A COMPARATIVE STUDY OF DIVIDEND POLICY AND PRACTIES OF COMMERCIAL BANKS IN NEPAL

(With Reference to HBL, SBI and EBL Bank)

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RECOMMENDATION

This is to certify that the thesis

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has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

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VIVA-VOCE SHEET

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master's Degree in Business Studies (M.B.S.)

Viva -voce Committee

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DECLARATION

I hereby declare that the work reported in this thesis entitled **"A COMPARATIV STUDY OF DIVIDEND POLICY AND PRACTICES OF COMMERCIAL BANKS IN NEPAL"(With Reference to HBL, SBI and EBL Bank).** Submitted to Central Department of Management, Tribhuvan University is my original work for the partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S) under the supervision of **Dr. Ramji Gautam,** Lecturer of central Department of Management, TU.

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Sundar Bijay Dhakal

Researcher

Table Content

LIST OF TABLE

LIST OF FIGURE

ABBREVIATIONS

AD	=	Anno Domini
AM	=	Arithmetic Mean
BVPS	=	Book Value Per Share
CV	=	Coefficient of Variance
DPR	=	Dividend Payout Ratio
DPS	=	Dividend Per Share
DY	=	Dividend Yield
EBL	=	Everest Bank Limited
EPS	=	Earning Per Share
EY	=	Earning Yield
FY	=	Fiscal Year
HBL	=	Himalayan Bank Limited
JVB	=	Joint Venture Banks
Max	=	Maximum
MBS	=	Master of Business Studies
Min	=	Minimum
MPPS	=	Market Price Per Share
NABIL	=	Nepal Arab Bank Imirates Limited
NEPSE	=	Nepal Stock Exchange
NWPS	=	Networth Per Share
R2	=	Coefficient of Determination
Rs.	=	Rupees
SD	=	Standard Deviation
SBI	=	State Bank of India Nepal Limited
SCBNL	=	Standard Chartered Bank Nepal Limited
SEBON	=	Security Board of Nepal
SEE	=	Standard Error of Estimate
TU	=	Tribhuvan University

CHAPTER -ONE

INTRODUCTION

1.1 Background

In fact, corporate dividend is not an easy, straight forward and simple task as many people conceive it. Dividend policies and practices refer to how the dividend has been paying in the concern organization. Dividend is a part of earning. Earning is some retain by organization some are distributed to the shareholders as their dividend policy. Dividend itself is an important as it is a major Concern of investor and management. When a company pays a portion of net profit to its shareholders in the form of dividend, the shareholders benefit directly. If instead of paying dividends, the firm retains the funds to exploit other growth opportunities, the shareholders can expect to benefit indirectly though future increase in the price of their stock. The board of director decides to declare dividend to shareholders Dividend may be paid in cash, stock and securities or merchandise, all the aspects and question related to the payment of dividend are contained in divided policy.

Banking sector plays vital role for the economic development and circular the money. Bank is a resource mobilizing institution which mobilize idle scattered resources in productive sectors and there by earn reasonable profit. Especially they collect required capital through the issue of primary share and debenture the purchaser of the securities are the owner of banks by investing their saving on share with the hope of capital gain and dividend, and other hand banks collect deposit by customer and also provide loan for needed customer. Nepal Bank limited is the first commercial bank in Nepal and the history of joint venture bank in Nepal is not more than 27 years old. JVBs (joint venture banks) are established to provide financial and other services primarily to commercial sector and occasionally to industrial and agricultural sector. Commercial Banks contribute significantly in the formation and mobilization of internal capital and developmental efforts, the main objective of commercial bank is to earn profit by proper mobilization of resources the decision regarding how much profit to distributor to shareholders as a dividend and how much to keep in the organization is the major crucial decision of the commercial bank. However, commercial bank have shown new trend of paying dividend to its shareholders but the

payment of dividend, is most debated issue. The debate revolves around the dividend payout is relevancy or irrelevancy to the value of the firm and the investors, to sum up this studies deals with the prevailing policies and practices of some Nepalese commercial banks.

1.2 Introduction of the commercial banks under study

1.2.1 Himalayan Bank Limited (HBL)

The Himalayan Bank Limited (HBL) was established as the joint venture bank with only 20% share hold by foreign sector and remaining by Nepalese private sector and having Nepalese executives. It was established in BS.2049-10-5. Its formation has 51% share to the founders, 20% to the Habib Bank of Pakistan, 14% to Karmachary Sanchay Kosh and remaining 15% to general public. According to Nepal Rastra Bank, 2010, it has paid up share capital Rs. 1013.5 million.

1.2.2 Nepal SBI Bank Limited (SBI)

The Nepal SBI Bank Limited (SBI) was established in BS. 2050-3-23. It has total paid capital of Rs 877.4million and 50% of paid capital had taken by State bank of India. The main objective of this bank is to provide modern banking service to people and to provide modern banking facilities like Tele banking, E-banking etc.

1.2.3 Everest Bank Limited (EBL)

The Everest Bank Limited (EBL) was established in the year 2051-7-1. This bank has total paid capital Rs 831.4 million and its 20% paid up capital is shared by Punjab National Bank of India. The objective of the bank is to collect the idle, scattered resources of the economy and mobilize that in productive sector and provide modern banking.

1.3 Statement of the Problem

Dividend is the most inspiring factor for the investment on the shares of the company and similar to the commercial bank. Dividend decision is still a crucial as well as controversial area of managerial finance; it is more technical area of finance in the sense that is a complex one having numerous implications for the firm. The

scholars have not been able to define simple and conclusive relationship between the dividend and the market price of share. Some experts believes to have positive relationship between stock price and dividend where as other believes to have negative relationship between stock price and dividend. As well as Experts are in controversial by signaling effect of dividend.

In Nepal, it has been found that especially the Commercial banks have been distributing regular dividend. However, not a single clear and convincing dividend policy that being followed is known yet.

There is no limit to identification of the problem about dividend practices that are visible in Nepalese commercial banks. To sum up this study, the study deals with the following issues.

- What are the dividend policies adopted by commercial banks of Nepal?
- What is the attitude toward dividend distribution by these banks?
- What is the relationship of dividend with EPS, MPS, net profit and net worth?
- Is there any consistency among dividend policies followed by commercial banks?

1.4 Objectives of the study

The major objective of this study is to assess dividend policy and practices of commercial banks of Nepal. The specific objectives of this study are:

- To assess and analyze prevailing dividend policy adopted by the commercial banks.
- To examine the relationship of dividend with stock price, EPS and NWPS.
- To analyze the factor affecting the dividend policy decision of commercial banks.

1.5 Importance of the study

Dividend plays a crucial role in every company and dividend policy is one of the most important decisions that need to be taken by the organization. Due to excess liquidity and lack of investment opportunities in the capital market, nowadays people are very much interested and attracted to invest in shares for getting higher returns. When any new company issue shares through capital markets, very big congregation gathers to apply for owners' certificate. It reveals that people have expectation on higher return for investing in shares. So the dividend decision is one of the most important decisions of financial management. It is an effective tool to attract new investors, maintain present investors and controlling position of the firm. Having lack of adequate knowledge, the people are haphazardly investing in shares. It shows that there is an extreme necessity to establish clear conception about the return that yields from investing in securities. In Nepalese context, we find that there exist almost none of the companies adopting consistent dividend policy. There may be many reasons behind it. But there is not sufficient study conducted in this regard. So, humble attempt has been made to contribute to this aspect. Considering all these facts, the study is undertaken which will help to meet deficiency of the literature relating to dividend decision and factors affecting the dividend policy. So the study of dividend policy is of considerable importance.

It's believed that so many persons and parties such as shareholders, management of banks, financial institutions, general public (depositors, prospective customers, investors etc) and other policy making bodies which are concerned with banking business will be benefited from this study. It is also believed that it will provide valuable inputs for future research scholars.

1.6 Limitation of the study

- Only cash dividend has been considered.
- Five years period has been studied (2005/6 to 2010/11).
- Lack of research experience, lack of recent information, time and sources constraints may be other limitations.

- The study has been conducted to fulfill for the partial requirements for MBS program.
- This study has considered only the aspects of dividend policy and practice of commercial banks in Nepal.
- Only secondary data has been uses in this study
- The study is confined within HBL, SBI, and Everest Bank Limited.

The above limitation, on doubts has some impact on quality of the study but some impact has not affect the usefulness of the study.

1.7 Organization of the study

The study has been organized into five chapters, each devoted to some aspects of the study of dividend policy and practices followed by commercial banks in Nepal.

The contents of each of the chapter of this study has been as follows:

Chapter I - Introduction

In this first Chapter section we explained our study in surface. Different heading of general background, focus of the study, statement of the problem, objectives of the study, limitation of the study, organization of the study are presented in this chapter.

Chapter II - Review of Literature

Review of literature is important tasks for thesis writing. Literature gives a attractive, readable and simplicity report, the possible spot of literature is library, different books, past thesis and dissertations, In the review of literature DPS, EPS, MPS, dividend payout ratio etc are observation. In the literature review different view towards the dividend is organized, the related variables are also explained with meaningful.

Chapter III - Research Methodology

In this chapter, we are presents the research design, nature and sources of data and tools employed etc.

Chapter IV - Presentation and Analysis of Data

It is a body of report. Data presentation and analysis is started with various data. In this section data the clear cut situation. The process of data presentation is stated with the input the data's and finally give a clear solution.

Chapter V - Summary, Conclusion and Recommendation

This is the end section of report. In this section, has presented the concluded study; all of our study is depend on the presentation of this chapter. In the bibliography section, we are presented the different books and author whose valuable contribution pleasing to thesis completing. Summary and conclusion is the main theme of this report. In this section we are going to present the conclusion about finding.

CHAPTER -TWO

REVIEW OF LITERATURE

2. Introduction

After selecting the topics of the research, researcher study different magazines, journals, and newspaper, book to collect the information about their subject matter. This process of studying different materials, which are concerned with the selected topics of the research, is known as review of literature. P.V. Young argues "Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research".

2.1 Conceptual framework

Dividend refers to the portion of firm's net earnings, which are paid out to the shareholders and they are generally in given in cash. It refers to the part of net earning which is given to its shareholders either in cash or bonus share in return of their investment in share capital. Dividends represent a distribution of book surplus to the shareholders. The corporate form of business organization entails separation between ownership and control of the company shareholders. The board of director (BOD) determines dividends policy. The 'BOD' also subject to a series of legal restriction. It also intends to maintain the capital of the company and to safeguard the interests of various parties in the company.

Dividend policy influences the financial management. It affects the financial structure, the flow of funds, corporate liquidity and investors attitudes it is related to overall financial decision. The objective of dividends policy should be maximizing the shareholders return so that value of his investment is maximized (Pandey, 1995).Return consists of two components: dividends and capital gains. Dividends policy has a direct influence on the component of return .The impact of dividends policy on future capital gain is however complex. Capital gains occur in the distant future, and therefore, are uncertain. In general, it is said that the low payout policy accelerator earnings growth; investors of growth companies will realize their return mostly in the form of capital gains. However, it is not certain that low payout policy will lead to higher prices in reality. It is quite difficult to clearly identify the effects of

payout on share price. Share is a reflection of so many factors that the long –run effects of payout is quite difficult to isolate.

Dividends policy decision is one of the three major decisions of financial management. Since dividends affects the financial structure; the flow of funds, corporate liquidity and investor attitudes all are influenced by the dividend policy. Dividends pay out reduces the amount of retained earnings of the firm and affects the total amount of internal financing. The choice would obviously hinge on the effect of the decision on the maximizations of the shareholders wealth. The objective of the financial management being maximizing wealth of shareholder the firm should be guided by the considerations as consistent with the goal of wealth maximizations. The firm would use the net profit for paying dividends to the shareholders leading to the maximizations of wealth of the owners. If not, the firms should rater retain them of financial investment program. There are conflicting opinions regarding the impact of the dividends on the valuation of the firm. According to one school of thought, dividends are irrelevant so that the amount of dividends paid has no effect on the valuation of the firm. On the other hand, certain theories consider the dividend decision as relevant to the value of the firm measured in the terms of the market price of the share.

The dividend policy of the company determines the amount of earning paid as dividends to shareholders and the amount of the retained earnings for reinvestment purpose. It is wise to maintain a balance between shareholders interest and corporate growth. if the firm have sufficient liquidity position and there are no profitable investment opportunity to mobilize these funds management have two options, own to distribute high cash dividends or repurchase stocks of a own company to facilitate future high dividends. The repurchase of stock is alternative to paying dividends. In the Nepalese context law it is prohibited to rebury a stock (Nepal Company Act 2063 section 61). If the firm earns profit but there is no sufficient fund to distribute dividends, the company should issue bonus share as dividend. A bonus share reduces Earning Per Share (EPS), Dividend Per Share (DPS), and Market Price Per Share (MPPS) and increase the total number of shares. It does not change the total financing but just converts retained earning into capital stock. Some Nepalese companies have practicing this method of dividend. Stock and reverse split are other form of dividend.

If market price of stock grows high, the number of shares assumed to be low, the EPS and DPS are also high, and in this situation the company should split their shares of stock.

There are many advantages of split and stock dividends: it brings market price per share in popular range and have active trading of stock in stock in stock market. It gives information about growing EPS of the company and also conserves cash for profitable investment opportunities. There is tendency for corporations to increase the distribution of dividends and it seems attractive to stock holders. Dividend is the good measure of soundness of a company. Financially sound company has good opportunity of reinvestment of fund and dividend reduces uncertainties of future income.

There is a choice between distribution of profit to the shareholders and bringing it back into business. This choosing has always affected the decision on the maximization of shareholders wealth. Shareholders' wealth can be maximized either through dividend or capital gain. When a company pays a dividend stockholders can expect to be benefited indirectly through increase in the price of their shares. It is a wise dividend decision which maintains a balance between shareholders' interest with that of corporate growth from internally generated funds.

Dividend policy decision is an important issue of profit making organization. In this case related literature has been reviewed.

2.2 Forms of dividends

Cash Dividend

Cash dividend is a dividend which is paid in cash to the shareholders of a company. To be able to pay cash dividends, companies need to have not only sufficient earnings but also sufficient cash. Even if a company shows a large amount of retained earnings on its balance sheet, it may not be enough to ensure cash dividends. The amount of cash that a company has is independent of retained earnings. Cash-poor companies still can be profitable. When cash dividend is distributed both total asset and net worth of the company decrease as cash and return earning decreases. The market price of the share drops in most cases by the amount of

the cash dividend distributed the market price after cash dividend is calculated as follows:

Market price per share after cash dividend

= Market price per share before cash dividend – Dividend per share

Stock dividend

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. A stock dividend is paid in the form of additional shares of stock instead of cash and simply involves a book keeping transfer of retained earnings to capital stock account. It represents nothing more than a re-capitalization of a company a stockholder's proportional ownership remains unchanged. Number of share is increased. And EPS, DPS, and MPS decreases proportionately with stock dividend issued.

The equilibrium market price per share after stock dividend (P*)

= Po/ (1+ SDR)

Where,

Po = current market price

SDR = stock dividend rate

Property dividends

This is the type of dividend in which the firm gives its own assets or property in the form of dividends other than cash. This form of dividends may be followed when there are assets or properties that are no longer necessary in the operation of the business. Companies own products and securities of subsidiaries are the examples that have been paid as property dividends. This type of dividends is not so popular so we can rarely found this type of dividends in practice.

Bond dividends

In this type of dividend the bond of the same company is distributed to the shareholders. The basic purpose behind declaring this type of dividends is avoiding cash outflow of the organization. The shareholders easily accept the bond dividends because they get regular interest in fixed time period.

Script Dividend

Script is a form of promissory note promising to pay to the holder at specified later date. And the dividend which is paid in script is called script dividend. Script dividend is paid when a company suffers from cash problem but has earned enough profit. Under this type of dividends the company issues and distribute transferable promissory notes to shareholder, which may be interest bearing or not.

Basically in Nepal cash dividend and stock dividends are popular. Although there are different type of dividends are popular in financial market but here we are considering only cash dividends are research purpose.

