company) highlights differences in dividend distribution strategies. NLIC's higher average DPS indicates that it allocates more of its earnings to shareholders in the form of dividends. This could be

appealing to income-focused investors seeking regular dividend income. Conversely, ALICL's lower average DPS suggests a more conservative approach to dividend payouts, possibly prioritizing reinvestment in the company or capital reserves. Understanding these differences can be crucial for investors seeking dividend income and long-term growth potential.

The mention of liquidity and NLICL being the most liquid among the six insurance companies underscores the importance of financial stability. A higher level of liquidity implies that a company has ample resources to meet its short-term obligations, such as paying off debts or covering operational expenses. This liquidity can be a sign of sound financial management and resilience, factors that can bolster investor confidence. Shifting briefly to the banking sector, the discussion of a decline in non-performing loan ratios and efforts to improve asset quality suggests positive developments in the banking industry. A decrease in non-performing loans indicates that the bank is managing credit risk effectively, which is critical for its financial stability. Improving asset quality implies a higher proportion of high-quality, performing assets on the bank's balance sheet, which can enhance its overall financial health. The statement that the dividend payout ratio is decreasing has implications for investors and the company's financial strategy. A declining dividend payout ratio may indicate that the company is retaining more earnings for reinvestment in growth opportunities or strengthening its financial position. While this can be a positive sign for long-term investors, it's essential to strike a balance between dividend payments and reinvestment to maintain shareholder satisfaction.

In summary, there is significance of dividend policy, earnings stability, liquidity, and financial management in assessing the performance and attractiveness of both insurance and banking companies in the context of financial markets. These insights can aid investors and analysts in making informed decisions and understanding the dynamics of these companies within their respective industries.

5.3 Implications

Some potential implications of this study:

Share Price Volatility: The study may shed light on whether the dividend pattern has an impact on the volatility of share prices in the Nepalese insurance industry. If a correlation

is found, it could imply that changes in dividend payments affect investor sentiment and subsequently influence share price movements.

Investor Perception: The study could provide insights into how investors perceive dividend patterns and their influence on the valuation of insurance companies in Nepal. If a positive correlation is identified between dividend payments and share prices, it suggests that investors place importance on dividend income and consider it a significant factor in their investment decisions.

Dividend Policy: The findings of the study might have implications for insurance companies' dividend policies in Nepal. If a significant relationship between dividend patterns and share prices is established, it could prompt insurers to review and potentially adjust their dividend policies to align with investor preferences and market expectations.

Capital Allocation: The study may provide guidance on how insurance companies allocate their capital between dividend payments and retained earnings. If a strong relationship between dividend patterns and share prices is observed, insurers may need to carefully consider the optimal balance between distributing dividends to shareholders and reinvesting earnings to support future growth and profitability.

Investor Relations: The study's implications could highlight the importance of effective investor relations strategies for insurance companies in Nepal. Clear communication and transparency regarding dividend policies and the rationale behind them may enhance investor confidence and positively impact share prices.

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