Stock Split

A stock split, also known as straight stock split, is essentially when a company increases the number of shares. In case of stock splits, a company may double, triple or quadruple the number of shares outstanding. The market price of each share is merely lowered; economic reality does not change at all. It is, therefore, completely irrational for investors to get excited over stock splits.

The effect of a stock split is an increase in the number of shares outstanding and a reduction in the par, or stated, value of the shares. The total net worth of the firm remains unchanged. The stock split does not involve any cash payment, only additional certificates representing new shares.

Reverse split

A method that is used to raises the market price of a firm's stock by exchanging certain number of outstanding shares for one new share of stock.

The effect of a reverse split is decrease in the number of shares outstanding and an increase in the power value of the shares. The total net worth of the firm remains unchanged. The reverse split does not involve any cash payment, only additional certificates representing new shares. Reverse split is used to stop the market price per share below a certain level.

2.3 General Types of Dividend Policies

(Pradhan, 1992, P.377)

In general, the assumption behind the dividend policy being followed in the real world is that policy makers takes into account the factors that affect the values of the firm in whatever policies they make. But it is very difficult to say, which policy, among all those being adopted by firms, is correct and optimal. The dividend policy can be simply grouped into four general categories.

I) Stable Rupee Amount Policy

The stable rupee amount implies a steady change in dividend amount, which increases at a certain constant growth rate to compensate for inflationary effect (or remain constant or decreases at a stable decreasing rate depending on the trend of earrings) irrespective of short-term fluctuation s in earnings.

II) Constant Payout Ratio

The policy to distribute a certain percentage of profit every period is called payout ratio. The payout ratio is the ratio of dividend to profit. There are many companies. Which use a constant percentage of profit for dividend distribution? When a company uses a constant payout ratio, amount of dividend fluctuates as earning do. In other words the amount of dividend increases or decreases proportionately with earnings.

III) Low Regular plus Extras

Those companies whose stockholders prefer at least a certain amount of regular dividend plus extra dividend based on company performance mostly follow this type of policy. Management fixed a minimum regular dividend to be paid in any

case unless a long run trend of losses is expected. The amount of extra dividend depends on the level of earnings. Thus, a total dividend each stockholder receives is based on a fixed amount plus a certain percentage of profit.

IV) Residual Dividend Policy

There are many factors, each noted before, which influence dividend policy. However, among all earnings and investment opportunities are considered as determining factors in the residual dividend policy is the outcome to belief that investors are better off in reinvesting company profits and they prefer so. If the expected return on the reinvestment is higher than what individual investors can realize on their own, it is to the shareholders advantage to first invest profits in those projects that promise higher profit and then distribute only the leftovers as dividends.

The residual dividend policy states that profit should be used first in all profitable investment plans, which reflect equal or higher rate of return than investor's opportunity rate of return. And if there is any profit left that could not be utilized, it should be distributed as dividends. The principle on which the theory is based is clear, that is, to maximize the benefits to shareholder be first undertaking investment plans and distributing dividends if there is any leftover.

The residual policy says that the dividends decisions should be such that

a. Profits are reinvested to the optimum investment level that reflects maximum returns;

b. Reinvestment of profits help maintain optimal capital structure; and

c. Dividends are to be paid only if earnings are more than enough for investment plans.

Thus, the residual policy is consistence with the basic objective of value maximization, places more importance to overall value maximization than present dividend to shareholders.

Although the residual theory of dividends appear to make further analysis of dividend policy unnecessary, it is indeed not clear that dividends are solely a means of

disbursing excess funds. It would therefore be imprudent to conclude that there are no other implications of dividend policy, and so this study shall take a closer look at the relationship between dividend and value.

2.4 Factors Affecting Dividend Policy

Many considerations may affect a firm's decision about its dividends, some of them are unique to that company, and some of the more general considerations are given subsequently.

2.4.1 Legal Rules

Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. Second specific limitations, which is vary by state. Generally a corporation may not pay a dividend at following condition.

i. If the firm's liabilities exceed its assets.

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

iii. If the dividends are being paid from capital invested in the firm.

The second type of legal restriction is unique to each firm and result from restriction in debt and preferred stock contracts.

2.4.2 Liquidity Position

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

2.4.3 Restrictions in Debt Contracts

Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after singing the loan agreement and only when net working

capital is above a specified amount. Also, preferred dividends take precedence to common stock dividends.

2.4.4 Desire of Shareholders

Shareholders may be interested either in dividend incomes or capital gains. Wealthy shareholder in a high income tax bracket may be interested in capital gains as against current dividends. A retired and old person, whose source of income is dividend, would like to get regular dividend.

In a closely held company, management usually knows the desires of shareholders. So, they can easily adopt a dividend policy that satisfies all shareholders. But in a widely held company, number of shareholders is very large and they have diverse desire regarding dividends want cash dividends, while other prefers bonus share.

2.4.5 Rate of Asset Expansion

A high rate of asset expansion creates a need to retain funds rather than to pay dividends.

2.4.6 Profit Rate

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

2.4.7 Stability of Earnings

A firm that has a stable earnings tread will generally pay a larger portion of its earnings in dividends. If earnings fluctuate significantly, a larger amount of the profits may be retained to ensure that enough money is available for investment projects when needed.

2.4.8 Tax Position of Shareholders

The tax position of stockholders also affects dividend policy. Corporation owned by largely taxpayers in high income tax brackets tend toward lower dividend

payout whereas corporations owned by small investors tend toward higher dividend payout.

2.4.9 Control

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

2.4.10 Access to the Capital Markets

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

2.5 Legal provision regarding dividend policy and practices in Nepal

In Nepal, Nepal Company Act 2006 has made certain legal provisions for dividend payments. The provision splay important role on dividend practices.

Section 2 (P): States that bonus share (stock dividend) means shares issues in the form of additional shares to shareholders by capitalizing the surplus from the profits or the reserve fund of the company. The term also denotes an increase in the paid-up values of the shares after capitalizing surplus reserve fund.

Section 61: This section has prohibited company from purchasing its own shares. This section is subsection (1) states that no company shall purchase its own shares (buy back) or supply loans against the security of its own shares.

Section 179: This section and its subsection (2) states that the company must inform the shareholders before issuing bonus share under subsection (1). This may be done only according to a special result ion passed by the general meeting. Subsection (2) states that according to subsection (1) to inform the office before issuing bonus shares.

Section 182 dividend and subsections of this section are as follows:

Subsection (1): Except in the following circumstances, dividends shall be distributed among the shareholders within 45 days from the date of decision to distribute them.

a. In case any law forbids the distribution of dividends.

b. In case the right to dividend disputed.

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

Subsection (2): Without permission of government the fully owned shares or majority owned shares of government's institution can't distribute the dividend. Government can forward the direction to these organizations for distribution of dividend.

Subsection (3): In case dividends are not distributed with in time limit mentioned in subsection (1). This shall be done by adding interest at the prescribed rate.

Subsection (4): Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividends shall be entitled to it.

The above rules indicated the Nepalese law prohibits repurchase of stocks which is against the theory of finance. The reason for this kind of provision is unknown.

2.6 Review of Major Studies in the Relevant Field

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

2.6.1 Walter's Study

James E. Walter in his study concluded that the choice of dividend policies almost always affects the value of enterprises *(Walter, 1996, pp. 29-44)*. In his study he suggests that dividend practice of firm affects its stock price. Walter's specially

highlight that, there is significant relationship between internal rate of return and cost of capital, which is the main determining factor to retain its earnings or to distribute dividend to shareholder.

His study was based on the following assumptions

- The firm finances all investment projects through retained earning.
- All earning are either distributed as dividend or reinvested internally.
- The firm's internal rate of return (r) and its cost of capital (K) remain constant.
- There is no change in value of earnings per share and dividend per share.
- The firms have perpetual life.

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

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

Where,

P= Market price per share DPS= Dividend per share

EPS= Earnings per share r= Internal rate of return

K= Cost of Capital

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

Growth Firms, r > k

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

Normal Firms, r= k

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

Declining Firms, r< k

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

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

2.6.2 Gordon's Study

In 1962, Myron Gordon developed his theory. In his study he concluded that dividend policy of a firm affects its value. *(Gordon, 1962, p.57).*

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

Basically his model based on the following assumptions:

a. No external financing is available i.e., only source is retained earning.

b. The firm uses equity capital only.

c. Internal rate of return (r) and cost of capital (k) of the firm remains constant.

d. The firm has a perpetual life.

e. There are no taxes on corporate income.

f. The growth rate, g = br, is constant forever.

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

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

$$P = \frac{E(1 - b)}{Ke - b.r}$$

Where,

P= Market value per share E= Earning per share

b= Retention ratio Ke= Cost of capital or capitalization rate

r= Interest rate of return br= growth rate (g)

1-b = Dividend payout ratio. i.e. percentage of earning distributed as dividend.

According to his study, following facts are revealed.

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

2.6.3 Linter's Study

During the period of 1956, Linter an important study of the behavioral aspect of dividend policy in the American context. From the tested of 28 companies in America partial adjustment model was developed by him. From the he concluded that a major portion of the dividend of a firm could be expressed in the following way. *(Linter, 1956, pp. 97-113)*

$Div_t^* = P^{EPS}{}_t$ ..... (i)

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

or $Div_t = a+bDiv_t^{*+}\ (1-b)Div_{t-1} + e_t$ .....(iii)

Where,

Div_t^* = is firm's desired payment Eps_t= Earning per share

P= targeted payout ratio a= Constant relating to dividend growth

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

The major findings of this study were.

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

2.6.4 Modigliani and Miller's Study

In 1961 Modigliani and Miller, for the first time in the history of finance argued that the dividend policy doesn't affect words divided has no effect on the stock price of the firm. In other words dividend has no effect on the stock price of the firm. They argued that the value of the firm depends upon the firm's earnings, which

depends on its investment policy. That's why, MM theory; a firm's value is independent of dividend policy. *(Modigliani & Miller, 1961, pp. 411-433)*

This study is based on the following assumption.

- The firm operates in perfect capital market(i.e. all investors are rational, information is freely available, floatation costs does not exist, infinitely divisible securities and no investors are large enough to affect market price of security).
- There are no taxes.
- The firm has a fixed investment policy, which is not subject to change.
- Risk of uncertainty does not exist.

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

$$nP_0 = \frac{P_1(n\,\Gamma\,\zeta n)\,Z1\,\Gamma\,E}{1\,\Gamma\,Ke}$$

Where,

nPo= Value of firm P_1= Market price of the share at the end of year.

n= No. of additional share ζn = No. of new shares at the end of the period.

I= Total investment E= Total Earning of the firm.

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

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

2.6.5 Van Horn &Mc - Donald's Study

Van Horn and Mc Donald conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They explored some basic aspects of conceptual framework, and empirical tests were performed during year-end 1968, for two industries, using a well-known valuation modal. The required data were colleted from 86 electric utility firms included on the COMPUSTAT utility data tape and 39 firms in the electronics and component industries as listed on the COMPUSTAT industry data tape. *(Van Horne & McDonald, 1971, pp. 507-519)*

They tested two regression models for the utilities industries.

First model was,

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

Where,

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

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

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

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

u= Error term

The Second Model was,

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (F_a) + a_5 (F_b) + a_6 (F_c) + a7 (F_d) + U$$

Where,

Fa, Fb, Fc and Fd are dummy variables corresponding to new issue ratio (NIR) groups A through D.

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

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

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

Where,

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

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

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

2.7 Review of Research Works in Nepalese Perspective

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

Pradhan (1993), study on *"Stock market behavior in a small capital market: A case study of Nepal"* was based on the data collected for 17 enterprises from 1986 through 1990. *(Pradhan, 1993, pp. 23-49)*

The following were the objectives of the study.

- To assess the stock market behavior in Nepal.
- To examine the relationship of market equity, market value to book value, price- earnings, and dividend with liquidity, profitability, leverage, assets turnover, and interest coverage.

The employed equation was:

$$V = b_o + b_1 LIQ + b_2 LEV + b_3 EARN + b_4 TURN + b_5 COV + U_t$$

Where,

The dependent variable V chosen for the study has been specified as under:

- Market equity (ME) - Market value of equity to its book value $\frac{MV}{BV}$.
- Price- earning ratio $\frac{P}{E}$.
- Dividend per share to market price per share $\frac{DPS}{MPS}$.
- Dividend per share to earning per share $\frac{DPS}{EPS}$.

LIQ= Current ratio (CR) or quick ratio (QR).

LEV= Long-term debt to total assets $\frac{LTD}{TA}$ or long-term debt to total capitalization $\frac{LTD}{TC}$.

EARN= Return on assets, that is earning before tax to total assets $\frac{EBT}{TA}$ or earning before tax to net worth $\frac{EBT}{NW}$.

TURN = Fixed assets turnover, that is, sales to average fixed assets $\frac{S}{FA}$, or total assets turnover, that is sales to average total assets $\frac{S}{TA}$.

COV = Interest coverage ratio, that is, earning before tax to interest.

U = Error term

Some findings of his study, among others, were as follows.

- Higher the earnings on stocks, larger the ratio of dividends per share to market price per share.
- Dividend per share and market price per share was positively correlated.
- Positive relationship between the ratio dividend per share to market price per share and interest coverage.
- Positive relationship between dividend payout and liquidity.
- Positive relationship between dividend payout and profitability.
- Positive relationship between dividend payout and turnover ratios.
- Positive relationship between dividend payout and interest coverage.
- Liquidity and leverage ratios are more variable for the stock paying lower dividends.
- Earnings, assets turnover, and coverage are more variable for the stock paying higher dividend.

Shrestha (1981), one article, "Public Enterprises: Have they dividend paying ability?" Was published in 1981 by Prof. Dr. Manohar Krishna Shrestha, which gives short glimpse of the dividend performance of some public enterprise of that time in Nepal. *(Shrestha, 1981,* P.23*)*

Dr. Shrestha has highlighted following issues in his article.

- Nepal Government expects two things from the public enterprises:
    i. They should be in a position to pay minimum dividend and
    ii. The public enterprises should be self- supporting in financial matters in future years to come, but non of these two objectives are achieved by the public enterprises.

- One reason for this inefficiency is caused by excessive governmental interference in day-to-day affairs. One the other hand, high-ranking officials of BIMG appointed on directors of Board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and thus led corporation to face losses. Losing corporations are, therefore, not in position to pay dividend to government.

- Another reason is the lack of self-criticism and self-consciousness. Esman has pointed out that the lack of favorable leaders is one of the biggest constraints to institution building: Moreover, corporate leadership comes as managers of corporations have not been able to identify them regarding what they can contribute as managers of corporations. So, Nepal Government. must be in a position to develop a financial target in corporate investment by imposing financial obligation on corporation.

- The article point out the irony of government biasness that government has not all owed bands to follow an independent dividend policy and Nepal Government is focused to have pressurized on dividend payment in case of Nepal Bank Ltd. regardless or profit. But, it has let off RastriyaBanijya Bank from dividend obligation is spite of considerable profit.

The improvements suggested by author are:

- Adopt a criteria-guided policy to drain resources from corporations through the medium of divided payment.

- Realization by Managers about the cost of equity and dividend obligation.

If Nepal Government. Want to tap resources through dividend, the following criteria should be followed.

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

2.8 Review of International Articles

2.8.1 Lasfer Study

Lasfer (1999) conducted a study on the topic "**Dividend Payment and Firm's Investment in Growth Opportunities"** This paper tests the short-termism hypothesis that companies pay dividends at the expense of investing in research and development. Using a sample of all non-financial companies listed in the London Stock Exchange over the period 1989-98, I show that firms' specific characteristics, such as size, past growth and profitability, determine jointly firms' decision to invest in research and development projects and, at the same time, pay dividends. The result found that both these two strategic decisions create value, and neither is at the expense of the other, and the July 1997 tax change on dividends did not lead companies to increase their R&D investments. The results are consistent with the separation theorem developed by Miller and Modigliani (1961) and do not provide support for short-termism arguments.

The conclusions drawn by the study are:

This paper is to determine the extent to which companies in the UK sacrifice growth opportunities through excessive dividend payments by analyzing R&D intensity and dividend payments of more than 1,400 companies quoted in the London Stock Exchange over the period 1989-1998. I find that 29 per cent of UK companies invests in R&D and 84 per cent pay dividends. In addition, the results show that companies that invest in R&D are not homogeneously distributed across industries. The majority of R&D companies are from the pharmaceutical, health care, IT and support services. In contrast, in oil and gas, transport and retailers, very few companies report R&D investments. The results suggest that R&D investment is industry specific. In contrast, dividend payment is not industry specific. The time-series analysis of R&D expenditures and dividend payments shows that there is no direct relationship between dividend payout ratios and investment in R&D. Over the whole sample period, dividends and R&D expenditures grew at relatively similar and constant rates despite significant changes in companies' earnings. In particular, UK firms did not reduce their dividends and R&D expenditures when earnings decreased substantially in the recessionary period of 1991-92. I find also that companies that invest in R&D are, in fact, more likely to pay dividends than companies that do not invest in R&D and the average payout ratio of companies that do not invest in R&D is not significantly different from that of companies that invest in R&D. Moreover, companies that pay dividends are more likely to invest in R&D and their R&D expenditure is significantly higher than those that do not pay dividends. The research also found that companies that invest in R&D grow at substantially faster rates, are significantly larger and more profitable than non-R&D companies. These characteristics apply also to dividend-paying companies. Therefore, firms' endogenous factors such as, past growth, size and profitability, determine jointly their dividend and investment in R&D decisions. Overall, dividend and R&D decisions are complementary and neither is at the expense of the other. The panel data regression results provide strong support for the independence proposition between dividends and R&D investments. In addition to the static random and fixed effect methods, I use the GMM panel data methodology to obtain robust standard errors and test statistics against time-series and cross-sectional heteroscedasticity (Arellano and Bond, 1991). The results show that the coefficients of R&D investments in the dividend equation

are not statistically significant. These results suggest that, by paying dividends, companies do not reduce their investments in R&D. Further research will determine whether companies rely on equity or debt to finance both dividends and investments in R&D.

2.8.2 Baker, Mukherjee and Paskelian Study

Baker, et al, (2005) conducted a study on topic **"How Norwegian Managers View Dividend Policy"** The results of a 2004 survey from managers of dividend-paying Norwegian firms listed on the Oslo Stock Exchange about their views on dividend policy. Specifically, the paper examines the most important factors in making dividend policy decisions and managers' views about various dividend-related issues. The most important determinants of a firm's dividend policy are the level of current and expected future earnings, stability of earnings, current degree of financial leverage, and liquidity constraints. No significant correlation exists between the overall rankings of factors influencing dividend policy between Norwegian and U.S. managers. Norwegian managers express mixed views about whether a firm's dividend policy affects firm value. Respondents point to the possible role of dividend policy as a signaling mechanism. No support exists for the tax-preference explanation for paying dividends.

The major finding of this study where as followed:

These study managers of dividend-paying firms listed on the also Stock Exchange to identify the most important factors in making dividend policy decisions and to learn their views about various dividend-related issues. Where appropriate, we compare the views of managers of Norwegian and U.S. firms. Some findings are consistent with our predictions, but others are surprising. Nonetheless, this survey evidence is still important because it reinforces some earlier findings while not supporting others using a different country and period. The findings of this survey lead to several conclusions about dividend policy.

First, the most important factors influencing the dividend policy of Norwegian firms relate to earnings, specifically the level of current and expected future earnings as well the stability of earnings. Other significant determinants of dividend policy include the current degree of financial leverage and liquidity

constraints. Based on our evidence, we conclude that the same factors influencing dividend decisions are not equally important to all firms. We surmise that no universal set of factors applies equally to all firms.

Second, the relative importance those managers of Norwegian firms attach to earnings in influencing dividend policy is similar to that previously reported by managers of U.S. firms. However, distinct differences exist in the importance that managers attach to numerous factors.

For example, managers of Norwegian firms view legal rules and constraints as more important than do their U.S. counterparts. By contrast, managers of U.S. firms rank the pattern of past dividends as more important than do managers of Norwegian firms. No significant correlation exists between the rankings of factors by managers of Norwegian and NYSE or NASDAQ firms.

Third, Norwegian managers generally support some statements related to the concept that a firm's dividend policy matters. They show a high level of agreement that a firm should devise its dividend policy to produce maximum value for its shareholders. In addition, they agree that an optimal dividend policy strikes a balance between current dividends and future growth that maximizes stock price. Yet, these managers appear ambivalent when asked whether a change in a firm's cash dividends affects its value. Compared with their U.S. counterparts, respondents from Norwegian firms express much less agreement with the notion that a relation exists between dividend policy and firm value.

Finally, managers of Norwegian firms express stronger support for a signaling explanation for paying dividends than they do for a tax-preference explanation. Yet, the majority of responses appear ambivalent to whether investors generally use dividend announcements as information to help assess a firm's stock value. For firms in general, the evidence suggests that dividend policy plays a possible role as a signaling mechanism.

2.9 Review of Previous Thesis

Prior to this thesis, some student has conducted several thesis works. Out of them, as are supposed to be relevant for this study have been reviewed in this section.

Katawal (2001) has conducted a thesis on "A comparative study of dividend policy in Commercial Banks" in July 2001 based on data collected from 1994/95 to 1998/99 for 6 sample commercial banks.

The main objectives of his study were:

a. To study the current practice of dividend policy in commercial Banks.

b. To find out the impact of dividend on share prices.

c. To analyze the relationship of financial indicators.

d. To examine if there is any uniformity among DPS, EPS and DPR on the five sample Banks.

The major findings of his study were as follows:

a. Average EPS and DPS for the period covered by the study of all concerned banks are satisfactory.

b. Analysis of coefficient of variation indicates that there is largest fluctuation in EPS and DPS and other are relatively more consistent.

c. The analysis of DPR shows none of the sample banks have consistent dividend policy.

d. The market value of shares in the market is fluctuating in all sample banks.

e. The most important decision is that no specific dividend payment strategy is followed by these banks. Payment of cash dividend and stock dividend are made without wise managerial decision due to unstable and adequate dividend and unequal payout ratio.

It is better to research about the dividend policy in the Joint Venture Commercial Banks.

Raj bhandari (2001), Study takes into consideration of data of only five year 1994/95 through 1998/99. Six companies are taken as sample. Her main findings are *(Rajbhandari: 2001)*:

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

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

At first, her study is based on secondary data of past five year 1994/1995 to 1998/99. That may not represent the exact practice of dividend policy of Joint Venture Banks and Insurance Companies based on secondary data only.

Secondly, she did not explain the existing capital market in Nepal.

The dividend it in macro level but it is necessary to do comparative study and analysis of dividend policy in micro level for the as of joint ventures banks and insurance companies as well.

They have not calculated the test of hypotheses, especially ANOVA test therefore, whether the financial indicator such as EPS, DPS & DPR results obtained values are significant or not.

Ghimire (2002), Has conducted a study on "Dividend policy of listed companies (with Ref. to Banks, Finance and Insurance companies.) In 2002, this study was conducted by taking four sample companies from banking sector.

The main objectives of his studies were:

a. To identify the dividend policy of different sample companies.
b. To identify the regularity of dividend distribution of different listed companies.

c. To identify the relationship between dividend policy & other financial indicators.

d. To analyze the relationship between dividend per share and market price per share.

e. To find out whether dividend policy affects value of the firm or not.

His major findings were as follows:

a. The average earning per share of the bank is satisfactory than finance & insurance companies.

b. The average dividend per share of the banks is also satisfactory as compared to finance & insurance companies.

c. DPS of the finance companies are more fluctuating in comparison to banks. Among them HBL has more fluctuating and BGBL being consistent.

d. Dividend yield of the finance & insurance companies are higher than banks and also more consistent.

e. Banks are following aggressive dividend policy due to higher DPR where as finance & insurance companies have implemented moderate dividend policy.

These studies cover the data till 1998/99. There are many changes taken place in last few years. So, it is necessary to carry out a fresh study related to dividend pattern in Nepalese companies. In this study, it has tried to carry out the latest data f the sample companies for analyzing the dividend policies of these companies. Because the earlier studies on dividend have become old and need to be updated due to the rapid changes taking place in financial market of Nepal.

2.10 Research Gap

The universal policy of paying substantial dividend is the primary puzzle in the economic of corporate finance (Feldstein and Green; 1983). Modigliani and Miller (1961), suggest that dividend policy has no effect on value of corporation in a world without taxes transaction costs or other market imperfections. Friend and Puckett

(1964), find that dividends appear to enhance value for non-growth companies and reduce of growth companies.

Various studies in national and international level have been conducted but the justifiable relation of MPPS on EPS, MPPS on DPS, MPPS on P/E Ratio, MPPS on DPR, DPS on EPS and MPPS on NWPS have not reported yet since they are conducted under certain assumption but the real word is different. A study made in America does not significant to Nepal since the capital market mechanism is different. Similarly, a research made on a period may not be true at all other points of time; hence updating those results in must. Due to time and resource constraint, not a comprehensive study has been made. Only taking the sample as representative data almost studies have been conducted. Therefore, the results cannot be generalized to explain the whole behavior of market.

This research is not a comprehensive research but it is a supplementary research about dividend policy and practice of joint venture banks in Nepal. Different scholars have developed simple and multiple regression models to describe the relation of DPS, EPS, DPR, P/E Ratio, NWPS and MPPS for individual firm separately. Both regular dividend paying and non paying commercials banks are being the matter of their study. Study of these commercials banks in relation to the MPPS on EPS, MPPS on DPS, MPPS on P/E Ratio, MPPS on DPR, DPS on EPS and MPPS on NWPS were observed. Developing a model to explain the relation of DPS, EPS, MPPS and NWPS in Nepalese commercials banks will be a real a new and distinct study and thus, will be beneficial for further research and studies too.

CHAPTER -THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a way to study systematically to solve the research problem. *(C.R. Kothari: New Delhi, 1990).*In other words, research methodology describes the methods and processes to be followed during the research period. The basic objective of the study is to compare the dividend policy and practices of Nepalese commercial Banks and the factors that affect it. It also tries to find out the relationship between dividend and earning per share, net profits after taxes, market price of shares and net worth of commercial Banks taken as sample for data analysis purpose. It is given in another subtopic of this section. Basically secondary data has been used for analysis.

3.2 Research Design

Research design is a plan, structure and strategy of investigation. It is conceived so as to obtain answers to research questions. Research design helps in the analysis of data related to the study topic. It is a controlling media for the collection of data. It helps to collect the accurate information, which is related to dividend practices of the commercial banks. The research design of this study has been descriptive as well as analytical by using the all variables related to the dividend policy of commercial banks. For the analytical purpose, the reports of relative commercial banks has been collected from the year 2005/ 06 to 2010/11.

3.3 Natures and Sources of Data

This study of commercial banks is based on basically secondary data. The required date are directly obtained from Stock Exchange, annual reports, financial statement, related banks and other necessary information are collected from SEBON, electronic websites etc.

3.4 Population and Sample

The list of all the commercial banks, are listed below out of which only three commercial banks have been taken as sample. The population and sample are listed below.

Table 3.4.1

Commercial Banks in Nepal 2012

S.N	Name of commercial banks	Year of establishment A.D.
1	Nepal Bank Limited	1957
2	Rastriya Banijya Bank Limited	1966
3	Nabil Bank Limited	1984
4	Nepal Investment Bank Limited	1986
5	Standard Chartered Bank Limited	1987
6	Himalayan Bank Limited	1993
7	Nepal SBI Bank Limited	1993
8	Nepal Bangladesh Bank Limited	1993
9	Everest Bank Limited	1994
10	Bank of Kathmandu Limited	1995
11	Nepal Credit and Commerce Bank Limited	1996
12	Lumbini Bank Limited	1998

13	Nepal Industrial and Commercial Bank Limited	1998
14	Machhapuchre Bank Limited	2000
15	Kumari Bank Limited	2001
16	Laxmi Bank Limited	2002
17	Siddharth Bank Limited	2002
18	Agricial Bank Limited	2006
19	Global Bank Limited	2007
20	Citizens Bank International Limited	2007
21	Prime Commercial Bank Limited	2007
22	Bank of Asia Nepal Limited	2007
23	Grand Bank Nepal limited	2008
24	NMB Bank Limited	2009
25	Kist Bank Limited	2009
26	Mega Bank Limited	2009
27	Sunrise bank limited	2009
28	Janata Bank limited	2009
29	Commerz and Trust bank limited	2010

30	Civil Bank limited	2010
31	Century commercial bank limited	2011
32	Sanima Bank limited	2011

Source: Nepal Rasta Bank.

Table 3.4.2

Nepal stock Exchange Listed Commercial Banks in Nepal 2012

S.N	Name List of commercial Banks	Year of establishment A.D.
1	Nabil Bank Limited	1984
2	Nepal Investment Bank Limited	1986
3	Standard Chartered Bank Limited	1987
4	Himalayan Bank Limited	1993
5	Nepal SBI Bank Limited	1993
6	Nepal Bangladesh Bank Limited	1993
7	Everest Bank Limited	1994
8	Bank of Kathmandu Limited	1995
9	Nepal Credit and Commerce Bank Limited	1996
10	Lumbini Bank Limited	1998

11	Nepal Industrial and Commercial Bank Limited	1998
12	Machhapuchre Bank Limited	2000
13	Kumari Bank Limited	2001
14	Laxmi Bank Limited	2002
15	Siddharth Bank Limited	2002
16	Agricial Bank Limited	2006
17	Global Bank Limited	2007
18	Citizens Bank International Limited	2007
19	Prime Commercial Bank Limited	2007
20	Bank of Asia Nepal Limited	2007
21	Grand Bank Nepal limited	2008
22	NMB Bank Limited	2009
23	Kist Bank Limited	2009
24	Sunrise bank limited	2009
25	Sanima Bank limited	2011

Source: Nepal Stock Exchange

Out of all these Commercial banks, we have taken only three commercial banks as our sample and they are tabulated below

S.N	Name of commercial Banks	Year of establishment A.D.
1	Himalayan Bank Limited	1993
2	Nepal SBI Bank Limited	1993
3	Everest Bank Limited	1994

3.5 Method and Techniques Analysis

The analysis of the commercial banks data has been conducted according to the pattern of data available. Various financial and statistical tools have been applied to analyze the variables regarding the study topic. The various calculated results have been obtained through financial and statistical tools.

3.5.1 Financial Tools

The following financial tools have been used in this study.

1. Earning Per Share (EPS)

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the profitability of the shareholders investment. The earning per share shows the profitability of the banks and finance companies. The higher earning indicates the better achievements in terms of profitability of the banks by mobilizing their funds and vice-versa. In other words, the earning per share indicates the strength and weakness of the banks.

Earning per Share is computed to know the earning capacity and to make comparison between concerned commercial banks. This ratio can be computed by dividing the earning available to common shareholders by the total number of common shares outstanding. Thus,

$$EPS = \frac{\text{Earning Available to Common Stockholders}}{\text{Number of Common Shares Outstanding}}$$

2. Dividend Per Share (DPS)

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

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

$$DPS = \frac{\text{Total Amount of Dividend Paid to Ordinary Shareholders}}{\text{Number of Ordinary Shares Outstanding}}$$

3) Market Price Per Share (MPPS)

Market price per share is that value of stock which can be obtained by firm from the market. Market value of share is one of the variables which are affected by the dividend per share and earning per share of the firm. It the EPS and DPS is high, value of the share will also be high. If the firm is growing concern and its earning power is greater than the cost of capital, the market value of share will be higher than the book value. If firms earning capacity is lower than the cost of capital, the market price of share will also be lower. The capital market determines MPS. Theoretically calculated current price of the share can be derived by using the following formula:

$$\mathbf{MPS} = \frac{\mathbf{D1}}{\mathbf{Ks - g}}$$

$$= \frac{D0(1+g)}{Ks-g}$$

4. Dividend Payout Ratio (DPR)

It is the portion of earning paid in the form of dividend. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. The dividend payout ratio of the banks depends upon the earnings made by the banks. Higher earning enhances the ability to pay more dividend and vice-versa.

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

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

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

And, Retention Ratio

= (1-Dividend payout ratio)

= (1-DPR)

5. Earning Yield (EY)

Earning yield is the percentage of earning per share to market price per share in the stock market. In other words, it is a financial ratio relating to earning per share to the market share price at a particular time. It measures the earning in relation to market value of the share. It gives some idea that of how much an investor is earning for his money. The share with higher earnings yield is worth buying. It is calculated as:

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

6. Dividend Yield (DY)

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

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

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

7. Market Price per Share (MPPS) to Book Value per Share (BVPS)

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

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

$$\text{MPS to BVPS Ratio} = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

8. Net Worth Per Share (NWPS)

Net worth per share is a rupee value per share. It is calculated dividing Book Value of Net Worth (or Net Worth) by Total Numbers of Share Outstanding. Thus,

$$\text{Net Worth per Share} = \frac{\text{Net Worth}}{\text{No. of Shares}}$$

9. Price /Earning Ratio

Price earning ratio is called the earning multiplier. It is the ratio between market price per share and earning per share. In other world, this represents the amount which investors are willing to pay for each rupee of the firms earnings.

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

10. Dividend Percent (DP)

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

$$\text{DP} = \frac{\text{Dividend Per Share}}{\text{Paid-up Price Per Share.}}$$

3.5.2 Statistical Tools

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

1. Arithmetic Mean or Average ($\bar{\varepsilon}$)

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

$$\bar{X}\ X\frac{\phi X}{N}$$

Where,

X = Sum of the sizes of the items N = Number of items

2. Standard Deviation (±)

Karl Pearson first introduced the concept of standard deviation in 1983. Standard deviation is the positive square root of the arithmetic average of the squares of all the deviation measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution. Greater the amount of dispersion the greater the standard derivation i.e. greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. Standard Deviation is denoted by a Greek letter '∃' (Sigma) and is calculated as follows.

$$\text{Standard Deviation } (\exists) = \sqrt{\frac{f\varepsilon\ z\bar{\varepsilon}\ \AA^2}{\rho}}$$

Where,

N = Number of items in the series.

$\bar{\varepsilon}$ = Mean X = Variable

3. Regression Analysis

Francis Galton was the first person to introduce the concept of regression. Regression refers to an analysis, which involves the fitting of an equation to a set of

data points. Generally it is shown by the method of least square. In other words the correlation analysis shows the direction of movement but it doesn't tell the relative movement in the variable under study. Regression analysis helps to know the relative movement in the variables. Simple regression analysis of following variables are calculated and interpreted in this study.

1. Simple Regression

Simple linear analysis is used to find the relationship between two variables. In this study, the following simple regressions have been analyzed:

a. Market Price per share on Earning per Share

MPPS=a +b EPS

Where, MPPS=Market Price per Share

a=Regression Constants

b=Regression coefficient

EPS=Earning per share

This model has been constructed to examine the relationship between market price per share (dependent variable) and Earning per share (independent variable).

b. Market Price per Share on Dividend per Share

MPPS = a + b DPS

Where, MPPS = Market Price per Share

a=Regression Constant

b=Regression Coefficient

DPS=Dividend per Share

This model has been constructed to examine the relationship between market price per share (dependent variable) and dividend per share (independent variable).

c. Market Price per Share on P/E Ratio

MPPS=a +b P/E Ratio

Where, MPPS=Market Price per Share

a=Regression Constant

b=Regression Coefficient

P/E Ratio = Price Earning Ratio

This model has been constructed to examine the relationship between market price per share (dependent variable) and dividend percent (independent variable).

d. Market Price per Share on Dividend Payout Ratio

MPPS=a +b DPR

Where, MPPS=Market Price per Share

a=Regression Constant

b=Regression Coefficient

DPR=Dividend Payout Ratio

This model has been constructed to examine the relationship between market price per share (dependent variable) and Dividend payout Ratio (independent variable).

e. Dividend Per Share on Earning Per Share

DPS = a + b EPS

Where, DPS = Dividend Per Share

a = Regression Constant

b = Regression Coefficient

EPS = Earning Per Share

The relationship between dividend per share (dependent variable) and earning per share (independent variable) can be explained through this model.

f. Market price Per Share on Net Worth Per Share

MPPS = a + b NWPS

Where, MPPS = Market price Per Share

a = Regression Constant

b = Regression Coefficient

NWPS = Net Worth Per Share

This model has been constructed to examine the relationship between dividend per share (dependent variable) and net worth per share (independent variable).

2 Multiple Regressions

2.1 Multiple Regressions of MPPS on EPS, DPS and DPR

In this model,

MPPS =a+b1 EPS+b2 DPS+b3 DPR

Where, MPPS= Market Price per Share

a = Regression Constant

b = Regression Coefficient

EPS = Earning per share

DPS = Dividend Per Share

DPR = Dividend Payout Ratio

2.2 Multiple Regressions of MPPS on P/E Ratio, EY and NWPS

In this model,

MPPS =a+b1 P/E Ratio +b2 EY +b3 NWPS

Where, MPPS= Market Price per Share

a = Regression Constant

b = Regression Coefficient

P/E Ratio = Price Earning Ratio

EY = Earning Yield

NWPS = Net Worth Per Share

a) Regression Constant (a)

The regression constant (a) which is the intercept of the model, represents the average level of dependent variable when independent variable has a value of zero. In other words, it indicated the mean or average effect on dependent variable if all the variables omitted from the mode. This term has practical meaning only if a zero value for the independent variable is possible.

b) Regression Coefficient (b)

The regression coefficient (b) is a parameter which indicates the marginal relationship between independent variable and value of dependent variable holding constant the effect of all other independent variables in the regression model. The coefficient specifies a part of change in the dependent variable regarding part of change in the independent variables.

c) **Standard Error of Estimate (S.E.E.)**

Practically, the perfect prediction is not possible with the help of regression equation. Standard Error of Estimate is used to measure the reliability of the estimating equation. It measures the variability or scatter of the observed values

around the regression line. It also measures the reliability of the estimating equation, indicating the variability of the observed values differ from their predicted values on the regression line.

The larger the value of S.E.E., the greater the scattering or dispersion of points around the regression line, conversely, if S.E.E. is equals to zero, then, there is no variation about the line and the correlation will be perfect. So, we expect the estimating equation to be a 'perfect' estimator of the dependent variable. In that case, all the data points would lie directly on the regression line and no points would be scattered around it. Similarly, the smaller the S.E.E., the closer will be the dots to the regression line and the better the estimates based on the equation for this line. Thus, with the help of standard error of estimate, it is possible for ascertaining how well and representative the regression line is as a description of the average relationship between two series.

CHAPTER -FOUR

PRESENTATION AND ANALYSIS OF DATA

In this chapter, the relevant and the available data regarding dividend policy of the sample Commercial Banks have been presented and analyzed according to the research methodology as mentioned in the previous chapter.

4.1 Analysis of Financial Indicators

Earning per share, dividend per share, market price per share and dividend payout ratio are some of the most important financial indicators of a firm. Detailed analysis of these financial indicators along with their mean, standard deviation and coefficient of variation is presented below with the help of the results obtained in appendix 1.

4.1.1 Earning Per Share (EPS)

The earning per share (EPS) after income taxes is our of the most importance determinants of a common stock's value because it measures the earning power under each share of stock. The income of per common share is known as earning per share. Earning Per Share of the Banks Under Study is tabulated as follows.

Table no.4.1.1

Earning Per Share (EPS) of Respected Banks. (In Rs.)

Fiscal year	**Banks**		
	HBL	**SBI**	**EBL**
2006/07	60.66	39.35	78.4
2007/08	62.74	28.33	91.82
2008/09	61.9	36.18	99.99

2009/10	31.8	23.69	100.16
2010/11	44.66	24.85	83.18
Mean	52.35	30.48	90.71
S.D	13.69	6.96	9.81
C.V	0.07	0.23	0.11

That comparative table has shown the earning per share of three commercial banks with their pooled average as well as the standard deviation and coefficient of variation of the EPS covering the period from fiscal Year 2006/07 to 2010/11.

The EPS of Himalayan Bank Ltd.(HBL) range between Rs. 62.74 to Rs. 31.8 during the period of study. During this period, the average EPS is Rs. 52.35. The standard deviation of the EPS under the period of study is 13.69. The C.V. of 0.070 indicates that there is a moderate fluctuation of 7% in the EPS of HBL, during the period of study.

During the period of study, Nepal SBI Bank Ltd. (SBI) had an average EPS of Rs. 30.48 with a standard deviation of 6.96. The EPS range between Rs. 39.35 to Rs. 23.69. The coefficient of variation shows that there is a fluctuation of 23% in EPS of SBI.

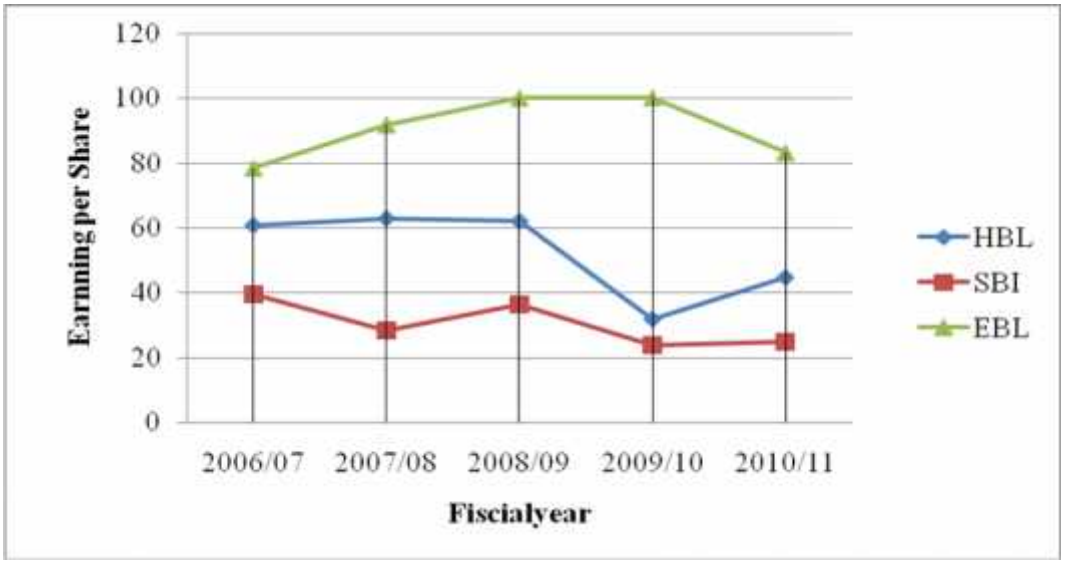
Everest Bank Ltd. (EBL), within the period of study, had an average EPS of Rs. 90.71, ranging between Rs. 100.16 and Rs. 78.4. The standard deviation is 9.81 and the fluctuation of 11% in the EPS is seen during this period, which shown by the coefficient of variation of the bank.

From the above analysis, it can be seen that the average EPS of EBL is the highest and that of SBI is the lowest. The EPS range of the banks under study during this period is between Rs. 100.16 and Rs. 23.69. Similarly the standard deviation of HBL is the highest and SBI is the lowest. The coefficient of variation of these banks

shows that there is fluctuation in the EPS. If compared, HBL has the most consistent EPS among all sample banks.

The following figure helps to make clear about Earning Per Share

Figure 4.1.1



4.1.2 Divided Per Share (DPS)

The whole amount of earning may or may not be distributed to shareholders by a company. How much per share the dividend is distributed to common shareholders by a company? How much per share the dividend is distributed to common shareholder's can be known from ratio.

The dividend per share is considered excellent when it is higher. A large number of present and potential investors may be interested in DPS rather then EPS. Divided Per Share of the Banks Under Study is tabulated as follows.

Table no.4.1.2

Dividend Per Share (DPS) of Respected Banks. (In Rs.)

Fiscal year	Banks		
	HBL	**SBI**	**EBL**
2006/07	15	12.59	10
2007/08	25	0	20
2008/09	12	2.1	30
2009/10	11.84	5	30
2010/11	16.84	5	50
Mean	16.14	4.94	28
S.D	5.38	4.77	14.83
C.V	0.3333	0.9655	0.5296

The average DPS of HBL Banks is Rs. 16.14 and S.D and C.V are 5.38 and 0.3333 respectively. The highest and lowest DPS during the period are Rs.25.And Rs.11.84 Respectively. C.V33.33 % shows that there is some inconsistency in dividend payment, during study period.

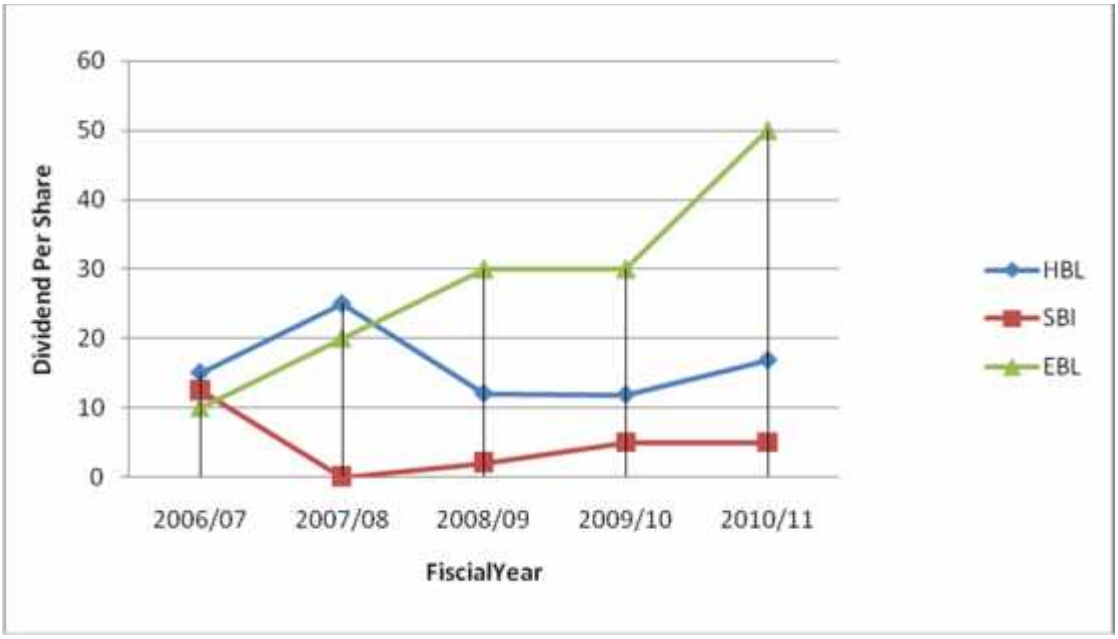
Even though SBI Bank has earned profit in F/Y 2007/08, SBI did not distributed dividend to the shareholder. But SBI paid dividend in other subsequent year during the study period. So the average DPS of SBI is Rs.4.94 .And S.D and C.V are 4.77 and 96.55 % respectively. 96.55 % of C.V. shows there is higher degree of inconsistency in distribution of dividend during the study period.

Average DPS, S.D and C.V of EBL Banks during the study Period are Rs.28, 14.83 and 52.96 % respectively. And highest and lowest DPS of SBI Banks during study period are Rs.50 and Rs.10 Respectively.52.96 % C.V of SBI Bank implies that dividend distribution pattern of SBI Bank is highly fluctuated during the study period.

From the above calculations, HBL has the highest average DPS and SBI has the lowest. The CV indicates that among the banks under study during the period, HBL has the highest consistency in paying dividend whereas the DPS of SBI is highly fluctuating

The following figure helps to make clear about Dividend Per Share

Figure 4.1.2



4.1.3 Dividend Payout Ratio (DPR)

A ratio between dividends per share to earning per share is known as dividend payout ratio. Dividend Payout Ratio of the Banks under Study is tabulated as follows.

Table no.4.1.3

Dividend Payout Ratio (DPR) of Respected Banks. (In Percent)

Fiscal year	Banks		
	HBL	**SBI**	**EBL**
2006/07	24.73	31.99	12.76
2007/08	39.85	0.00	21.78
2008/09	19.39	5.80	30.00
2009/10	37.23	21.11	29.95
2010/11	37.71	20.12	60.11
Mean	31.78	15.81	30.92
S.D	9.13	12.80	17.79
C.V	0.2872	0.81	0.5753

The above table shows the comparative DPR of the three commercial banks for five years period with their average for each year as well as the standard deviation and coefficient of variation for corresponding DPR series. As seen in the table, DPR of all the banks is fluctuating from year to year. EBL has maintained the highest payout ratio in the first year 2010/11, but HBL has taken that position continuously through out the remaining period from 2006/07 to 2010/11. The average DPR of Himalayan Nepal Ltd. (HBL) is 31.78. It means that HBL generally pays 31.78% of its total earning as dividend to its shareholders. The standard deviation of DPR is 9.13. The coefficient of variation is 0.2872, which indicates that there is only about 28.72% fluctuation in DPR of the bank over the years.

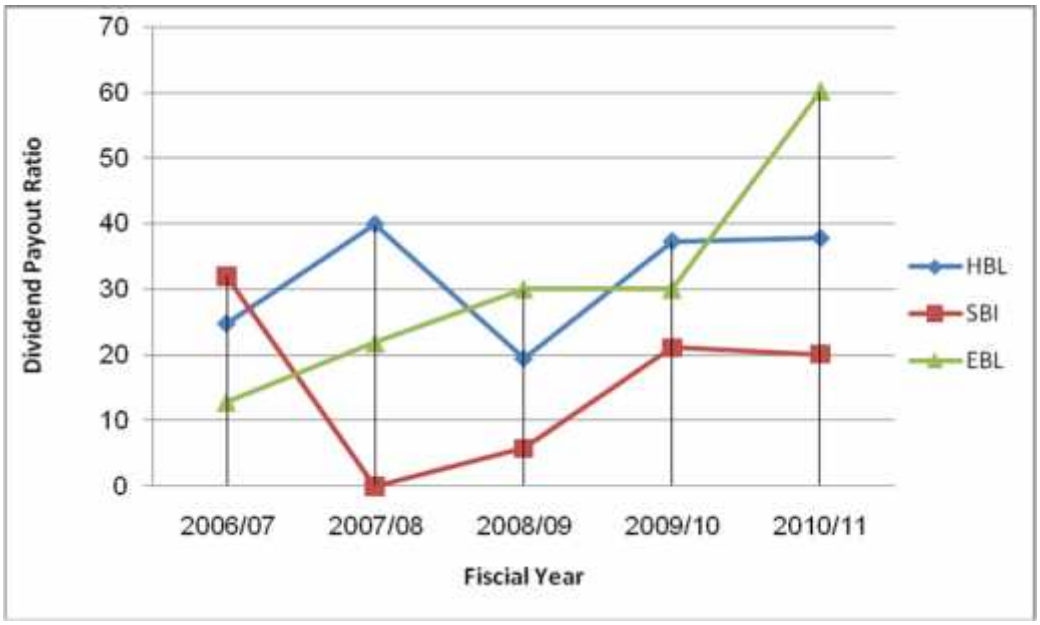
An average DPR of 15.80% of Nepal SBI Bank Ltd. (SBI) indicates that SBI generally pays out 15.80% of its earning as dividend. The standard deviation is 12.83 and coefficient of variation is 81%. The C. V. indicates that the DPR of SBI is highly fluctuated during the period of study.

EBL Bank Ltd. has an average DPR of 30.92% during this period of study. It means that it generally pays 30.92% of its earning to its shareholders in form of dividend. The standard deviation of DPR was 17.79 whereas the coefficient of variation of 57.53% indicates the higher fluctuating nature of DPR in EBL Bank Ltd.

From the above analysis, it can be seen that the average DPR of HBL is the highest and that of SBI is the lowest. The DPR range of the banks under study during this period is between Rs. 60.11 and Rs. 0.00. Similarly the standard deviation of EBL is the highest and HBI is the lowest. The coefficient of variation of these banks shows that there is fluctuation in the DPR. If compared, HBL has the most consistent DPR among all sample banks.

The following figure helps to make clear about Dividend Payout Ratio

Figure 4.1.3



4.1.4 Market price per share (MPPS)

MPPS is the price of share on which shares are traded in the secondary market. Thus, this price is fixed in the stock market on the basis of demand and supply position for a specified share. Higher MPPS is more desirable. The average market price per share of the banks under study is presented in table as follows. Market price per share of the Banks Under Study is tabulated as follows.

Table no.4.1.4

Market price per share (MPPS) of Respected Banks. (In Rs.)

Fiscal year	**Banks**		
	HBL	**SBI**	**EBL**
2006/07	1740	1176	2430
2007/08	1980	1511	3132
2008/09	1760	1900	2455
2009/10	816	741	1630
2010/11	575	565	1094
Mean	1374.2	1178.6	2148.2
S.D	632.45	547.47	793.92
C.V	0.4602	0.4645	0.3695

The average of closing MPPS of HBL Bank Ltd., during the period of study, is Rs.1374.2. It stays within the range of Rs.1740 and Rs.575. The standard deviation of closing MPPS is 632.45, whereas the coefficient of variation is 46.02%. The CV indicates moderate fluctuation in the closing MPPS of the bank.

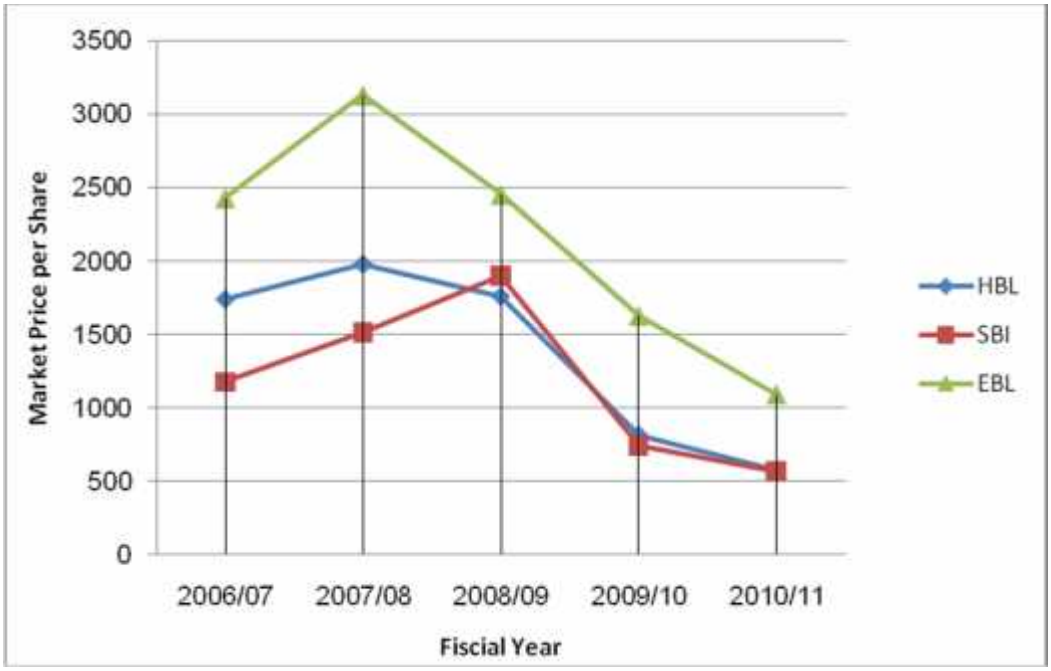
During the period of study, Nepal SBI Bank Ltd. has an average closing MPPS of Rs.1178.6 with a standard deviation of 547.47. The coefficient of variation shows that there is a fluctuation of 46.45% in closing MPPS of SBI. The CV indicates more fluctuation in the closing MPPS of the bank.

Lastly, in the period of study, EBL Bank Ltd. has an average closing MPPS of Rs.2148.2 with a standard deviation of 793.92. The coefficient of variation shows that there is a fluctuation of 36.95% in closing MPPS of EBL. The CV indicates moderate fluctuation in the closing MPPS of the bank.

Finally, in conclusion the average MPPS of EBL is the higher and it is lowest for the SBI bank ltd. The study of standard deviation shows that EBL has the highest fluctuation in MPPS and SBI has the lowest fluctuation in MPPS.

The following figure helps to make clear about Market Price Per Share

Figure 4.1.4



4.1.5 Price Earning Ratio (P/E Ratio)

Price earning ratio is called the earning multiplier. It is the ratio between market price per share and earning per share. In other world, this represents the

amount which investors are willing to pay for each rupee of the firms earnings. Price Earning Ratio of the Banks Under Study is tabulated as follows.

Table no.4.1.5

Price Earning Ratio (P/E Ratio) of The Respected Banks. (In Percent)

Fiscal year	Banks		
	HBL	**SBI**	**EBL**
2006/07	28.69	29.89	30.99
2007/08	31.56	53.34	34.11
2008/09	28.43	52.52	24.55
2009/10	25.66	31.28	16.27
2010/11	12.88	22.74	13.15
Mean	25.42	37.95	23.82
S.D	7.33	14.05	9.06
C.V	0.2883	0.3702	0.3803

The average P/E Ratio of HBL, during this period of study is 25.42. It is within the range of 31.56 and 12.88. The standard deviation of P/E Ratio is 7.33 whereas the coefficient of variation of 28.83% indicates the fluctuating nature of P/E Ratio in HBL.

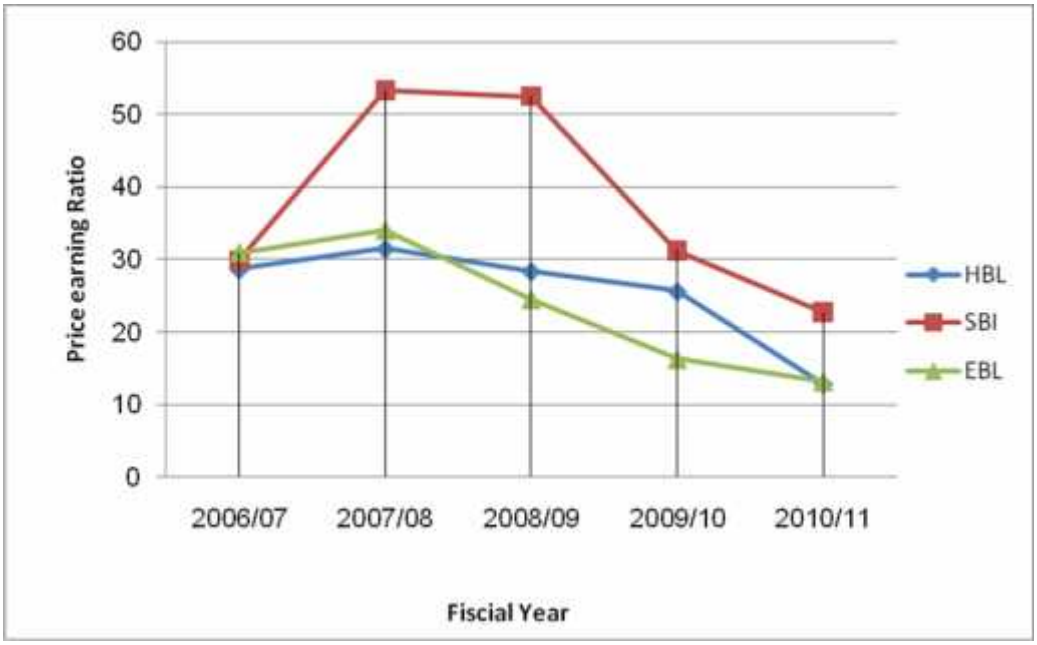
Nepal SBI Bank Ltd. (SBI) has an average P/E Ratio of 37.95, ranging between 53.34 and 22.74, during the period of study. The standard deviation is 14.05

and the fluctuation of 37.02% in the P/E Ratio is seen during this period, which is better.

The average P/E Ratio of Everest Bank Ltd (EBL) is 23.82 with the standard deviation of 9.06. The coefficient of variation is 38.03%, which indicates that the bank has the lowest fluctuation in P/E Ratio among the banks under study during the period.

The following figure helps to make clear about Price Earning Ratio

Figure 4.1.5



4.1.6 Earning Yield (EY)

The inverse of a P/E ratio is called an earning yield, and it is measured as earning per share dividend by a current book price. Earning Yield of the Banks Under Study is tabulated as follows.

Table no.4.1.6

Earning Yield (EY) of The Respected Banks. (In Percent)

Fiscal year	Banks		
	HBL	**SBI**	**EBL**
2006/07	3.49	3.35	3.23
2007/08	3.17	1.87	2.93
2008/09	3.52	1.90	4.07
2009/10	3.90	3.20	6.14
2010/11	7.77	4.40	7.60
Mean	4.37	2.94	4.79
S.D	1.92	1.07	2.00
C.V	0.44	0.363	0.42

The average EY of 4.37% with the standard deviation of 1.92 is seen for Himalayan Bank Ltd. (HBL). The highest and lowest EY are 7.77% and3.17% respectively. The coefficient of variation is 44%, during the period of study.

Nepal SBI Bank Ltd (SBI) has an average EY of 2.94%. The standard deviation is 1.07 and coefficient of variation is 42%. The CV indicates that the EY of SBI is moderate fluctuating.

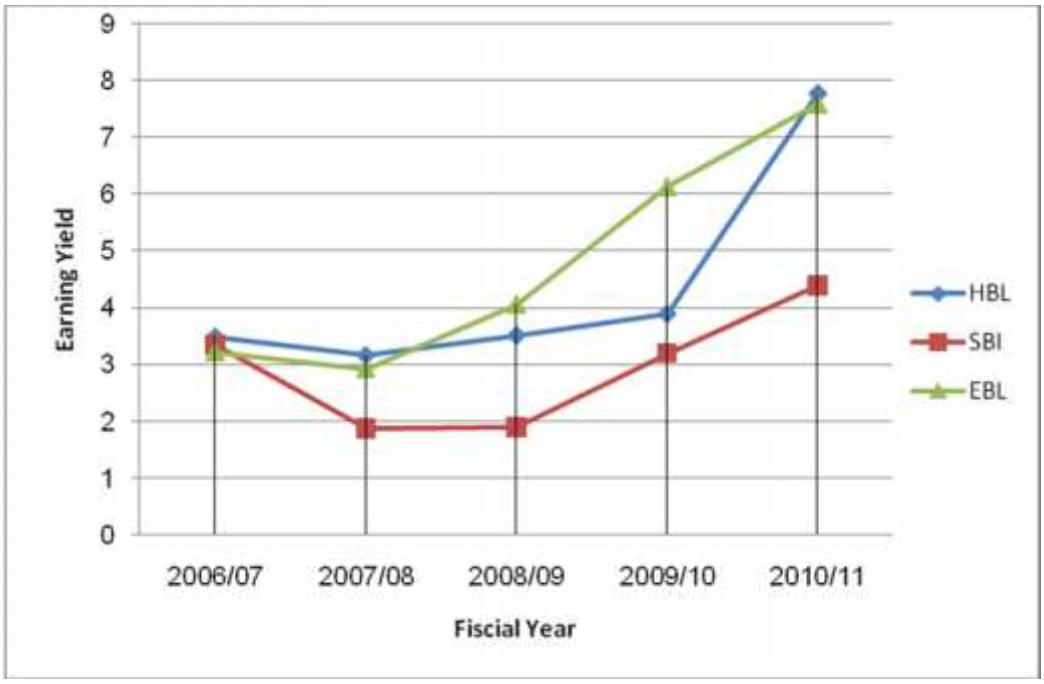
The average EY of EBI Bank Ltd, during this period of study is 4.79%. It is within the range of 7.60% and 32.93%. The standard deviation of EY is 2.00 whereas

the coefficient of variation of 42%. The coefficient of variation in EY of EBL is the moderate t among the banks under study.

From the above calculations, EBL has the highest average EY and SBI has the lowest. The CV indicates that among the banks under study during the period, SBI has the highest consistency in its earning yield whereas the earning yield of HBL is highly fluctuating.

The following figure helps to make clear about Earning Yield

Figure 4.1.6



4.1.7 Market Value Per Share (MVPS) to Book Value Per Share (BVPS)

The ratio of a stocks market price to it's book value. It gives another indication of how investors regard the company Market Value Per Share to Book Value Per Share of the Banks Under Study is tabulated as follows.

Table no.4.1.7

Market Value Per Share (MVPS) to Book Value Per Share (BVPS)

of The Respected Banks. (In .Percent)

Fiscal year	Banks		
	HBL	**SBI**	**EBL**
2006/07	6.57	6.61	8.30
2007/08	7.99	9.41	9.73
2008/09	6.86	9.76	7.11
2009/10	3.60	5.02	4.91
2010/11	2.88	3.68	3.33
Mean	5.56	6.90	6.68
S.D	2.24	2.67	2.57
C.V	0.4028	0.3869	0.3847

The average ratio of MPS to BVPS of Himalayan Bank Ltd. (HBL) is 5.56. The standard deviation of the ratio is 2.24. The coefficient of variation is 40.28%. This value elucidate that there is only about 40.28% fluctuations in the ratio of MPS to BVPS of the bank over the years.

An average MPS to BVPS ratio of 6.90 of Nepal SBI Bank Ltd (SBI) is noted during the period of study. The standard deviation is 2.67 and coefficient of variation

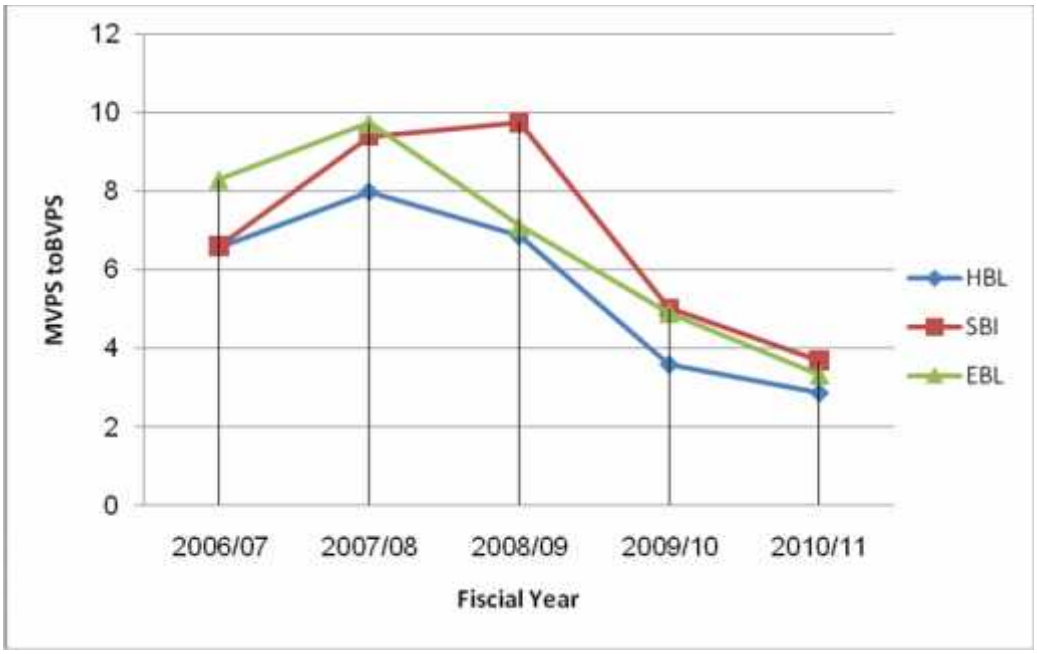
is 30.69%. The CV indicates that the ration of MPS to BVPS of SBI is y fluctuating during the period of study.

EBL Bank Ltd has an average MVPS to BVPS ratio of 6.68 during this period of study. The standard deviation of the ratio is 2.57 whereas the coefficient of variation of 38.47% indicates fluctuations in the ratio of MPS to BVPS of the bank over the years.

By observing above calculation the average ratio of MVPS to BVPS of SBI is highest among the banks. HBL has the lowest. The CV of the ratio of MVPS to BVPS shows consistency in the ratio of SBL, EBL and wide fluctuation in the ratio of HBL.

The following figure helps to make clear about Market Value Per Share to Book Value Per Share

Figure 4.1.7



4.1.8 Net Worth Per Share (NWPS)

Net worth is the value of share holders' capital plus any money related from profit. It is the value per share of total net worth in book value and calculated by dividing the total net worth by number of share outstanding. Net Worth Per Share of the Banks Under Study is tabulated as follows.

Table no.4.1.8

Net Worth Per Share (NWPS) of The Respected Banks. (In Rs.)

Fiscal year	Banks		
	HBL	**SBI**	**EBL**
2006/07	264.74	178.04	292.75
2007/08	247.95	160.57	321.77
2008/09	256.52	194.68	345.22
2009/10	226.79	147.61	331.99
2010/11	199.66	153.51	328.43
Mean	239.13	166.88	324.03
S.D	26.20	19.28	19.28
C.V	0.1095	0.1155	0.06

The HBL bank has the average NWPS of Rs.239.13 and its NWPS range between Rs.264.74 to Rs. 199.66. The standard deviation of HBL is 26.20 it has C.V 10.95%, which indicates that there is 10.95% fluctuation in NWPS of HBL during the period study.

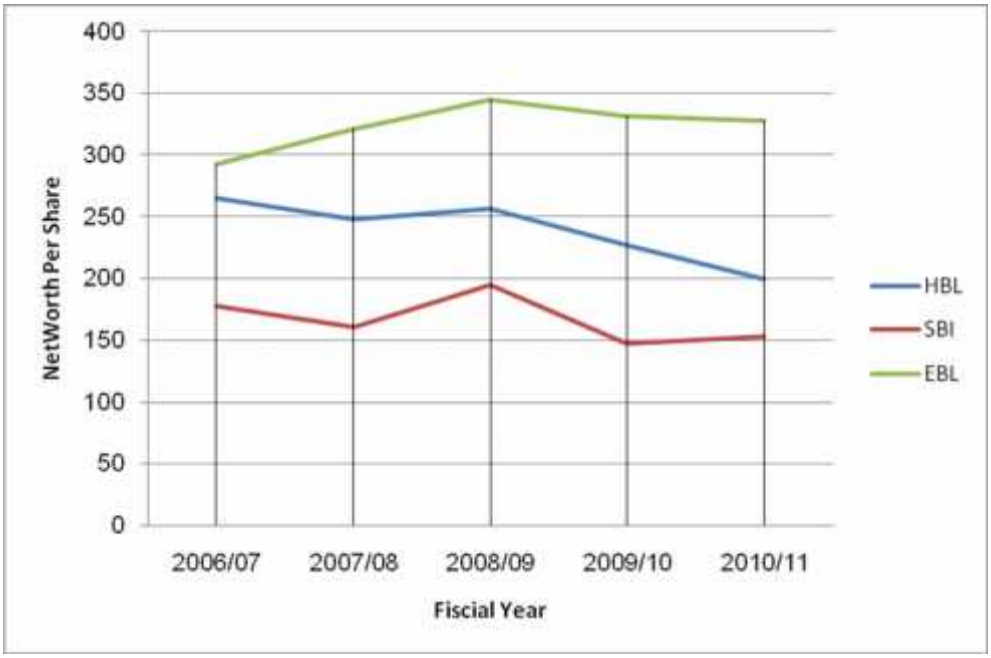
For SBI, the average NWPS is Rs. 166.88 and its NWPS range between Rs.178.04 to Rs. 147.61. The standard deviation of SBI is 19.28 and C.V is11.55% which indicates that there is 11.55% fluctuation in NWPS of SBI during the period study.

Similarly, the NWPS of EBL is ranged between Rs. 345.22 to Rs. 292.75. The standard deviation is 19.28 its C.V. is 6%. This indicates that there is8.54% fluctuation in NWPS of EBL.

In conclusion the above analysis shows that the average NWPS of EBL Rs. 345.22 is the highest it is lowest for SBI which is Rs. 147.61. EBL has the lowest C.V which is 6% in comparison of other banks. So it indicates the highest consistency in net worth per share for HBL than other three commercial banks which are under the study.

The following figure helps to make clear about Net worth per Share

Figure 4.1.8



4.1.9 Dividend Yield Ratio (DY)

Dividend percent is the ratio of dividend per share to the paid-up price per ordinary share. Dividend Yield Ratio of the Banks Under Study is tabulated as follows.

Table no.4.1.9

Dividend Yield Ratio (DY) of Respected Banks. (In Percent)

Fiscal year	Banks		
	HBL	**SBI**	**EBL**
2006/07	0.86	1.07	0.41
2007/08	1.26	0.00	0.64
2008/09	0.68	0.11	1.22
2009/10	1.45	0.67	1.84
2010/11	2.93	0.88	4.57
Mean	1.44	0.54	1.74
S.D	0.89	.47	1.68
C.V	0.62	0.8545	0.97

The above table no.4.1.9 shows the dividend yield of the selected commercial banks with their average dividend yield as well as the standard deviation and the coefficient of variation of the DY over the period from fiscal year 2006/2007 to 2010/11. The average dividend yield ratio of Himalayan Bank Ltd. (HBL) is 1.44%. The standard deviation of the ratio is 0.89. The coefficient of variation is 62%. This value elucidate that there is only about 62% fluctuations in the ratio.

During the period of study, Nepal SBI Bank Ltd. (SBI) had an average DY of 0.54% with a standard deviation of 0.47. The DY range between 1.07 and 0% (in

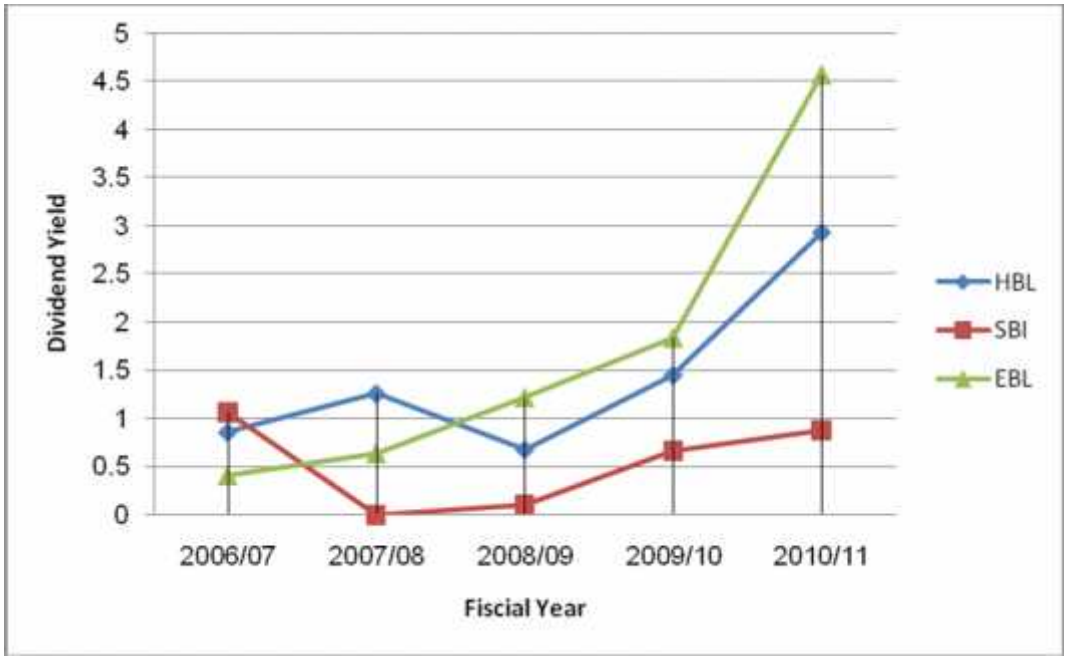
2007/08). The coefficient of variation shows that there is a fluctuation of 85.45% in DY of SBI.

The average DY of EBL Bank Ltd, during this period of study is 1.74%. It stayed within the range of 4.57% and 0.41%. The standard deviation of DY is 1.68 whereas the coefficient of variation is 97%. The CV indicates a high fluctuation in the DY of the bank.

From the above data and calculations, it can be seen that the average DY of EBL is the highest and that of SBI is the lowest. The DY range of the banks under study during the period is between 4.57% and 0.00%. Similarly the standard deviation of EBL is the highest and SBI is the lowest. The coefficient of variation of these banks shows a high level of fluctuation in the DY. If compared, HBL has the most consistent DY among these banks.

The following figure helps to make clear about Dividend Yield Ratio

Figure 4.1.9



4.1.10 Dividend Percent (DP)

Dividend Percent, Dividend on Par value of the Banks under Study is tabulated as follows.

Table no.4.1.10

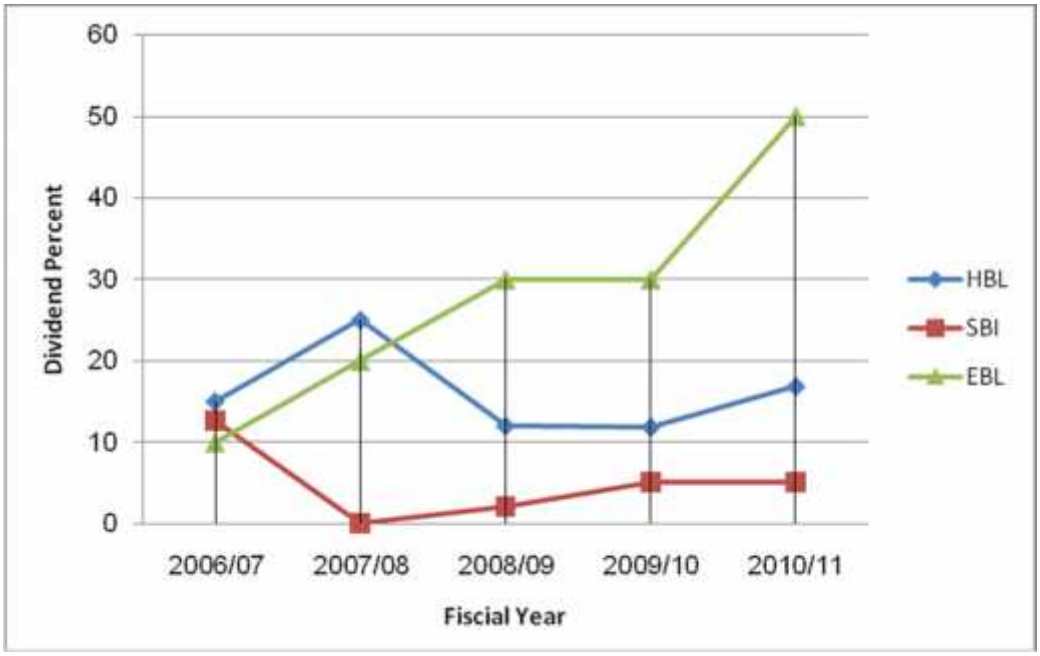
Dividend Percent (DP) of The Respected Banks. (In Percent)

Fiscal year	Banks		
	HBL	**SBI**	**EBL**
2006/07	15	12.59	10
2007/08	25	0.00	20
2008/09	12	2.1	30
2009/10	11.84	5	30
2010/11	16.84	5	50
Mean	16.14	4.94	28
S.D	5.38	4.77	14.83
C.V	0.3333	0.9655	0.52.83

All the banks under study have the same paid up price of Rs. 100 per share but the DPS is different. From the above data, EBL pays the highest dividend on the face value of share and SBI the lowest. The CV indicates that among the banks under study during the period, HBL has the highest consistency in dividend percent whereas the dividend percent of SBI is highly fluctuating.

The following figure helps to make clear about Dividend Percent

Figure 4.1.10



4.2 Company wise analysis of financial variables

4.2.1 Himalayan Bank Limited (HBL)

Table 4.2.1

Financial Status of HBL

Variable	Max	Min	Mean	S.D	C.V
EPS	62.74	32.8	52.35	13.69	0.07
DPS	25	11.84	16.14	5.35	0.3333
DPR	37.71	19.39	31.78	9.13	0.2872
MPPS	1980	575	1374.2	632.45	0.4602
P/E Ratio	31.56	12.88	25.42	7.33	0.2883
EY	7.77	3.17	4.37	1.92	0.44
MVPS/BVPS	7.99	2.88	5.56	2.24	0.4028
NWPS	264.74	199.66	239.13	26.20	0.1095
DY	2.93	0.68	1.44	0.89	0.62
DP	25	11.84	16.14	5.38	0.3333

The overall performance of the HBL Bank ltd can be taken as satisfactory during the period of study. The bank has the average EPS Rs. 52.35 that range between Rs. 62.74 to Rs. 32.8 and the fluctuation in EPS is 7. HBL has distributed 30.83% of its profit to the common share holders on an average and 69.17% of its profit is retained in the bank to meet other financial requirements. The dividend yield

of this bank is high fluctuation that is 62%. Remaining financial variables of this bank are supported to be good which are maintain in the above table but the MPS, MVPS/BVPS,EY has more fluctuation due to the market condition.

4.2.2 Nepal SBI Bank Limited (SBI)

Table 4.2.2

Financial Status of SBI

Variable	Max	Min	Mean	S.D	C.V
EPS	39.35	23.69	30.48	6.96	0.23
DPS	12.59	0.00	4.94	4.77	0.9655
DPR	31.99	0.00	15.81	12.80	0.81
MPPS	1900	565	1178.6	547.47	0.4645
P/E Ratio	53.34	22.74	37.95	14.05	0.3702
EY	4.40	1.87	2.94	1.07	0.363
MVPS/BVPS	9.76	3.68	6.90	2.67	0.3869
NWPS	194.68	147.61	166.88	19.28	0.1155
DY	1.07	0.00	0.54	0.47	0.8545
DP	12.59	0.00	4.94	4.77	0.9655

EPS and DPS of SBI have ranged between Rs.39.35 to Rs. 23.69 and Rs12.59 to Rs.0.00 respectively. The average is Rs.30.48 and Rs.4.94 respectively. Average DY of the bank is 0.54% and its C.V is 85.45%, which indicates that the dividend

yield of this bank is slightly high. The average DPR shows that this bank distributed 15.81% of its profit to shareholder and remaining are retained and its coefficient of variation is 81% over the years. The average MPPS and NWPS are Rs. 1178.6 and RS. 166.88 Respectively. Their coefficients of variation are accordingly 46.45% and11.55%.

4.2.3 Everest Bank Limited (EBL)

Table 4.2.3

Financial Status of EBL

Variable	Max	Min	Mean	S.D	C.V
EPS	100.16	78.4	90.17	9.81	0.11
DPS	50	10	28	14.83	0.5296
DPR	60.11	12.76	30.92	17.79	0.5753
MPPS	3132	1094	2148.2	793.92	0.3695
P/E Ratio	34.11	13.15	23.82	9.06	0.3803
EY	7.60	2.93	4.79	2.00	0.42
MVPS/BVPS	9.73	3.33	6.68	2.57	0.3847
NWPS	345.22	292.75	324.03	19.28	0.06
DY	4.57	0.41	1.74	1.68	0.97
DP	50	10	28	14.83	0.5296

The overall performance of the EBL Bank ltd can be taken as satisfactory during the period of study. The bank has the average EPS Rs. 90.17 that range between Rs. 100.16 to Rs. 78.4 and the fluctuation in EPS is 11%. EBL has distributed 31.05% of its profit to the common share holders on an average and 68.95% of its profit is retained in the bank to meet other financial requirements. The dividend yield of this bank is high fluctuation that is 97%. Remaining financial variables of this bank are supported to be which are maintain in the above table but the DY, DP, DPS and DPR are more fluctuated.

4.3 Simple Regression Analysis

4.3.1Market Price per share on Earning per Share

MPPS=a +b EPS

Where, MPPS=Dependent Variable.

a & b= Constants

EPS=Independent Variable.

The following table shows the regression analysis of MPPS on EPS

Table 4.2.4

Simple Regression Result of MPPS on EPS

Banks	Constant (a)	Regression Coefficient of EPS (b)	Beta	r	R^2	SEE	F sign
HBL	-765.23 (668.81) [-1.14]	40.86 (12.44) [3.285]	.885	.885	.782	340.58	0.45

SBI	-364.39 (1082.17) [-.337]	50.62 (34.79) [1.455]	0.643	0.643	.414	484.01	0.242
EBL	1320.67 (4231.37) [.312]	9.123 (46.431) [0.196]	0.113	0.113	.013	910.90	0.857

Notation: ( ) means standard error

[ ] means t-value

The above table of regression analysis shows that among the banks under study, HBL, SBI and EBL have positive relation between MPPS and EPS. The regression relation between MPPS and EPS of HBL indicates that with an increase of Rs. 1 in EPS, the MPS will increase by Rs. 40.86 other variables remaining constant. Similarly, in case of SBI and EBL, with an increase of Rs. 1 in EPS, the MPPS will be increase by Rs. 50.62 and Rs. 9.123 respectively assuming that the other variables are constant.

The standard error of the estimate of HBL, SBI and EBL are 340.58, 484.01 and 910.90 respectively. These values indicate the probable error in the predicted value for the respective banks.

The coefficient of determinations (R^2) is lowest for EBL (0.013), which indicates that only 1.3% in MPPS is explained by EPS i.e. 1.3% variation in MPPS of the bank is explained due to the change in value of EPS of the bank. The value of R^2 of HBL and SBI are 0.782 and 0.414 respectively, which indicate that 78.2%, and 41.4% variation in the MPPS of these banks are explained by to the change in EPS of the respective bank.

4.3.2Market Price per share on Dividend per Share

MPPS=a +b DPS

Where, MPPS=Dependent Variable.

a & b= Constants

DPS=Independent Variable.

The following table shows the regression analysis of MPPS on DPS

Table 4.2.5

Simple Regression Result of MPPS on DPS

Banks	Constant (a)	Regression Coefficient of DPS(b)	Beta	r	R^2	SEE	F sign
HBL	651.19 (1055.85) [.617]	44.81 (62.70) [.715]	0.381	0.381	0.145	675.08	0.526
SBI	1383.38 (403.24) [3.43]	-41.47 (61.79) [-.671]	-0.361	0.361	0.131	589.47	0.550
EBL	3311.40 (603.78) [5.484]	-41.54 (19.48) [-2.132]	-0.776	0.776	0.602	578.08	0.123

Notation: ( ) means standard error

[ ] means t-value

In this case the coefficient of determination R^2 for the commercial banks, HBL, SBI, and EBL are 0.145, 0.131 and 0.602. This indicates that 14.5%, 13.1% and 60.2% variation is explained in MPPS to change in value of DPS of the banks. The EBL bank has the highest value of coefficient of determination and SBI bank has the lowest value.

The standard error of estimate (SEE) measures the variability of the actual values of dependent variable with the estimated values. The SEE values of HBL, SBI, and EBL are respectively 675.08, 589.47 and 578.08.

The regression coefficient values of HBL, SBI, and EBL are 44.81,-41.47 and -41.54. Here the regression coefficient values for HBL is positive and SBI and EBL are negative. The positive value of regression coefficient indicates that increase in DPS would lead to increase in MPPS if all other variables remained constant and vice versa. The HBL bank has the highest value of b and EBL has the lowest value.

The regression coefficient coefficients 'a' of all banks indicate the average effect on dependent variable MPPS if all independent variables are omitted from the regression line. The values of HBL, SBI, and EBL are 651.19, 1383.38 3311.40.

4.3.3Market Price per share on Price Earning Ratio

MPPS=a +b P/E Ratio

Where, MPPS=Dependent Variable.

a & b= Constants

P/E Ratio=Independent Variable.

The following table shows the regression analysis of MPPS on P/R Ratio

Table 4.2.6

Simple Regression Result of MPPS on P/R Ratio

Banks	Constant (a)	Regression Coefficient Of PER (b)	Beta	r	R^2	SEE	F sign
HBL	-517.29 (665.33) [-.777]	74.34 (25.32) [2.936]	0.861	0.861	0.742	371.08	0.061
SBI	-161.87 (379.56) [-.426]	35.318 (9.49) [3.720]	0.907	0.907	0.822	266.81	0.034
EBL	153.65 (371.99) [0.413]	83.755 (14.787) [5.664]	0.956	0.956	0.914	268.08	0.011

Notation: ( ) means standard error

[ ] means t-value

The regression analysis between MPPS on PER shows positive relation between MPPS on PER of the sample banks. The regression relation between MPPS on PER indicates that with an increase of 1% in PER, the MPPS will increase by Rs. 74.34, 35.318 and Rs. 83.755 other variables remaining constant

The average standard error of estimate of HBL, SBI and EBL are 371.08, 2669.81 and 268.08 respectively. These values indicate the possible error in the predicted value for the respective banks.

In this case the coefficient of determination R^2 for the commercial banks, HBL, SBI, and EBL are 0.742, 0.822 and 0.914. This indicates that 74.2%, 82.2% and 91.4% variation is explained in MPPS to change in value of PER of the banks. The EBL bank has the highest value of coefficient of determination and HBL bank has the lowest value.

4.3.4Market Price per share on Dividend Payout Ratio

MPPS=a +b DPR

Where, MPPS=Dependent Variable.

a & b= Constants

DPR=Independent Variable.

The following table shows the regression analysis of MPPS on DPR

Table 4.2.7

Simple Regression Result of MPPS on DPR

Banks	Constant (a)	Regression Coefficient of DPR (b)	Beta	r	R^2	SEE	F sign
HBL	2352.01 (1176.28) [2.00]	-30.77 (35.847) [-0.858]	-0.444	0.444	0.197	654.35	0.454
SBI	1598.11 (376.670	-26.55 (19.29)	-0.622	0.622	0.387	494.92	0.262

	[4.243]	[-1.376]					
EBL	3237.97 (548.96) [5.898)	-35.24 (15.78) [-2.233]	-0.790	0.790	0.624	561.90	0.112

Notation: ( ) means standard error

[ ] means t-value

The regression analysis between MPPS on DPR shows negative relation between MPPS on DPR of all the sample banks. The regression relation between MPPS on DPR indicates that with an increase of 1% in DPR, the MPPS will decrease by Rs. 30.77, 26.55 and Rs. 35.24 other variables remaining constant.

The standard error of estimate of HBL, SBI and EBL are 654.35, 494.92 and 561.90 which indicate the possible error in the predicted value for the respective banks.

The coefficient of determination (R^2) is lowest for HBL (0.197), which indicates that only 19.7% in MPS is explained by DPR i.e. 19.7% variation in MPS of the bank is explained due to the change in value of DPR of the bank. The coefficient of determinations is highest in case of EBL (0.624), which indicates that 62.4% variation in MPS of EBL is due to the change in DPR of the bank. The value of R^2 of SBI is 0.387, which indicate that 38.7% variation in the MPS of the bank is explained due to the change in DPR of the bank.

The regression coefficient coefficients 'a' of all banks indicate the average effect on dependent variable MPPS if all independent variables are omitted from the regression line. The values of HBL, SBI, and EBL are 2352.01, 1598.11, and 3237.97.

4.3.5 Dividend per share on Earning per Share

DPS=a +b EPS

Where, DPS=Dependent Variable.

a & b= Constants

EPS=Independent Variable.

The following table shows the regression analysis of DPS on EPS

Table 4.2.8

Simple Regression Result of DPS on EPS

Banks	Constant (a)	Regression Coefficient Of EPS (b)	Beta	R	R^2	SEE	F sign
HBL	7.335 (11.035) [0.665]	0.168 (0.205) [0.819]	0.428	0.428	0.183	5.62	0.473
SBI	-4.752 (10.910) [-0.436]	0.318 (0.351) [0.906]	0.464	0.464	0.215	4.87	0.432
EBL	8.085 (78.7160 [0.103]	0.220 (0.864) [0.254]	0.145	0.145	0.021	16.94	0.816

Notation: ( ) means standard error

[ ] means t-value

In the regression analysis of DPS on EPS, beta coefficient 'b' should be interpreted. The value of beta coefficient of HBL, SBI and EBL are 0.168, 0.318 and 0.220 respectively. All the beta coefficient of banks is positive. Positive beta coefficient indicates that one rupee increase in EPS leads to increase in DPS beta value if other variables remain constant. The above table shows that SBI should provide more DPS since its beta is highest among all.

The variation explained by EPS to DPS is indicated by the value of 'R^2'. R^2 of the three selected banks are 0.183, 0.215 and 0.021 respectively. R^2 of SBI is 0.215 which shows that 21.5 % of variation in DPS is explained by EPS.

The standard error of estimate of HBL, SBI and EBL are 5.62, 4.87 and 16.94 respectively. These values indicate the possible error in the predictive value for the respective banks.

4.3.6Market Price per share on Net Worth Per Share

MPPS=a +b NWPS

Where, MPPS=Dependent Variable.

a & b= Constants

NWPS=Independent Variable.

The following table shows the regression analysis of MPPS on NWPS

Table 4.2.9

Simple Regression Result of MPPS on NWPS

Banks	Constant (a)	Regression Coefficient of NWPS (b)	Beta	r	R^2	SEE	F sign
HBL	-3837.57 (1438.96) [-2.67]	21.795 (5.989) [3.639]	0.903	0.903	0.815	313.84	0.036
SBI	-2699.76 (1579.79) [-1.709]	23.240 (9.416) [2.468]	0.819	0.819	0.670	363.14	0.090
EBL	4992.38 (7463.12) [0.669]	-8.777 (22.999) [-0.382]	-0.215	0.215	0.046	895.27	0.728

Notation: ( ) means standard error

[ ] means t-value

In this case the coefficient of determination '$R^{2'}$ for the commercial banks HBL, SBI, and EBL are 0.815, 0.670 and 0.046. This indicates that 81.5%, 67% and 4.6% variation is explained in MPPS to change in value of NWPS of the banks. The HBL bank has the highest value of coefficient of determination and EBL bank has the lowest value.

The standard error of estimate (SEE) measures the variability of the actual values of dependent variable with the estimated values. The SEE values of HBL, SBI, and EBL are respectively 313.84, 363.14 and 895.27.

The regression coefficient values of HBL, SBI, and EBL are 21.795, 23.240 and -8.777. Here the regression coefficient values for EBL is negative and all the rest banks have positive. The positive value of regression coefficient indicates that increase in NWPS would lead to increase in MPPS if all other variables remained constant and vice versa. The SBI bank has the highest value of b and EBL has the lowest value.

The regression coefficient coefficients 'a' of all banks indicate the average effect on dependent variable MPPS if all independent variables are omitted from the regression line. The values of 'a' for HBL, SBI, and EBL are -3837.57,-2699.76, 4992.38.

4.4 Multiple Regressions

4.4.1 Market Price Per Share (MPPS) on Earning Per Share (EPS), Dividend Per Share (DPS) and Dividend Payout Ratio (DPR)

In this model,

MPPS =a+b1 EPS+b2 DPS+b3 DPR

Table 4.4.1

Regression result of MPPS on EPS, DPS and DPR

Banks	**Constant**	**Regression coefficient**			**r**	**R^2**	**SEE**	**F-sign**
	(a)	**EPS**	**DPS**	**DPR**				
		b1	**b2**	**b3**				
HBL	50584.44	-793.105	2228.82	-1373.54	0.922	0.850	489.43	0.480
	(76327.20)	(1239.48)	(3312.14)	(2041.34)				
	[0.663]	[-0.640]	[0.673]	[-0.673]				
SBI	-641.68	75.68	-70.160	-8.867	0.969	0.969	193.42	0.224
	(1213.65)	(38.28)	(165.514)	(55.301)				
	[-0.529]	[1.977]	[-0.424]	[-0.160]				
EBL	-16278.48	238.69	-854.65	669.65	0.929	0.863	588.39	0.461
	(14824.69)	(181.17)	(658.85)	(543.56)				
	[-1.098]	[-1.098]	[-1.297]	[1.232]				

Notation: ( ) means standard error

[ ] means t-value

In this regression table MPPS is the dependent variable and the variables EPS, DPS and DPR are independent variables. This study presents the study of output of multiple regression analysis of commercial banks between MPPS, EPS, DPS, and DPR on the basis of collected data of concerned banks taken together.

The coefficient of determination 'R^2'between dependent and independent variables is a measure of line relationship between them. The 'R^2'values of HBL, SBI, and EBL are 0.850, 0.969, 0.863 This indicates that 85%, 96.9% and 86.3% variation is explained in MPPS to change in independent values in this multiple regression analysis table. The value of coefficient of determination is highest for the bank SBI and it is lowest for the bank EBL.

The standard error of estimate (SEE) measures the variability of the actual values of dependent variable with the estimated values. The SEE values of HBL, SBI, and EBL are respectively 489.43, 193.42 and 588.39. The value of SEE is highest for the bank EBL and it is lowest for the bank SBI. The greater value of SEE shows greater variation around the regression line.

For SBI and EBL one rupee increase in EPS lead to the average amount of Rs.75.68 and2238.69increases in stock price respectively holding the DPS and DPR constant. For HBL, one rupee increase in EPS would lead to the decrease in Rs. 793.105 stock price given that DPS and DPR are constant.

Similarly, for HBL one rupee increase in DPS lead to the average amount of Rs. 228.82 increases in stock price respectively holding the EPS and DPR constant. For other banks SBI and EBL one rupee increase in DPS would lead to the decrease in Rs. 70.160 and 854.65 stock prices given that EPS and DPR are constant.

Likewise, for ,SBI and EBL one rupee percent increase in DPR to the average amount of Rs. 1373.54 and 8.867 decreases in stock price respectively holding the DPS and EPS constant. For SBI one rupee percent increase in DPR to the average amount of Rs. 669.65 increases in stock price respectively holding the DPS and EPS constant the value of is highest for SBL bank and lowest for the bank HBI.

It is know that the positive value of regression constant indicates that there is positive relationship between the dependent and chosen independent variable given that other variables are kept constant and similarly negative value indicates negative relationship. It has been found that both positive and negative values of regression coefficient are different for different banks. It justifies that for given increase in MPPS there is different effects on EPS, DPS, and DPR of different banks. The value of '$R^{2'}$has small fluctuation from lowest value 0.850 to the highest value 0.969. Also,

the standard error of estimate (SEE) has high fluctuation in given different banks, which indicates that there is great variability in the actual and the estimated values in the different commercial banks.

4.4.2Multiple Regressions of MPPS on P/E Ratio, EY and NWPS

In this model,

MPPS =a+b1 P/E Ratio +b2 EY +b3 NWPS

Table 4.4.2

Regression result of MPPS on P/E Ratio, Earning Yield and Net worth per Share

Banks	**Constant (a)**	**Regression coefficient**			**r**	**R^2**	**SEE**	**F-sign**
		P/E R b1	**EY b2**	**NWPS b3**				
HBL	-12277.57 (2654.87) [-4.63]	244.77 (62.61) [3.91]	849.49 (228.46) [3.91]	15.52 (228.45) [3.718]	0.994	0.989	134.68	0.135
SBI	-1456.06 (824.24) [-1.767]	17.895 (10.036) [1.783]	-106.759 (131.80) [-0.81.]	13.60 (1.805) [7.536]	0.999	0.997	59.80	0.070
EBL	-3470.75 (2596.04) [-1.337]	82.277 (37.791) [2.177]	-65.385 (162.41) [-0.403]	12.261 (4.207) [2.9014]	0.997	0.993	130.88	0.105

Notation: ( ) means standard error

[ ] means t-value

The multiple regression analysis among MPPS on PER, EY and NWPS shows that all banks except HBL have positive multiple regression relation while SBI and EBL have positive relation with PER, NWPS and negative relation with EY other remaining variables constant. The regression relation between MPPS on PER EY and NWPS of HBL, SBI and EBL indicates that with an increase of 1% in PER the MPPS will increase by Rs. 144.77, Rs. 17.895 and Rs. 82.277.For HBL1% increase in EY, the MPPS will increase by Rs. 849.49 respectively remaining other than two variables constant. SBI and EBL1% increase in EY, the MPPS will decrease by Rs.106.759, 65.385 respectively In case of NWPS Rs 1increase MPPS will increase by Rs. 15.52, 13.60 and 12.261.

The average standard error of estimate of HBL, SBI and EBL are 134.68, 59.80 and 130.88 respectively. These values indicate the possible error in the predicted value for the respective banks.

The value of coefficient of multiple determinations (R^2) of HBL, SBI and EBL are 0.989, 0.997 and 0.993 respectively, which indicate that 98.9%, 99.7% and 99.3% variation in the MPPS of these banks are explained due to the change in PER, EY and NWPS of the respective banks.

4.6 MAJOR FINDINGS

- The average earning per share (EPS) of the banks under study shows a positive result. But the coefficient of variation indicates that the EPS of the banks are not stable. The CV ranges between 23% and 7%. Among the banks under study, EBL has the highest average EPS and SBI has the least with highest degree of fluctuation.

- There is no regular cash dividend payout in the commercial banks. The SBI bank has not paid cash dividend for one years of the study period. Among the sample banks the DPS of EBL has highest value and SBI has the smallest value, moreover, the DPS of SBI bank has the highest fluctuation.

- These banks have not adopted a fixed dividend payout ratio. The average Dividend Payout Ration (DPR) of HBL has the highest percentage of its earning as a cash dividend (i.e.31.78%) and SBI has the lowest dividend

payout ratio. Its zero in 2007/08 .In average coefficient of variation of DPR are 81%.

- The average MPS of the banks indicate quite high level of fluctuation. EBL has the highest average MPS while SBI has the lowest. Among the banks under study, the MPS of HBL and SBI is highly fluctuating and that of EBL is the most stable.

- The average earning yield of banks under study indicates that the earning yield is quite low ranging between 4.79% and 2.94% and the stability of the earning yield is also low i.e. fluctuation of earning yield range from 44% to 36.3%.

- The ratio of MVPS to BVPS has the highest value for the SBI and the lowest value goes to the bank HBL. And the highest fluctuation is seen in case of HBL.

- The EBL has the highest average NWPS and SBI has the lowest NWPS.

- The higher and sound Dividend Yield Ration (DY) is desirable.. The EBL has the highest DY and high fluctuation.

- The simple regression analysis result of MPPS on DPS disclosed that the regression coefficient is positive for HBL. This means for these banks there would be increase in MPPS if there is increase in DPS. The value of regression coefficient for SBI and EBL is negative. This means that for the banks SBI and EBL, if there is increase in DPS it would lead to decrease in MPPS.

- The study of regression result of MPPS on EPS revealed that the regression coefficient is positive for all the commercial banks. This means that for increase in EPS there would be increase in MPPS for all the banks.

- The simple regression analysis result of MPPS on P/E Ratio (b) is positive for all sample banks.

- The regression coefficient (b) of the regression analysis between MPPS on DPR is negative for all sample banks. And DPS to EPS is positive for all banks.

- The multiple regression analysis of MPPS on EPS, DPS and DPR shows that HBL EPS and DPR is negative and DPR is positive. For SBI EPS is positive and other negative. At last for EBL EPS and DPR is positive and DPS is negative.

- The multiple regression analysis of MPPS on P/E Ratio, EY and NWPS shows that the regression coefficient (b) is positive for both P/E Ratio and NWPS for the sample banks. And EY is positive for HBL and negative for rest banks.

CHAPTER-FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter focuses on summarizing the study held with the conclusions and some recommendation on the basis of findings. For this purpose, the chapter has been divided into three parts as summary, conclusion and recommendation.

5.1 Summary

Dividend policy decision is one of the three major decisions of financial management. The dividend policy decision affects on the operation and prosperity of the organization because it has the power to influence other two decisions of the organization i.e. capital structure decision and investment decision. An investor expects two types of return namely capital gain and dividend by investing in equity capital or ordinary share. So, payment of dividend to shareholders is an effective way to attract new investors and maintain present investors. It is important to have clearly defined and effectively managed dividend policy so as to fulfill the shareholders' expectations and corporate growth.

In Nepal, only a few listed companies are paying regular dividends to their shareholders. These companies are also not following the stable dividend payout policy. However, paying dividend can be taken as an important tool to attract new investors. Besides this, the payment of dividend shows the good financial health of the organization in the market. The division of earnings between dividend payout and retention ratio the market price of the share may also be affected, which is also crucial for the organization. So, the funds that could not be used due to the lack of investment opportunities would be better as dividend, since shareholders have investment opportunities elsewhere.

Dividend paying banks have been analyzed to show the implication of dividend policy they have adopted in their market price per share. Even if market price is governed by various factors, this study is made to analyze one of the important factor i.e. Dividend. The study covers Three commercial banks (HBL, SBI and EBL) and only for the last five fiscal years from 2006/07 to 2010/11. The available secondary data have been analyzed using various financial and statistical tools. So, the reliability of the conclusions of this study is determined on the accuracy

of secondary data. The shareholders in Nepal don't seem to be investing their capital on the basis of financial performances of the financial institution as such. The main reason behind this statement is that market price of the shares don't seem to be more or less dependent upon earnings per share and dividend per share. The major findings of this study can be summarized as follows.

The study of dividend decision depends upon EPS, DPS, DPR, MPPS EY P/E Ratio, DY and NWPS of the sample banks. Among sample banks, dividend payout ratio of HBL is higher than other. Similarly, according to average EPS, among sample banks, EBL is more successful than other whereas SBI is the lowest. On the basis of DPS; EBL is paying highest value of dividend among sample banks. Moreover, on the basis of market price per share, EBL has higher MPPS then others.

The statistical analysis of the entire sample banks is done on the basis of simple and multiple regression analysis to interpret the results. According to regression analysis of DPS on EPS, coefficient (b) is positive in all sample banks. It indicates that DPS increase, with the increase in EPS. As for the relationship between MPPS on DPS is concerned, coefficient (b) has both positive and negative values in different sample banks. The positive coefficient indicates that MPPS increase, with higher DPS in all and vice versa. As for the regression analysis of MPPS on EPS is concerned, coefficient (b) has been positive values in different sample banks. The positive coefficient (b) indicates market price per share increase with higher EPS.

The multiple regression of analysis of MPPS on EPS, DPS, and DPR shows that EPS, DPS and DPR have both positive and negative impact on MPPS in all cases. On the other hand, there is greater influence of EPS rather than DPS to MPPS in case of HBL, SBI, and EBL. But there is greater influence of DPS rather than EPS to MPPS in case of HBL. Likewise, the multiple regression analysis of MPPS on DPR shows the impact is positive and negative in all the cases.

This study covers the commercial banks HBL, SBI, and EBL. The five years data is taken from 2006 /07 to 2010/11 A.D. It has been based on the secondary data collected from published and unpublished journals, different websites etc. Here the commercial banks are not following appropriate dividend policy. This means that the management of the banks is not serious on the matter of dividend policy and practices.

5.2 Conclusion

After analyzing the financial variables using mean, standard deviation and regression analysis, the following conclusions have been drawn.

- There is no uniformity in dividend policy and practices followed by Nepalese commercial banks in Nepal.

- There is no stable dividend policy adopted by these banks for long period. I.e. some banks have adopted increasing dividend policy and some banks have adopted irregular dividend policy.

- The market price per share is affected by the dividend related financial variables i.e. DPS, DP and DPR either positively or negatively. The nature of effect is different for different banks. In case of some banks, there exists positive relation between dividend and market price per share while for other there exist negative relation. Besides this the market price per share largely depends upon the dividend, which has been shown by the coefficient of multiple determinations.

- Besides dividend, other factors also affect the market price per share e.g. earning per share, price earning ratio, net worth per share etc. Their effect is also different for different banks.

- The dividend per share is affected by earning per share, retention ratio, net profit and net worth per share differently in different banks. The extent of effect also differs in the banks.

- There is lack of legal obligation that abides the companies to pay dividend when they are running at profit.

- The Earning per Share (EPS) of all commercial banks are positive. And, the relationship between Dividend Per Share (DPS) and Earning Per Share (EPS) is positive.

- The higher and sound Dividend Yield Ration (DY) is desirable. The EBL has the highest average dividend yield among all the banks and so has the soundest DY.

- The average Earning Yield (EY) of the EBL has the highest value with lowest fluctuation in SBI.

- The simple regression analysis of MPPS on EPS and EPS on DPS showed that the value of regression constant is positive in all the cases of commercial banks. And the similar result of MPPS on DPS disclosed that the regression coefficient is positive for, HBL and negative for rest of the banks.

- The multiple regression result of MPPS on EPS, DPS, and DPR showed that the regression coefficient of EPS (b1) is negative for HBL and positive for all the rest banks and regression coefficient (b2) is positive for HBL and negative for all the rest banks. Similarly the regression coefficient of DPR (b3) is positive for EBL and negative for other banks.

5.3 Recommendation

The presentation and analysis of various data have shown many findings and conclusions. Based on this study the following recommendation and suggestion can be prescribed regarding dividend policy and practices of commercial banks.

- The dividend payout behavior has not the same pattern. For illustration, there we found that despite sufficient earning without considering the rate of return and price of share seems to increase even in years when dividend was not paid. This is because of market imperfection.

- Most of the banks seem to ignore the dividend expectation of the minority shareholders. It seems necessary to be organized to promote and protect shareholders right.

- The relationship between dividends per share with earning per share is positive.

- P/E ratio and dividend yield are inconsistent.

- There is a lack of consciousness in Nepalese investors regarding their rights and the company act. Therefore, there should be a kind of educating center about their rights on dividend income and other specific rights. Every body should have clear knowledge about Nepalese Company Act- 2063 that makes some legal provisions for dividend payments.

- The managers should be able to perform their duties and responsibilities to protect shareholders interest. They mustn't show their desire to operate the company in their own way.

- Change in dividend per share affect the market price per share different in different banks.

- The information is not communicated total among the potential investors. To increase awareness, seminars, workshops etc. should be organized and information's should be delivered to shareholders as well as potential investors to develop efficient securities market in Nepal.

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Appendix

For EPS, DPS, DPR, MPPS P/E Ratio, Earning Yield, MVPS, NWPS, DY, and DP

For HBL

Fiscal Year	**EPS**	**DPS**	**DPR**	**MPPS**	**P/E Ratio**	**Earning Yield**	**MVPS**	**NWPS**	**DY**	**DP**
2006/07	60.66	15	24.73	1740	28.69	3.49	6.57	264.74	0.86	15
2007/08	62.74	25	39.85	1980	31.56	3.17	7.99	247.95	1.26	25

Fiscal Year	EPS	DPS	DPR	MPPS	P/E Ratio	Earning Y									
2006/07	39.35	12.59	31.99	1176	29.89	3.35									
2007/08	28.33	0	0.00	1511	53.34	1.87									
2008/09	36.18	2.1	5.80	1900	52.52	1.90									
2009/10	23.69	5	21.11	741	31.28	3.20									
2010/11	24.85	5	20.12	565	22.74	4.40									
2008/09							61.9	12	19.39	1760	28.43	3.52	6.86	256.52	0.68	12
2009/10							31.8	11.84	37.23	816	25.66	3.90	3.60	226.79	1.45	11.84

2010/11	44.66	16.84	37.71	575	12.88	7.77	2.88	199.66	2.93	16.84

For SBI

For EBL

Fiscal Year	EPS	DPS	DPR	MPPS	P/E Ratio	Earning Yield	MVPS	NWPS	DY	DP
2006/07	78.4	10	12.76	2430	30.99	3.23	8.30	292.75	0.41	10
2007/08	91.82	20	21.78	3132	34.11	2.93	9.73	321.77	0.64	20
2008/09	99.99	30	30.00	2455	24.55	4.07	7.11	345.22	1.22	30
2009/10	100.16	30	29.95	1630	16.27	6.14	4.91	331.99	1.84	30
2010/11	83.18	50	60.11	1094	13.15	7.60	3.33	328.43	4.57	50